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TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2001

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED SIXTH CONGRESS

SECOND SESSION

ON

H.R. 4871/S. 2900

AN ACT MAKING APPROPRIATIONS FOR THE TREASURY DEPARTMENT, THE UNITED STATES POSTAL SERVICE, THE EXECUTIVE OFFICE OF THE PRESIDENT, AND CERTAIN INDEPENDENT AGENCIES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2001, AND FOR OTHER PURPOSES

Department of the Treasury
Executive Office of the President
Nondepartmental witnesses

Printed for the use of the Committee on Appropriations

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TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2001

THURSDAY, MARCH 23, 2000

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

The subcommittee met at 10 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Stevens, and Dorgan.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF CHARLES ROSSOTTI, COMMISSIONER

OPENING REMARKS

Senator CAMPBELL. Good morning, the committee will be in order. This morning we will be talking with the Commissioner of the Internal Revenue Service, Mr. Charles Rossotti. Welcome, Commissioner. Glad to see you again.

The IRS is requesting a 9 percent increase for fiscal year 2001, almost $729 million more than this year. Over half of that is for inflationary increases to allow the agency to at least maintain current levels. The Commissioner has requested $119 million as the next installment for the information technology investments account. Congress has already provided $506 million for this computer modernization project with stringent requirements for the release of funds. We have approved the release of only $68 million so far and we are reviewing a third request to release $176.3 million. I am sure we will be talking about this in greater detail this morning.

The Commissioner is also asking for $42 million more to reorganize the agency. Commissioner, the agency has come a long way, and we are very proud of it. I also have no doubt that the ongoing reorganization needs to be done, but I would like to know how they are going to spend the $140 million provided so far.

Last, but certainly not least, the Commissioner is asking for a total of $217 million in supplemental and regular appropriations for staffing tax administration for balance and equity, also known as STABLE. As I understand it, this initiative would provide almost 2,000 additional staff throughout the IRS. Each of these re-

quests might certainly be justified on their own merits. The problem arises when there just is not enough money to go around.

It should be noted that the requested level for the Treasury and General Government bill is almost 20 percent more than last year, and last year was a good year for agencies under our jurisdiction I believe. As everyone is aware, Congress has not yet passed a budget resolution and therefore has not made a decision about the funding levels for fiscal year 2001. I think it is safe to assume that the allocation this subcommittee will receive will not be sufficient to fund all the requests made by agencies under our jurisdiction.

Having said that however, I would like to note that the Commissioner is to be commended for what he has already accomplished at the Internal Revenue Service. Effecting changes at an agency the size of the IRS is like trying to turn an aircraft carrier around on a dime. I certainly appreciate the trips you have made to Colorado, as I am sure Senator Dorgan appreciates your trips to North Dakota. You have envisioned an agency which you believe can accomplish competing goals, and that is not easy. Being customer friendly, while at the same time collecting taxes due is a tough thing to do. It is my hope that we will be able to provide sufficient funding to help you in your efforts.

With that I would like to turn to Senator Dorgan.

STATEMENT OF SENATOR BYRON L. DORGAN

Senator DORGAN. Mr. Chairman, thank you very much. Let me also thank the Commissioner for being here today with your staff.

Last year, Mr. Commissioner, you talked about the efforts that you were undertaking to put the word service back in the Internal Revenue Service in a real way, and I must say that you have kept your word. In North Dakota, for example, we have tax-mobiles moving around the State, and I met one of your employees in an airport recently and I could just see the excitement in her eyes as she was telling me about being out in the tax-mobile. She liked that. She liked it because she felt that as an employee of the Federal Government she was actually able to go out and help people and extend service. That is one of the employees down in the ranks someplace who appreciated it, not even discussing the appreciation I am sure the taxpayers in North Dakota and around the country have.

You have done a number of other things, problem-solving days and a range of other changes in hours, and I think that is very important. As a former tax administrator I know, and you especially know, that this tax system of ours is still "voluntary." If 10 million people decide they are not paying taxes, you do not have a ghost of a chance to enforce 10 million actions in court against them. People pay taxes on a voluntary basis in this country because they understand they have an obligation to do so and feel a responsibility to do so. As long as we have widespread compliance in this system, this system will work.

Part of that is for the Internal Revenue Service to extend a helping hand through expanded service to taxpayers. So I want to just say, thanks for keeping your word and moving down the road in that direction. That I think is helpful to us and helpful to our tax system.

I have some of the same comments that Senator Campbell has made. I do not know exactly how we are going to be able to deal with all of the interests and needs with respect to the allocations of the subcommittee, but we are going to do the best we can.

Let me just include the rest of my statement in the record with just one additional statement. I remain interested, Mr. Commissioner, in a range of issues on enforcement, the aggressive use of tax shelters is very troubling these days. I have read a great deal about it. I continue to be very troubled by the issue of transfer pricing and wonder whether you have the resources to deal with that. So we will talk about a few of these issues, but let me put the rest of my statement in the record and welcome you and your staff to the subcommittee this morning.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Thank you, Mr. Chairman. As occurred last year, Commissioner Rossotti is the first witness before this subcommittee for this year's round of budget hearings. And as the Internal Revenue Service is the largest single component of this subcommittee's budget—in terms of both level of appropriations as well as total employees—it is only fitting that the IRS Commissioner go first.

I want to first recognize the efforts that the Commissioner has undertaken to put "service" back into the Internal Revenue Service since we met approximately 13 months ago. At last year's hearing he made that a commitment to us and I believe he has made strides in meeting that commitment. I especially appreciate his willingness to make a "taxmobile" available to taxpayers in rural parts of my state of North Dakota. The taxmobile started making stops in North Dakota last month and it has been received warmly by taxpayers who value face-to-face service from what is often viewed as a faceless and intimidating government entity. I have also had the opportunity to speak with IRS employees in North Dakota who also find great benefits with their experiences with the taxmobile—even though it may take them away from their regular duties for a day or two. I hope your people are reporting back to you that the taxmobile is working and perhaps we can see the program expanded to other rural areas.

Your $8.841 billion budget request calls for a $729 million increase over last year's appropriation. This assumes a Supplemental request for $40 million in initial funding for your staffing initiative known as STABLE which—frankly—is unlikely to be approved. Your budget documents state that nearly half of this requested increase ($336 million) is merely to maintain current levels for pay, benefits and non-labor inflationary costs. It does not reflect your expressed desire to increase staffing to stabilize and strengthen tax compliance and customer service programs. It does not include key aspects of your on-going modernization efforts at reorganizing the IRS to meet the requirements of the IRS Restructuring and Reform Act of 1998. Nor does it reflect the $119 million you have requested for continued computer upgrades of your core business systems in the Information Technology Investment Account (ITIA).

This troubles me because a compelling case can be made for the majority of these increases. Your submitted statement certainly lays out such a case. However, the Administration's budget request for this subcommittee seeks increases in funding for all the Departments and Agencies under our jurisdiction by nearly $2.5 billion—that's billion with a "b"—over the levels we appropriated last year. It is extremely unlikely that we will get an allocation that will allow us to meet all of these requests and we are going to need your assistance in determining what are your highest priorities as we develop a spending plan for the coming fiscal year.

During my round of questioning, I will want to follow up on some of the issues we discussed last year to learn how well your goals are being implemented. One area will be rural tax assistance. Mr. LaFever spoke last year of some goals he wanted to achieve and I want to explore how this service has improved. Another area was the "one-stop" tax shops. Last year, Mr. Commissioner, you indicated you had established one in Utah. I want to explore with you how this service has expanded.

I would also like to discuss with you several other matters that I know are of interest to the IRS and Congress. For example, what is the IRS doing to combat the peddling of aggressive corporate tax shelters and other schemes—including transfer

pricing—that are used by large corporations to avoid taxes, and how are you allocating resources to respond to them? Does the IRS have the tools it needs to deal with this growing problem? What progress is the IRS making in its congressionally mandated study of one of the tools it now uses to improve its transfer pricing enforcement? There are a few other areas that I hope to discuss with you after your testimony, if time permits.

Again, thank you Mr. Commissioner for joining us this morning to discuss the continued improvement of the IRS and your many budgetary requirements.

Senator CAMPBELL. With that, Mr. Commissioner, why don't you go ahead and proceed?

STATEMENT OF CHARLES ROSSOTTI

Mr. ROSSOTTI. Senator Campbell and Senator Dorgan, thank you for those opening comments. Some of the more specific questions I would be glad to respond to on tax shelters and some of the budget items, but let me just give an overview here.

As you know, I think the committee knows that we are really guiding most of what we are doing by the directions that we felt we were given in the Restructuring and Reform Act which calls for probably the most significant changes in the way the IRS works in many, many years.

I was glad to hear both of you note in your opening statements, I think we are already witnessing some positive results in the form of the implementation of the 71 taxpayer rights that were in the restructuring act, and delivering on improved service to taxpayers, for example, during this filing season. As well I should note the completion, very successfully, of our year 2000 conversion program, which was a major and risky program, but fortunately has concluded with very few problems as we entered this filing season.

Despite those improvements, Mr. Chairman, it is a fact that we cannot claim today that the IRS is meeting what I would consider the legitimate service expectations of the compliant taxpayers that Senator Dorgan referred to. At the same time, our level of compliance activities is dropping. Also, as has been pointed out by many observers, the systems that we use to manage an account for our $1.8 trillion of tax revenue are inherently deficient. These problems are severe and if they are not addressed I think they would certainly, over time, undermine the fairness and viability of the Federal tax system.

On the other hand, these problems are not new. They are not newly identified, nor do I believe that they are impossible to solve. In fact, I think we have in place today, at a top level at least, all the plans that we need that will allow us to address these problems. We have implemented the many and complex provisions, taxpayer rights provisions of the restructuring act.

We have completed a whole system of measuring performance throughout the IRS. Our reorganization, which is aimed at increasing our customer focus as well as our management accountability and efficiency, is progressing rapidly. We have a whole new top management team in place.

Building on that foundation, we are now beginning the long process of reengineering our business practices and our technology, which you noted, Mr. Chairman, in your opening statement. We have submitted some requests to this committee for release of the

money. We believe that this will help us to increase service to taxpayers as well as our compliance effectiveness and our efficiency.

TRENDS IN IRS WORKLOAD

To succeed in all of this though, which is a massive change, we will need adequate budget resources in fiscal 2001, both to address our critical operational needs and to invest in new technology. I should note, as is noted here on this chart, that the rapidly expanding economy is steadily increasing the IRS workload.

Just to give one example, since 1993, the number of individual tax returns with over $100,000 reported income, which are generally the more complex kind of returns, have increased by 63 percent. In the meantime, the IRS staff has dropped by 17,000 staff since that period.

On top of those general trends, as you could see in the second chart, the Restructuring and Reform Act has, as we now know it, added about 4,500 full-time equivalent positions to administer the code sections listed there.

Finally, since our compliance personnel, our auditors and examiners and collectors, represent the largest component of the budget and since they are the ones that are required to administer most of these provisions, our net compliance staffing available to do actual casework has declined very rapidly, which you can see on the red line on this chart.

Now on top of that, besides these direct effects, there are some very pervasive changes in the way business is done under RRA, which understandably and as has been reported widely has created some uncertainty, some confusion, and a great deal of relearning of the way jobs are done among our employees and managers. So the effect of that has been to increase the amount of time required to complete each case.

When it is all put together the bottom line is that our compliance activity, our number of exams and collections have been cut about in half since 1997. This is not because we have diverted people to service so much, because the service is also, while improving, still not at an acceptable level.

That is why, Mr. Chairman, that we have asked in this budget, to meet these pressing operational requirements, for an increase in staffing, which as you noted we refer to as STABLE. This initiative requests a total of 2,833 additional staff. That was split between a fiscal year 2000 supplemental and a 2001 request, but at a total annual cost of $188 million. With this staffing level we would expect that in 2001 the IRS will be able to stabilize the level of exam and collection compliance activity while still implementing these taxpayer rights provisions, and also allow us to maintain or maybe slightly increase our service levels.

So the idea is that this staffing increment would enable us to meet our critical operational needs while we transition to a new and more efficient organization structure and new technology. That, as you noted, Mr. Chairman, is the second key part of our budget.

IRS COMPUTER SYSTEMS

The IRS depends entirely on our computer systems to administer the tax system and to properly account for our $1.8 trillion in tax revenue. As many observers have noted, and I have to say having come in with 28 years in the technology business, it was quite a shock to me to see the systems that we depend on because they are really fundamentally, and I would say irremediably deficient. We cannot depend on these systems in the long term.

Our plan for reengineering all these systems has been described in my testimony in more detail, and also in the submission we made to this committee. To sum it up, in 2001 we are requesting $119 million to continue progress on the information technology investment program. We have also requested, to ensure continued funding, an advanced appropriation for 2002. We have $40 million for pressing short term needs in 2001.

I do want to note that while there is no way that we can avoid risk in managing a program of this size and complexity, we do feel that we can manage these risks and can achieve our goals just as we did with our $1.4 billion Y2K program. I think that we now have in place many of the elements that are needed to do this properly which were not really in place fully in the past.

Just to note some of the key items that we have to manage this program. We now have a single centrally managed information systems organization, a very active top level governance process which I personally chair and which includes all of our key executives. We are adhering rigorously to architectural, technological, and methodological standards. We awarded a prime contract to manage the development and integration activities.

I think most importantly, we have an unwavering commitment to an open process which includes all observers, GAO, TIGTA, OMB, Treasury and all of our internal people to get together and forthrightly confront problems and issues and make adjustments to schedules and scope as reality dictates. We will not hesitate to make changes to ensure that we get the value for the taxpayer's money in this program.

So to conclude, Mr. Chairman, I believe we are making real progress on the goals and mandates that Congress gave us almost unanimously in passing the restructuring act. If Congress can provide continued and assured support for IRS modernization such as continue our 2001 budget request I think we will be able to produce visible, tangible changes in service, compliance, and productivity, which I believe is what the taxpayers of America deserve and expect.

Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF CHARLES O. ROSSOTTI

INTRODUCTION

Mr. Chairman and distinguished Members of the Subcommittee, the fiscal year 2001 budget request is submitted at a remarkable time for the Internal Revenue Service and America's taxpayers. Following the clear directions set forth by the landmark IRS Restructuring and Reform Act of 1998 (RRA 98), the IRS is planning and implementing the most significant changes to its organization, technology and the way it serves taxpayers in almost a half-century. However, many years of hard

work lie ahead to make this modernization a reality, and fiscal year 2000 and fiscal year 2001 represent critical junctures in our efforts.

Neither Congress nor the IRS could have anticipated all the implications, including resources, needed to implement the full scope of RRA 98 which covers 71 new taxpayer rights and organizational and technological modernization. Delivering on RRA 98's mandates remains a learning process. In the 20 months since this bill was passed we have learned a great deal and at this point I am convinced we can succeed through the combination of a limited increase in staff resources and investments in technology and organization.

The fiscal year 2001 budget request provides an overview of the strategic direction that the IRS is following to meet the public's expectations. Since our program involves massive and complex change, there is considerable risk that progress will not always happen as planned or expected, and that setbacks will occur. Although there is no way to avoid risk, we can identify, confront and manage it carefully by adhering to best established practices and honestly communicating what the IRS is doing and why. This is our commitment to the Congress and the public.

During fiscal year 2000, my senior management team and I will revise our strategic plan, as originally sent to Congress in 1997 (and revised through an interim update included in the fiscal year 2000 and fiscal year 2001 Congressional Justifications) to reflect the reorganized IRS. In addition, the revised strategic plan will address key external factors as part of our strategic and operational planning activities.

HOW TO DELIVER MOST EFFICIENTLY AND ECONOMICALLY ON RRA 98'S MANDATES

The Challenge

Through the Restructuring Act, Congress asked the IRS to achieve three goals. One, we must respect taxpayer rights and provide high quality service to every taxpayer. Two, we must ensure that the taxes that are due are paid. And three, in an era of tight budget caps we must do all of this very efficiently. I cannot stress enough that we must achieve all of our goals to succeed. Our purpose is not to move an imaginary pendulum one way or the other; it is to improve the entire way the IRS works.

Fulfilling RRA 98's mandate required changes in every aspect of how the IRS works, including implementing the taxpayer rights provisions I have mentioned, many of which were effective on the date of enactment. We also had to carry out changes in the way performance is measured, people are managed and evaluated, and the organization is structured. In addition, we began the long process of reengineering and replacing nearly every basic business system.

At the same time, the IRS had to continue to fulfill essential operational requirements, including providing service to taxpayers during each filing season, administering roughly 801 tax law changes from the Taxpayer Relief Act of 1997, including nearly 300 new provisions, and completing the enormous Y2K program.

The IRS also received recommendations from many sources to improve service or fix problems. For example, last year, the IRS received 58 audit reports from the Treasury Inspector General for Tax Administration (TIGTA) containing 314 specific recommendations, and 74 reports from GAO containing 42 specific recommendations. In addition, 27 TIGTA and 36 GAO audits are underway. The National Taxpayer Advocate also identified and made recommendations on the top 20 problems affecting taxpayers. Addressing and managing these changes requires significant management attention, and many require additional resources, including information systems resources, to implement.

Over the last 2 years, we have managed all of our major changes and risks by grouping them into a few basic change programs, each with a management process and a carefully planned and controlled schedule that reflected our best current judgment on priorities, resource limitations and risks.

Our first priority was implementing RRA 98 taxpayer rights provisions. However, given the short time frames, and many competing demands, our capacity to provide guidance to the public and employees and to conduct training for 100,000 employees was stretched to the limit.

Ensuring legal compliance was the initial focus. Often, we did not know the amount of time and resources needed to carry out these provisions. In fiscal year 1999, for example, we briefed and trained our staff on 55 RRA 98 provisions and provided a total of 2 million hours of training. We estimate that nearly 3,000 full time equivalent (FTE) personnel were required for RRA 98's specific administrative provisions.

We are at the stage where we have implemented the RRA 98 legal provisions. However, we still have several years to make them work more efficiently and with

higher quality. Training and management are the immediate challenges and in fiscal year 2000, we will continue a high level of training.

I want to stress that we are wholly committed to faithfully implementing each and every one of the taxpayer rights provisions and make them work as intended, while still fulfilling our mandate to collect taxes that are due. We will get the job done and we will get it right. However, we will also make mistakes along the way and there is not yet an acceptable level of quality, efficiency and effectiveness for some of these provisions.

Two Different Paths: One Clear Choice

Mr. Chairman, quite apart from RRA 98, or any problems or initiatives the IRS is pursuing, the expanding economy continues to steadily increase the IRS' workload. Over a period of years, this expanding workload has compounded to reach fairly significant levels. For example, since 1993, the number of individual tax returns with over $100,000 in reported income, which are generally the more complex returns, have increased by 63 percent. Meanwhile, because of budget constraints, the IRS staff has dropped by 17,000 FTE since fiscal year 1993. At the same time, the new TRA and RRA 98 taxpayer rights required new procedures and increased time per case. These conflicting trends, increased demands, and reduced staff have not been addressed by new technology. During this period, almost all of the technology spending and focus were devoted to addressing the Y2K problem and responding to TRA and RRA 98.

This conflicting set of trends has left the IRS in a position in which we are not yet meeting the legitimate service expectations of the vast majority of compliant taxpayers who voluntarily pay their taxes, while compliance activity, such as examination coverage and collection enforcement activity, is dropping rapidly, thus potentially undermining the fairness of the whole tax system.

Broadly speaking, one can conceive of two ways to reverse this downtrend. The first is to add staff in the traditional manner to process more returns, answer more telephone calls and letters, and increase casework such as examinations and collection cases. This approach would require hiring more than 8,000 staff just to return to the fiscal year 1997 level of activity and then adding 2,000 more staff annually to remain even with the increasing workload.

Given the growing economy and increased demands of complying with RRA 98, this approach would be extremely expensive. For the vast majority of taxpayers, it would also not meet modern expectations for service levels because no amount of staff can fully compensate for the IRS systems deficiencies. In addition, in today's labor market, the IRS would have difficulty attracting and retaining sufficient and qualified staff.

There is, however, another way, and it is the basis for our fiscal year 2001 budget request. By investing in reengineering IRS' business practices and technology together with limited staffing increases, we will be able to perform all aspects of the IRS mission more effectively and efficiently and in line with the best private and public sector practices. This second approach will, over time, enable the IRS to meet public expectations for its mission with lower growth in staff and future budgets.

Although we need additional staff resources to succeed, the amount is only modestly more than present levels of staff and would still be less than the IRS staffing level of 1997. This approach is possible since our basic strategy to meet increased workload and service demands depends on reengineering business practices and technology. Freeing up positions through business systems investment is a critical requirement. By investing in technology and improved business practices, the fiscal year 2001 budget request avoids the traditional staff increases that would otherwise be required. It is important to stress, however, that the investment in modernization is essential for this approach to work.

STRATEGIC DIRECTION: "STANDING UP" THE NEW IRS

During the second half of fiscal year 2000 and throughout fiscal year 2001 and beyond, we will continue implementing the new IRS. This process includes realigning our personnel resources and putting in place: (1) revised business practices and strategies, (2) a new organization and management, (3) new information technology, and (4) a balanced performance measurement system.

REVISED BUSINESS PRACTICES AND STRATEGIES

How the IRS interacts with taxpayers is defined by its business practices. They determine how tax filing is performed, what notices are sent under what circumstances, the way phones are answered, how collections of balances due are carried out and how examinations are conducted.

Closely related to business practices are the IRS strategies that guide them, such as how returns are selected for examination, what compliance issues are emphasized, and how we encourage electronic filing. Both strategies and practices are also constrained by, and to a considerable degree determined by, the established organizational structure and the installed technology base. These are the two principal instruments through which the IRS executes its business practices and strategies.

The strategies the IRS will pursue include: (1) preventing taxpayer problems or addressing them as early as possible; (2) improving taxpayer communications; (3) making TRA and RRA 98 taxpayers rights work more efficiently and effectively; (4) broadening electronic tax administration use as mandated by RRA 98; (5) leveraging IRS resources through effective partnerships with tax administration organizations and groups that deal regularly with taxpayers; (6) tailoring practices and strategies to specific taxpayer needs and problems; and (7) addressing serious areas of noncompliance with specific strategies.

NEW ORGANIZATION AND MANAGEMENT

Why is the IRS reorganizing? A key reason is that our slow progress to make improvements is due in large part to the twin barriers of organizational structure and obsolete computer systems. The traditional IRS structure does not adequately support taxpayer demands. It represents the way many businesses were organized for many years—around internal technical disciplines and geographical locations. Following the directions set by RRA 98, the IRS is creating a modernized structure similar to those widely used in the private sector: organizing around customers' needs, in this case taxpayers. The future customer-focused organization consists of:

—Four operating divisions—Wage and Investment Income (W&I), Small Business and Self-Employed (SB/SE), Large and Mid-size Business (L&MSB); Tax Exempt and Government Entities (TE/GE);
—Two service organizations—Information Systems and Agency-wide Shared Services;
—Separate specialized independent channels for taxpayers—Appeals and the Taxpayer Advocate Service;
—Criminal Investigation, which is a line unit and will have sole responsibility for investigation of criminal violations of the tax law;
—Chief Counsel, which will provide tax advice, guidance and legislative services to all components of the IRS; and
—A smaller National Headquarters office which will assume the overall role of setting broad policy, reviewing plans and goals of the operating units, and developing major improvement initiatives.

Each operating division will be responsible for creating and executing business practices and strategies to meet those needs, and managers at all levels will be expected to be knowledgeable in the substantive problems and issues that arise in administering the tax law in their respective divisions.

The organization will be led by management teams, including individuals with the broad range of experience needed to lead each unit in the dual task of managing current operations while modernizing business practices and technology to achieve the new mission and strategic goals. The leaders of these units have now all been selected and are rapidly putting in place the remainder of the management structure in each unit.

NEW INFORMATION TECHNOLOGY

Reorganizing the IRS' outdated structure and replacing its archaic technology will take years to fully accomplish, but it is absolutely necessary if we are to reach a higher level of performance. For any information-intensive, service-oriented enterprise, such as the IRS, information technology will continue to be an essential resource on which all organizational performance depends.

The IRS is no different from the private sector in this respect, but it faces some unique challenges. IRS' core data systems are fundamentally deficient. The large and extremely fragmented nature of the IRS' technology inventory creates many problems, including poor service to end users, high cost, long timelines to implement changes and improvements, and control and security difficulties.

Technology modernization is essential to carrying out RRA 98, organizational modernization and providing additional services and efficiencies, but it is risky by its very nature, size and complexity. In fact, there is no way to avoid risk. However, we are not repeating past mistakes. We are prudently and carefully managing the process, providing for a careful review and external validation of each and every part of the program and making necessary adjustments.

The IRS is establishing an overall architecture for a set of new systems that will accommodate all essential tax administration functions according to modern standards of technology and financial management. During this process, the new and old systems must co-exist and exchange data accurately for an extended period until data is gradually converted from old systems to new ones. In 1998, the IRS established the Core Business Systems Executive Steering Committee to provide a framework for the overall management of this process. This committee consists of top executives, chaired by the Commissioner, and supported by key staff groups.

BALANCED PERFORMANCE MEASURES

The IRS Balanced Performance Measurement System is being developed as part of the effort to modernize the IRS and reflect the agency's priorities, as articulated in the IRS mission statement and in accordance with RRA 98.

In September 1999, a "Balanced Measures Regulation" was issued to formally establish the IRS' new performance management system. The issuance of the regulation, which followed a public comment period, sets forth the structure for measuring organizational and employee performance within the IRS. The IRS has taken great steps to integrate its budget request with these balanced performance measures to ensure compliance with the Government Performance and Results Act of 1993.

This year the IRS will adopt its strategic goals as its annual performance goals. This framework will assist the IRS in describing how programs and initiatives tie to achievement of the mission and goals as reflected in improvements in the measurement results.

In CY 1999, balanced measures at the operational level were approved for Tax Exempt and Government Entities, Large and Mid-size Business, Appeals, the Taxpayer Advocate Service, Research, Statistics of Income, and additional Customer Service product lines. These measures are undergoing final design and implementation for use in field operations units. Other measures teams formed in CY 1999 that are expected to have approved balanced measures in early CY 2000 include Information Systems, Criminal Investigation, Counsel, Submission Processing, and Agency Wide Shared Services.

By necessity, our first performance measures priority was to develop measures that were consistent with the IRS' strategic goals and with section 1204 of RRA 98 which prohibits use of enforcement statistics to measure the performance or set goals for any individual. In fiscal year 2000, we largely completed the initial development of operational performance measures, and will begin development of strategic measures. Strategic measures will measure broad performance of our four major operating divisions and for the IRS as a whole. Our strategic performance measures' objective is to provide quantitative indications of the overall success of each major unit and of the whole IRS in reaching our three strategic goals.

FISCAL YEAR 2001 BUDGET REQUEST

To deliver on the RRA 98 mandates for improved service and taxpayer treatment while also increasing compliance effectiveness, IRS requires increased funding in fiscal year 2001. With improved management and technology enabling the delivery of improved service and increased compliance effectiveness, the IRS will be positioned to succeed with limited resources in future years. As the streamlined management and new technology become effective, the IRS can also improve efficiency and maintain a stable workforce in relation to the economy. However, we face a major budget challenge in fiscal year 2000 and fiscal year 2001, which, unless addressed, will threaten not only the IRS reform and restructuring program, but the entire tax system.

The fiscal year 2001 request is $8.841 billion (without the Earned Income Tax Credit Account), $769 million more than the final fiscal year 2000 enacted level of $8.072 billion. This is $729 million over the fiscal year 2000 proposed funding level of $8.112 billion, which includes a $40 million supplemental to stabilize the IRS workforce. Of this increase, $119 million is for resuming funding of the Information Technology Investment Account (ITIA) for which there was no funding in fiscal year 2000. The IRS requires this increase in fiscal year 2001 to deliver on the RRA 98 mandates, manage organizational modernization, and invest in critically needed information technology.

Our budget request has two broad management categories: (1) Maintaining Current Operations, and (2) Modernization. Increases to maintain current operations include more FTE to assist in stabilizing enforcement activity levels and modestly increasing service levels, and to provide adequate non-labor resources for increasing electronic tax filing capability and contractual support for critical operational activities of the agency. Increases for modernization include funds for completing organi-

zational modernization, business line investments, and replenishing of ITIA. The requested resources provide for full implementation of RRA 98 along with plans to modernize and realign the IRS organization, and fund the workforce.

MAINTAINING CURRENT OPERATIONS

To implement RRA 98, the IRS must modernize its organizational structure and technological base. However, during this time, we must also maintain operational activity at acceptable levels.

As I discussed earlier in my testimony, RRA 98 established 71 taxpayer rights provisions, each of which imposed additional procedures or new requirements for tax administration. This increased the time required to handle existing cases and required the IRS to divert compliance personnel to handle new procedures such as Innocent Spouse and Third Party Notice provisions. In addition, other compliance personnel were re-assigned to provide extended hours of telephone and walk-in service. This came on the heels of declining staffing from fiscal year 1996 through fiscal year 1999.

In part because of these changes and increased workload demands, the number of examination and collection cases handled declined by half. This illustrates the need to balance the continued improvements in customer service with funding adequate to maintain enforcement activity to collect unpaid taxes and address areas of potential under-reporting of income.

Current Services Level

The IRS is requesting a net increase of $336 million to maintain the current services level. The IRS is a labor-intensive organization and we must have a stable workforce. To maintain current operations, carry out a successful filing season, oversee tax administration programs, and implement organizational modernization, the IRS must have the resources to pay for the inflationary costs associated with statutory pay and other mandatory increases.

Since 1992, the IRS workforce has decreased more than 16 percent while handling significant increases in workload due to tax law changes and customer demand. The downward trend in FTE is the result of: (1) reduced funding in general; (2) inadequate funding for pay components, such as costs of within-grades (WIGs) and promotions; and (3) insufficient funding of non-labor inflationary costs for required agency-wide shared services support costs. During the last few years, costs for Support Services have been cut to a bare minimum. In addition, the IRS has proactively reduced rent costs. From fiscal year 1996 through fiscal year 1998, the IRS released 2.5 million square feet of space for savings of $40.8 million. There is little room for further cost reductions. Any further cuts in agency-wide shared services support will result in further FTE reductions.

It is vital to note that the long-term decline in the IRS workforce due to funding constraints has led to a situation where virtually no hiring has been done since 1995 in critical front-line skilled positions. For example, in a revenue agent workforce that was over 15,000 in 1995 and hovers at 12,000 today, the IRS has only hired 75 revenue agents since 1995. Funding of our current services request, together with the STABLE initiative discussed next, will allow us to begin the process of meeting the need for critical skilled positions.

Stabilizing the Workforce (STABLE)

The IRS is requesting $144 million and 1,633 FTE to stabilize and strengthen tax compliance and customer service programs in fiscal year 2001 and $39.8 million and 301 FTE for a fiscal year 2000 proposed supplemental. This request is collectively known as the STABLE (Staffing Tax Administration for Balance and Equity) Initiative.

Efforts have been made to improve toll-free service, improve access to new web-based products and information, and expand electronic filing/payment options. However, staffing resources devoted to critical compliance and enforcement programs have declined by more than 20 percent over the last 5 years.

Beyond the reduction in staffing levels, annual growth in return filings and additional workload from RRA 98 contributed to a steady erosion of enforcement presence, audit coverage, and case closures in front-line compliance programs. Current estimates of additional work directly related to RRA 98 total nearly 3,000 FTE for Compliance and Customer Service activities. Although the IRS is fully committed to delivering on every mandate and objective of RRA 98, it is essential that we restore and maintain adequate staffing levels in our key program areas.

To ensure that the benefits of this initiative are realized as quickly as possible, the IRS has proposed a supplemental fiscal year 2000 appropriation, which, if approved by Congress, would allow the hiring of 301 FTE in fiscal year 2000. This

would ensure that most training of new hires would be undertaken in fiscal year 2000, allowing the impact of these new hires to be fully maximized in fiscal year 2001.

With this staffing level, we expect that in 2001, the IRS will be able to slightly increase levels of service and stabilize the level of exam and collection activity while complying with the taxpayer rights provisions of RRA 98.

Electronic Tax Administration (ETA)

The IRS is requesting $3 million for ETA to continue progress toward achieving the congressional goal that 80 percent of all tax and information returns be filed electronically by 2007. In RRA 98, Congress established the interim goal that all returns prepared electronically, but filed on paper (approximately 80 million) be filed electronically by 2003. Increasing taxpayers' awareness and understanding of IRS e-file products, services and benefits will help close the gap between the projected range of 44.1–49.4 million returns being filed electronically in 2003 and the aggressive goals established by Congress. This funding will be used to expand marketing efforts that communicate the benefits of IRS e-file to both taxpayers and practitioners. The IRS plans to advertise in the television, radio, and print media; continue the launch of a business marketing campaign; and conduct the necessary marketing research to ensure that ETA products and services meet our customers' needs.

Contract Management

In fiscal year 2001, we are requesting an increase of $44 million to fund necessary contracts that support general operations, mandatory contractual arrangements and necessary outside expertise. In prior year budgets, we funded these contracts—which were absolutely necessary to conduct business—by reducing funding available for staffing. This is in contrast to our fiscal year 2001 request that simply requests the necessary funding. Mr. Chairman, I would like to stress that contractual support is critical to maintaining operations and implementing RRA 98 and the Modernization program. Our contractual support is in three categories: mandatory, operational and expertise contracts. I would like to describe for you the type of contracts and provide examples:

—Mandatory contracts make up 44 percent of the total budget and are required by law, or agreement with other Federal agencies. These include National Archives storage of tax records; Treasury's Financial Management Service activities for tax refunds and lockbox collections; and Low Income Taxpayer Clinic grants.

—Operational Contracts make up 32 percent of total budget and support IRS operations. Examples include funding for Currency Transaction Report processing, FedWorld management of the IRS Web Site, and Multilingual Interpretation services for Walk-in offices.

—Expertise Contracts make up the remaining 24 percent and are required to obtain expertise outside the IRS for activities including outside services for customer satisfaction surveys and rewriting of IRS Forms and Publications in plain English.

MODERNIZATION

The IRS budget is only a small part of the cost to the public of administering our tax system. Most of the costs, both tangible and intangible, are related to what the public encounters when it must deal with the IRS. The tangible cost is each taxpayer's time and money. The intangible cost is the frustration of being treated poorly when making an honest effort to comply with a complex tax code. Moreover, this frustration has occurred at a time when the level of service that many people are receiving from other service providers has been increasing. In order to provide better service to taxpayers across the board, we need to reengineer the entire way the agency does business.

In addition, the tax system depends on each taxpayer who is voluntarily paying the tax owed having confidence that his or her neighbor or competitor is also paying. Modernization will enable the IRS compliance activities to identify more effectively areas of non-compliance and to address them promptly, accurately and fairly.

Organizational Modernization

In fiscal year 2001, an additional $42 million is being requested to cover IRS reorganization expenses. These costs will peak in fiscal year 2001, decline in fiscal year 2002, and end in fiscal year 2003. The IRS organizational modernization involves the first complete reorganization of the IRS since 1952. Essentially all management positions above the first line are being redefined; district and regional offices are

being eliminated; and some new front-line positions are being created. This massive change is being done with the objective of minimizing physical relocation and associated costs. However, some relocation of personnel and a great deal of reassigning and retraining are required. In addition, some managerial and administrative positions are being eliminated and it is necessary to assist the incumbents in these positions either to find new positions in the IRS or to retire.

Together with the $140 million included in the fiscal year 2000 base for this effort, this request will be used to cover all the expenses of the reorganization. These costs include buyouts, recruitment, relocations, employee training, equipment, services and supplies, telecommunications moves and installations, and modifications of information systems to the new organizational structure. Resources are also requested for design work, space alterations, and contract movers to physically align employees with their operating divisions for the Area and Industry Offices, Chief Counsel Headquarters, Information Systems, and the National Office. These resources cover all aspects of organizational change that will complement the IRS' systems modernization efforts and implement the RRA 98 reorganization mandate.

Business Reengineering and Technology Investments

The IRS depends entirely on its computer systems to administer the tax system and to collect and properly account for $1.9 trillion of tax revenue. Nearly every IRS employee depends on computer systems to perform his or her daily activities, such as processing returns, answering taxpayer questions, adjusting taxpayer accounts, sending out notices and letters, conducting examinations and collecting overdue accounts.

However, the IRS base of existing systems, which evolved over a 40-year period, is totally inadequate to support these activities at an acceptable level of service to the public, internal efficiency, or acceptable risk. GAO and TIGTA repeatedly identify serious problems and risks in IRS operations and financial management, many of which cannot realistically be rectified except by a near total replacement of IRS' systems.

In addition, nearly all the numerous changes required to improve service to taxpayers under RRA 98, and to increase the effectiveness of compliance activities depend on improvements to IRS' information systems. As indicated earlier in the testimony, it would be extremely expensive and require very large increases in staff to meet the service and compliance demands of an increasing economy and the RRA 98 mandates by simply adding staff. Instead, the IRS must reengineer and replace its archaic processes and systems.

Since reengineering the IRS' business practices and systems is a massive job that will take many years, it is necessary to set priorities and adopt time phased plans since the needs and opportunities for systems improvements are far greater than can be accommodated in any one year, or even a few years.

Business Line Investments

Most of the largest scale and most complex systems' improvements will be accomplished through the agency-wide Core Business Systems program that is funded by the ITIA and is discussed below. However, there are dozens of smaller and more focused high-priority needs to support and improve operations. They are either too specific to be included in the Core Business Systems program, or, if they were included, would not be delivered for many years. The IRS has gone through a prioritization process for these business line investments and requests funding for $40 million in fiscal year 2001 for only the highest priority of such projects.

We are requesting the $40 million to develop, redesign or acquire new systems to improve:

(1) The Taxpayer Advocate's ability to identify problems and recommend changes to the business process by redesigning and consolidating multiple, stand-alone systems into one management and control system;

(2) The management and reporting of taxpayer and employee complaints by designing a new system;

(3) The new Tax Exempt/Government Entities organization's ability to process determination requests, contacts with requestors and track the deposits of fees;

(4) The notices sent to taxpayers, including the clarity and reduction of the need for multiple contacts with taxpayers;

(5) The Chief Counsel Case Management activities, including modernizing many business rules and updating the system to save costly manual work and improve Counsel's ability to timely deal with the Courts, taxpayers and IRS' needs; and

(6) The walk-in sites' efficiency and service to taxpayers by providing automated management tools of tax information to about 125 walk-in sites.

ITIA Funded Core Business Systems

The Core Business Systems program is an agency-wide program designed to re-engineer all of the basic IRS' business processes and the computer systems that support them. After the award of the PRIME contract in December of 1998, the IRS spent CY 1999 and the early part of CY 2000 building the management and governance process necessary to manage this huge program; developing plans for the near-term and medium-term projects; and beginning to update architectural and technology infrastructure plans. This program is being very carefully managed at the highest levels within the agency and adjustments to plans are made frequently based on experience to date and on risks anticipated.

The first, relatively small projects to be delivered will provide for improved telephone service during fiscal year 2001 and provide improved tax computation capabilities to examiners. Further enhancements to taxpayer service over the Internet and increased electronic tax administration services will follow. Two critically important projects will be planned in detail in fiscal year 2000 and are expected to proceed to development stages in fiscal year 2001. They will replace the archaic tape-based system that maintains all taxpayer records and improve our financial management systems. Other critical projects to improve service and compliance programs, including correspondence, collection and exam are in the early states of design and further plans will depend on results of the design efforts.

In support of these business projects, work will proceed in fiscal year 2000 to complete institutionalization of the ITIA governance process and the Enterprise Life Cycle methodology. This will provide for the first complete update of the technology blueprint since 1997 and complete major infrastructure and architectural work necessary to support the other projects. Security issues are being given special attention in this work. In fiscal year 2001, continued update of the blueprint and other architectural and technology standards will be done and additional work on infrastructure will continue as necessary to support the business projects.

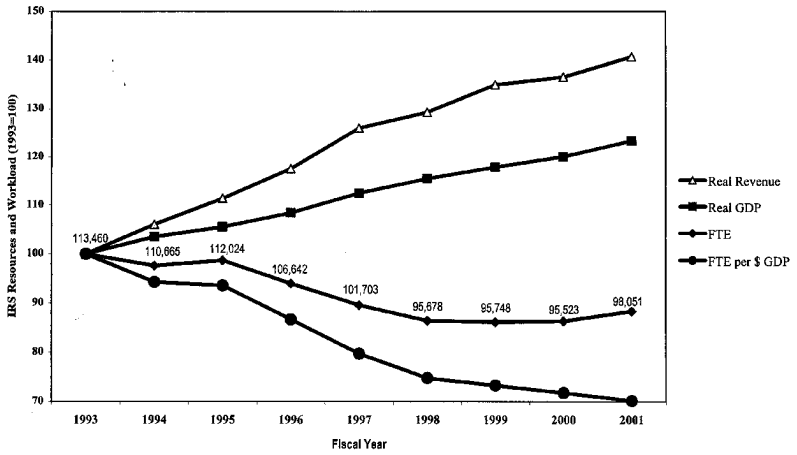
The Congress through the specified ITIA wisely planned the funding for this core business systems program. This account represents a practical means of funding a long-term program such as the IRS technology modernization program. Under ITIA, Congress appropriates the funds for the program as a whole and the IRS is allowed to plan for continuity of the program subject to stringent reviews and safeguards. No funds are released from the ITIA until the IRS prepares a plan for specific increments of funding and is reviewed and approved by the Treasury, OMB, GAO and the two Appropriations Subcommittees. This approval, however, still only provides the IRS authority to proceed up to a certain funding level. No funds are actually obligated except through a rigorous internal process within the IRS, which is managed by the IRS Executive Steering Committee chaired by the Commissioner.

In fiscal year 2001, we are requesting $119 million to continue progress as anticipated on the ITIA funded Core Business Systems program. In fiscal year 2000, we requested no funds for ITIA. Remaining balances from prior year appropriations plus the new $119 million request will support a spending level in fiscal year 2001 of $330 million. To ensure continued funding, we are requesting an advanced appropriation of $375 million for fiscal year 2002.

CONCLUSION

Mr. Chairman, I believe we are making real progress on the goals and mandates set forth by the Restructuring Act to bring meaningful, positive changes to the IRS and America's taxpayers. It is true that no one fully understood everything that would be required to implement this far-reaching Act. However, if Congress can provide continued and assured support for IRS modernization, such as that contained in our fiscal year 2001 budget request, we will be able to produce the visible, tangible changes in service, compliance and productivity that America's taxpayers expect and deserve. Thank you.

IRS SHRINKS AS A FRACTION OF THE ECONOMY



FTE excludes EITC (starting in 1998) and inspection (starting in 1999).

	CODE SECTION	TOTAL FTE
1203	Termination of Employment for Misconduct; Incl 1203 Training	125
1205	Employee Training Program	368
3001	Burden of Proof	5
3201	Innocent Spouse Case Processing & Adjudication	731
3301	Global Interest Netting	103
3401	Due Process in Collections	356
3417	Third Party Notices	587
3462	Offers in Compromise Case Processing	1,673
3501	Explanation of Joint & Several Liability	20
3705	Spanish language assistance/live assistor option/contact on manually generated notices	63
****	All Other Codes	529
	TOTAL	4,560

Senator CAMPBELL. Thank you. Before I ask some questions, Commissioner Rossotti, I would like to ask the chairman of the full committee, Senator Stevens—I know he has a burning interest in your office—if he has some comments.

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. Nice to see you here. I wrote to you last July about a problem that has developed, and I penned in a personal note to you about it. It comes about because, in connection with the Alaska Native Corporations NOL amendment of some years ago your office has seen fit to reverse and reinterpret the private letter rulings which were issued and relied upon by three of those cor-

porations. The net result is these corporations who did recover despite a terrible period, the NOLs really allowed them to stay in business, now face substantial taxes and interest which would not be due at all if it had not been for the reinterpretation.

I am sorry to say, I got a reply from one of your assistants who did not really respond to the problem of why should the IRS reverse a private letter ruling that applied to people in such dire straits. These are corporations for Alaska Native people primarily living in the Arctic. They are the Bering Straits, Cobb Inlet Regional Corporation and Aluet Corporation. They have tried to find ways to work this out. Their counsel, their tax advocate has come and seen me several times.

I would not normally bring this up at a hearing. I know you cannot discuss it, the merits of the decision, but I urge you to go back and take a look at it. I think this is terrible policy to allow your people the ability to reverse private letter rulings which have been relied upon, decisions were made based upon those rulings. Now to go back and reassess the tax that was due then after the computation under the private letter ruling, I really just do not understand it.

Commissioner, I would urge you to look at it. These people because of a lot of things that are going on in the world, primarily because of the restrictions on mining and oil and gas development during the period of this Administration, are back in hard straits again. The assessments that are coming from the IRS will in two instances bankrupt these companies. And they are companies that every person is a Native stockholder. That is, the stockholder is a Native person. Their employment is primarily Native. These corporations were created by an act of Congress.

I just do not understand this reversal of policy, and I would urge you to personally take a look at it. That is my personal request on it. We have been working with these corporations now since 1971. Twelve of them were created then and 12 of them are still going now. None of them has ever gone bankrupt. The NOL legislation saved at least nine of them, and your predecessors issued those rulings and we see no reason for a reversal.

I cannot find any justification other than people did not like what was done then. But you know, time passes and decisions are made upon past decisions and past interpretations. We should not have something like this to bring this kind of chaos into Alaska. I would appreciate it, Mr. Rossotti, if you could personally look into it.

Mr. ROSSOTTI. Senator, I promise you I will. I am aware of the issue. I have not delved into the details of it, but certainly based on your request, I promise you that I will look into it and we will look at every possibility for trying to work with those Native corporations.

Senator STEVENS. I was a Government lawyer for a long time, Mr. Rossotti. I do not mind telling you I saw a lot of things my predecessors did I would not have decided that way. I am afraid that is what your people have done, and had they been there at the time the circumstance would be different. But once the rulings are issued and relied upon, I just do not believe that you should permit your subordinates to reverse them. Thank you.

Mr. ROSSOTTI. We will take that very seriously, Senator.

IMPLEMENTATION OF THE RESTRUCTURING AND REFORM ACT

Senator CAMPBELL. Mr. Rossotti, the IRS Restructuring and Reform Act of 1998 which is called the RRA Act of 1998 placed a number of requirements on the IRS and I would like to know a little bit about the cost and how it is implemented. Were those costs accommodated within your budget to implement the RRA?

Mr. ROSSOTTI. Mr. Chairman, I think that at the time RRA was passed there were many provisions and it was very difficult to estimate exactly how they would be administered and what the impact would be. We did make some attempts to do that and discussed them a little bit in last year's budget, but I do not think anyone could have known exactly how they would play out.

I think we have much better information today and actually that is exactly what this chart is over here. This shows by code section the principal sections of the Restructuring and Reform Act which have created resource requirements.

Just to pick out one example or a couple of examples, if you look under the innocent spouse case processing, that is the provision which I think many members of Congress and myself when I was working with the Congress were very interested in getting. It gives the opportunity for spouses who may have separated or had issues in their marriage to achieve relief from a liability on a return that they may have signed and may not have known about some of the issues that came up later after that return was signed.

But we now have an enormous number of these claims in inventory and they have turned out to be extremely complex to adjudicate. We have about 46,000 of them which is a big backlog. There are about 700 FTEs assigned to that. Prior to the passage of the act it was basically negligible. I am not in any way complaining about this section because I think it was one of the ones that was most important to put in. It just has turned out to be extremely complex to administer.

Senator CAMPBELL. How much has it cost so far?

Mr. ROSSOTTI. These are in terms of personnel, but I think if you look at it—for example, we have requested 2,800 people in STABLE, which is the initiative that we have asked for to cover this and that would cost a total of $188 million a year. That would actually not cover everything that is in here but it would basically do as much as we think we need to do to cope with these sections.

Senator CAMPBELL. In the reform policies that you have implemented, can taxpayers actually see any difference in their interactions with the IRS now? As an example, when they make phone calls, are they getting better service and accurate information?

Mr. ROSSOTTI. Senator, I think that they can, and I will give you several examples. Just in the current filing season, for example, a taxpayer is able to get through about 65 percent of the time. Now that is not as good as it needs to be because if you were in the private sector you would get 90 percent. But last year it was about 50 percent and 2 years ago it was 20 percent. I mean, you had an 80 percent chance of getting a busy signal.

So this is the number one complaint that I get from congressional offices during the filing season, people say they are put on

hold too long, and I am very well aware of it. But at least they are getting through 65 percent of the time, which is a lot better.

ASSISTING TAXPAYERS

The other thing is, as Senator Dorgan noted, we have put people out again into the field and we have field offices open on Saturdays and during extended hours during the filing season. We have these problem-solving days that have really helped to reduce the number of really difficult problem cases; some of the things that were raised in your hearing, for example. These are the kind of things that we have done already.

Really what the whole point of the modernization is to make those kinds of improvements embedded in our whole way of doing business so that every taxpayer that deals with the IRS on every occasion, whether they are by phone, in person, or on the Internet, which we hope a lot of them will do, will be able to get through, get the information they want, get their problem solved, and be done with it. That is basically what the whole—we have done some steps along the way but I would not claim that we are anywhere near to 100 percent. But I think there is visible progress.

Senator CAMPBELL. I remember one of the complaints we heard was they get different answers from different people.

Mr. ROSSOTTI. That is a fair statement also because some of these questions are complex and in the past every group was trying to answer every question. Now we have got it managed on a national basis so that we will basically be able to direct a call to the person that really understands how to answer that call. We are not quite there yet, but that is the way, the direction that we are going.

Senator CAMPBELL. Good. Do not direct them to me.

Mr. ROSSOTTI. Or me either.

IRS PERFORMANCE

Senator CAMPBELL. Your approach right from the beginning was to structure it more like a corporation, treating people as customers. I think that is a good idea. Do you send customer service questionnaires out, or do you have some way of tracking comments and responses on a card or a file?

Mr. ROSSOTTI. That is another major thing that we have done and the answer is yes. Now not on everything yet, but on most of our major interactions we have—actually, in order to be objective we have a third party, an outside party that sends out on a random sample questionnaires to people that have interacted with us, whether it is on the phone, or even on an exam or a collection, and they get back these things. They do not come to us. They come to the outside party and they tabulate them for us.

What we have done now is we have gotten to the point now where we are actually building this part of it into the measurement system for our organizational units. So that the people in the organization as part of their measurement, what we call our balanced measurement system, the results of these feedback surveys, it is not just information on the shelf. It is part of the way we measure performance in the organization.

TAXPAYER RIGHTS

Senator CAMPBELL. In that restructuring act it also shifted the burden of proof from the taxpayer to the IRS and it also instituted specific protections for the taxpayer against the IRS. Does the IRS provide taxpayers with a clear disclosure of what their rights are?

Mr. ROSSOTTI. We do, Senator. It is not only a part of our policy, it is in many cases built into the act. We have here, for example, even in Spanish as an example, this kind of a flyer that goes in with every time we contact the taxpayer, and there are various types. For example, if we send out a notice saying that there might be a collection action pending, we will send out the specific——

Senator CAMPBELL. So they are made aware of it when you notify them that there may be action pending?

Mr. ROSSOTTI. In every single case. It is required as part of our process.

Senator CAMPBELL. Let me ask Senator Dorgan, so I do not hog the whole time here, if he would like to ask a few questions, and then I will get back to a couple more.

TELEPHONE ASSISTANCE

Senator DORGAN. I was going to ask about the response on the telephone inquiries. I think you would agree that even 65 percent is short.

Mr. ROSSOTTI. It is.

Senator DORGAN. I mean, 35 percent are trying to get some help and are not getting it. We need to find a way to put enough people on those phones and have enough phones so that people get through.

Mr. ROSSOTTI. Senator, that is exactly what we are doing. I said we need to be comparable to private sector, which would be 90 percent, maybe even the best would be 95 percent. There are two answers to that. One is that we do need some more staff, and that is part of what the STABLE request is for.

We are not attempting to do it all with staff though. The technology will also help us. The first project under our information technology program is actually improving the call routing and the call management. It will help us to get better quality and better quantity by getting the right calls to the right people by allowing taxpayers to get the information they need directly if that is possible.

For example, on refunds, a lot of people just call us to see if we got their return and when they are going to get their refund. Those are very simple calls which we can—that is about one-quarter of our calls during the filing season. We can give that information to taxpayers very easily with technology.

So we have basically these two prongs to solve that problem. One is we do need some additional staff and that is what STABLE is about. But we are not really attempting to solve the problem—we would need far too many staff years to be able to solve it entirely with staff. The other prong is with the technology.

PAPERLESS TAX FILING

Senator DORGAN. Commissioner, another issue that I have been working on that relates to the amount of money you spend processing paper is a plan that would allow Americans like citizens of some 30 other countries to be able to file or comply with an income tax requirement without having to file a paper income tax return. You referred to electronic filing, which obviously is one way to do that.

Another way to do it is to go to an elective system of filing for people with more of a rough justice approach to complying. By adjusting the W–4 just a bit you could actually, with the plan that I have been working on, allow up to 70 million people to comply with their income tax obligation and yet not have to file an income tax return. It would save a great deal of time. Save you processing a lot of paper.

I assume that would save money if we had a return-free system for 70 million people whose principal income is wages. Those who have de minimis other income, interest and capital gains, would then be exempt from tax. If you constructed a system like that, where 70 million people could elect this system and their withholding would then become their exact tax liability, I assume you would save a substantial amount of money in processing. Am I correct about that?

Mr. ROSSOTTI. As you may remember, there is a requirement in the restructuring act for us to provide a study of that and we are going to do that.

Senator DORGAN. I did that. I put that in.

Mr. ROSSOTTI. We are doing it. We are going to do it. It is a bit complicated. I honestly do not know whether we would save. I think there are some offsetting costs because we then have to do some additional work to process the information we need to actually calculate the liability. I guess it would depend to some degree on whether the law was adjusted.

Senator DORGAN. You are missing my point. My point is not that the tax agency would be the reconciler. Some countries do that where the tax agency reconciles and you actually make the calculation. That is not my point. My point is a return-free system in which the actual withholding on a table provided by the tax agency becomes the actual liability and there is no paper in the system.

Mr. ROSSOTTI. I think that would require legislative change in order to——

Senator DORGAN. Oh, yes. That would be a very substantial change.

Mr. ROSSOTTI. Okay, I misunderstood. I think that becomes the issue. If we tried to do it with all the existing provisions of the statute we get into some fairly significant complications, because we really even with third-party reporting do not have all the information and we do not get it in time.

If you change the law, maybe perhaps along the lines of what you are saying, then that might be an entirely different issue. But of course, that would then require the Congress to consider whether——

Senator DORGAN. No, but my question of you is, if we do that, and I think Congress will be considering something like this, if you take people who elect to go off on a completely different track and have their actual withholding, with some adjustments on the W–4 form, some additional adjustments, the actual withholding becomes their actual liability. Therefore, no paper is required. No return filed.

PAPERLESS TAX FILING

Let us assume that 70 million people did not have to file hard paper returns to the Internal Revenue Service. I am assuming that you save a fair amount of money.

Mr. ROSSOTTI. We would certainly save money if we did not have to do anything, did not have to process those returns. I would agree with that. I think we would have to look at though what—if it was implemented in such a way that there was no offsetting requirement to calculate the liability then I think that would be true.

I think that would be the question that would have to be determined though, what would be the offset—what would be the Congress'—how would the Congress change the law to provide for the calculation of that liability through the W–4 process or through the withholding process? Because of course, right now it is not sensitive to that. I mean, it is just a withholding. It does not really determine your tax liability.

Senator DORGAN. I understand that. But I am looking at the pony, you are looking at the manure here. I am trying to——

Mr. ROSSOTTI. Maybe that is the job I am in.

Senator DORGAN. I am saying that there are examples of plans in other countries that have income taxes that allow people to file no return at all.

Mr. ROSSOTTI. Right, I am aware of that.

Senator DORGAN. This is not a case where the tax agency reconciles.

Mr. ROSSOTTI. No, I understand. I do. I did not get it at first, but I think I do. I think it just depends on how the law was drafted. That is all.

Senator DORGAN. I have been working on this for a couple years. We have talked to Treasury and the IRS a bit. So I guess I was just talking about whether money can be saved if you take paper out of the system.

Mr. ROSSOTTI. Sure.

TAX SHELTERS

Senator DORGAN. Let me ask one additional question on the issue of tax shelters. I know from having talked to the Service and Treasury that you face a very difficult prospect here of increasingly sophisticated tax shelters. I mean very sophisticated tax shelters that are beginning to allow some of the largest taxpayers to effectively avoid—or entities that should be some of the largest taxpayers—to effectively avoid their tax obligation through very sophisticated schemes. Treasury is very concerned about that as are you.

Can you describe some of the challenges you face there?

Mr. ROSSOTTI. Senator, first of all, let me just say that I agree with you very much that this is one of the most significant compliance issues that we have. And it is not simply the money that is being lost. We do not know exactly how much it is but we know that it is a great deal; many billions. But it is also I think a threat to the fairness, the perceived fairness of the system because the average taxpayer if they think that the so-called big guy is getting away with something, it undermines their confidence in the system.

As you said, if millions and millions of people decide they do not want to pay any more because it is not fair, we are really in trouble. So I take this very, very seriously.

Secretary Summers has decreed this is a top priority, as we have, and I am pleased to tell you that I think at this moment I can say that we have the beginnings of a very vigorous and I hope will be a very effective program to deal with abusive corporate tax shelters as we call them.

Just to tick off some of the things that we are doing, we are working cooperatively with Treasury on this. Just a few weeks ago we issued three new regulations that require increased disclosure from both the taxpayers and the promoters of these kinds of corporate tax shelters. That regulation which was issued between us and Treasury I think will give us the information we have to identify and discover these, because as you noted they are really quite hard to find.

The other thing is part of our reorganization is going to help us very much on this because part of it is that we have set up one operating division for covering large and mid-sized taxpayers, which previously that responsibility was dispersed and we did not really have anybody directly in charge of it. Now we have, I think, a very good, very well qualified team in charge. They are going to get the information that we get from these disclosures that are required by these new regulations, and I think very actively pursue the ones that appear to be abusive, much more aggressively, or let us say effectively than we did in the past.

We also then will be able to take advantage of what we learn from some of the casework that we do to feed this back into some additional notices. We have been issuing notices and various kinds of guidance when we find particular kinds of these things to stamp them out. Some of them, as you probably know, are really quite odd. I mean, you have a large U.S. corporation leasing a city hall over in a European country and then leasing it right back and claiming that that transaction results in a tax deduction. And there is an infinite variety of these things that come up.

So I am not going to claim that we are going to be able to completely eliminate these, but I can I think fairly state to you that today, partly through some of the other changes we have made and with the cooperation of Treasury and the Secretary, we have a much more vigorous program to deal with this than we had even a few months ago.

Senator DORGAN. Thank you, Commissioner.

TAX RETURN INFORMATION ON THE INTERNET

Senator CAMPBELL. Commissioner, is the IRS considering allowing taxpayers to log on the Internet to check the status of their returns since you said that about one-fourth of your calls are people checking the status?

Mr. ROSSOTTI. That is one of our top priority initiatives in our modernization program. Certainly it is feasible to do that and we expect to do that, not in the next filing season, not in 2001 but perhaps the following one. The critical gating factor, the limiting factor there is really the privacy and security. That is the issue.

Senator CAMPBELL. Yes, we will have to plug in some PIN number or a license number or Social Security or something?

Mr. ROSSOTTI. That is the key. We have to be sure that the taxpayer who is signing on is the taxpayer who is really allowed to have that information. Of course, that is not an easy thing to do. It is not impossible but we are working on that very diligently. That is the gating factor.

Our current goal, I would say, although I cannot guarantee that we will meet it, our current goal would be that in the 2002 filing season—in other words, 2 years from now, that we would be able to do that. We do have a pilot project underway to use the Internet with some practitioners, with appropriate security with practitioners, and we are using that as a pilot to try this out right now.

TECHNOLOGY INVESTMENTS

Senator CAMPBELL. Let me talk about the total amount of money. In fiscal year 1998 and 1999 we provided a total of $506 million for information technology investments. So far the IRS has been allowed to spend only $68 million and Congress is considering a request for another $176.3 million. You have also requested $119 million more in fiscal year 2001 and a commitment of an additional $375 million for fiscal year 2002, which is a total of over $1 billion, and that has a real ring to it.

I hope that given the congressional requirements for the release of funds and the pace so far, could you give us some assurances that the IRS is going to be able to justify the expenditure of the remaining money, which is I guess over $261 million?

Mr. ROSSOTTI. Let me just say, Senator, that because of the history of less than successful efforts in the IRS in the past, the modernization, I think the Congress very wisely—and this was done before I got here, but very, very wisely put in place a process which on the one hand puts money into this technology investment account so there will be an assured funding once the project starts, because if you start and stop a project, you kill it basically. So the money is allocated into this investment account.

But there is also I think the other side to, as you noted, a very rigorous process for release of that money to the IRS which requires many reviews and many standards to be met, which is what——

Senator CAMPBELL. We did that because we thought some of the money was being misspent.

Mr. ROSSOTTI. I think that the way this was set up was really quite wise. I think if you look at the point you made that what we

have spent so far, is that a third piece of this is our own responsibility internally. Even after it is released to us it just authorizes us to basically obligate this money for specific projects. But I can tell you that we have a process in place that I personally am very actively involved in, as is Mr. Cosgrave our CIO, and we do not release any of this money for any specific project unless we feel to the best of our knowledge that we know exactly what we are going to get for it and we have a reasonable assurance that it will produce what it is supposed to.

That is why actually we have only spent $68 million so far, because we have been working very hard on the planning and the analysis and the preparation work that is needed before we go into what is really the much more expensive phase when you actually begin to deploy these systems. I think we are now at the stage where the first two—and they are still fairly small—of the actual development projects is part of our request before you now, which would allow us to put some things in for the 2001 filing season.

As we get to later this calendar year we will be coming in, we hope, if we are successful, with some much more significant requests to begin some of the bigger projects. That is why the money ramps up.

The thing that I really want to stress to the committee though is that myself, my deputies, Mr. Cosgrave, the CIO, we have an internal pledge to ourselves that we are not going to spend a dollar of this money any differently than we would if it was our own business, our own company. We are really going to do everything that we know how to do to make sure that when we commit money to one of these projects that we know what we are going to get for it.

Even then, I do not say that we are not going to have risks and we could not have some failures along the way, but I think I can give assurance that we are not going to go down a path where we spend hundreds of millions or billions on something it does not produce anything, because we are just on top of it.

TECHNOLOGY INVESTMENTS

Senator CAMPBELL. That has happened before, as you know. Do you think you will be able to spend what you currently have before the end of the fiscal year?

Mr. ROSSOTTI. I think that we have a plan, if everything goes the way we expect, we will be ramping up and spending the money. But I think that we will have to work closely with the committee throughout the year, because we monitor this every month virtually. I think we need to work closely with your committee and the House Appropriations Committee to give you the reports, as well as to OMB. I can tell you that we are not going to spend the money just because it is there. That is the promise I will make to you.

You will see the reports, as will Treasury and OMB. It is a very open process. We have these meetings and we have people from all sides attending. As those that have attended know, they are pretty hard-hitting. We really go into this in some detail. That is what you have to do to run a project like this.

Senator CAMPBELL. I thank you. Senator Dorgan, do you have any further questions?

Senator DORGAN. Just one final question. Over the years serving on Ways and Means and now here in the Senate, we have gone through a lot of iterations with the IRS about the equipment purchases and new technology in order to respond to the challenges of processing and responding to taxpayers, and we have had some very large equipment purchases that did not work and did not produce the system that we expected. Where are we now with all of that?

Mr. ROSSOTTI. This is really what I was talking to Senator Campbell about. Let me just make one slight clarification because really the problem is not so much equipment. There are some equipment problems, but mostly we have at this point fairly modern equipment in terms of the actual computers. What we have is we have 1960s and 1970s software systems running on 1999 computers. That is what we have.

For example, our entire file of taxpayer records, every taxpayer in America, business, individual, is on tape files. This is because the system that does that accounting, that taxpayer accounting is the most basic system in the IRS, is still the same system that was written during the Kennedy Administration. I am not exaggerating this. This is a fact. This was a machine language system that was written in the 1960s. It updates tape files. It gets updated once a week. It runs on modern equipment but it is still the same old system.

This is what the whole modernization program is about. This is why I said in my opening statement, those systems are not fixable. There is not a matter of tweaking. We have to replace them completely.

Now where are we? What we did is we——

TECHNOLOGY INVESTMENTS

Senator DORGAN. The reason I ask the question again is to understand, were they not intended to be replaced about 10 years ago when you went through the major modernization program?

Mr. ROSSOTTI. Yes.

Senator DORGAN. If they were then, what happened?

Mr. ROSSOTTI. That was before I got here, of course, but——

Senator DORGAN. I understand.

Mr. ROSSOTTI. I think that the answer is, as I understand it, yes, they were intended to be replaced.

Senator DORGAN. Talking about the software?

Mr. ROSSOTTI. Yes. And to be fair, there was some software that was replaced. But it was more that new software was added on to the old software but they never replaced the irremediably deficient software. I think that is why the project was viewed as a failure. In reality, there were some things that were delivered from that money that was spent. It was not a complete waste.

But unfortunately, what it did not do is it did not basically solve the problem, which is to replace these old systems. So that is what the whole technology modernization program is all about. It is not about adding on some new things. It is about replacing what is a

just fundamentally inadequate base of systems. Not so much computers, hardware, as it is the systems themselves.

In order to do that, it is not just the software. We have to really rethink the whole way we do business. As you were a tax commissioner, Senator Dorgan, you know the key to collecting when you have somebody that is overdue is to get to them quickly and clean up that account. Because of our systems we take years. I mean, most of our people that are collectors out in the field are working on accounts that are 2 or 3 years from when a liability was developed. A lot of that has to do with the whole process of collecting, as an example.

Senator DORGAN. Thank you, Commissioner.

Senator CAMPBELL. Commissioner, we have no further questions. Thank you for being here. I think you have received some questions in writing from members who could not attend this morning. If you could answer those as quickly as possible in writing, we would appreciate it.

Mr. ROSSOTTI. We will certainly do that, sir.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

Question. RRA 98 enhanced the Taxpayer Advocate's Office by making it an independent entity within the IRS, with advocates in the field reporting directly to the Advocate's Office in D.C. instead of to the IRS regional management structure.

How is the Taxpayer Advocate's office assisting taxpayers?

Answer. I am pleased to report that the new Taxpayer Advocate Service officially transitioned as a modernized organization on March 12, 2000. We developed a modernized organization to deliver service to each taxpayer through our casework, and to every taxpayer through outreach, systemic analysis and advocacy.

Every state now has at least one Local Taxpayer Advocate. Local Taxpayer Advocates work to resolve problems that individual taxpayers have with the Internal Revenue Service. They also address taxpayer problems when an IRS system, policy or procedure fails. Separate addresses, telephone and fax numbers for Taxpayer Advocates are included on notices of deficiency and are being published as the telephone directories are updated.

We hired the Operating Division Taxpayer Advocate and several Advocacy Analysts for the Wage and Investment Operating Division. Advocacy Analysts identify and monitor the progress of procedural, systemic and legislative changes designed to benefit taxpayers. They also solicit feedback from taxpayers and key stakeholders about IRS problems. We will hire an Operating Division Taxpayer Advocate for the Small Business/Self Employed Operating Division and additional Advocacy Analysts as the new IRS Operating Divisions become operational later this year.

Question. What happens if a taxpayer cannot resolve the issue with the assistance of the Advocate's Office? Are there any other remedies available to the taxpayer?

Answer. Taxpayers always have the right to go to appeals or to the tax court. In some instances Taxpayers will need to follow judicial avenues to resolve their tax issues. This situation would occur if the Taxpayer Advocate Service cannot provide the relief requested because we don't have the delegated authority, or we feel that the action taken by the function was appropriate.

Mr. Rossotti, Congress reaffirmed in RRA 98 your initial idea of a structure which allows IRS employees to concentrate on a group of taxpayers with similar needs, such as small business and self-employed or large and mid-size business. We provided $140 million this year for that effort.

Question. What is the status of that reorganization?

Answer. We are very much on course implementing Phase II Modernization Design blueprints, meeting time-phased plans and critical milestones. Our Tax Exempt/Government Entities Division was officially established in December 1999, while our Large and Mid-Sized Business Division will be in operation by June 2000. Both our Small Business/Self-Employed and Wage & Investment Divisions are com-

mencing the necessary steps towards meeting the October 2000 operations start-up milestone.

We have also recently convened our Business Systems Modernization Organization Team to begin designing new and updating existing essential business systems infrastructure and architectural blueprint for the new IRS. This will provide for the first time complete update of the technology blueprint since 1997. In the midst of these modernization challenges and achievements, we continue to deliver day-to-day business and operational activities at acceptable levels to American taxpayers.

Question. Why does the IRS need an additional $42 million next year?

Answer. In fiscal year 2001, an additional $42 million is being requested to cover IRS reorganization expenses. These costs will peak in fiscal year 2001, decline in fiscal year 2002, and end in fiscal year 2003. IRS organization modernization involves the first complete reorganization of this agency since 1952. Together with the $140 million included in the fiscal year 2000 base for this effort, this request will be used to cover all expenses of the reorganization. These costs include buyouts, recruitment, relocations, employee training, equipment, services and supplies, telecommunications moves and installations, and modifications of information systems to the new organizational structure. Resources are also requested for design work, space alterations, and contract movers to physically align employees with their operating divisions for the Area and Industry Offices, Chief Counsel Headquarters, Information Systems, and the National Office. These resources cover all aspects of organizational change that will complement the IRS' systems modernization efforts and implement the RRA 98 reorganization mandate.

Question. At what point do you expect that the reorganization will be complete and the funding will be non-recurred?

Answer. If we receive our fiscal year 2001 budget request, $182.4 million would be in our base for organization modernization in fiscal year 2001. We expect to non-recur much of that base in fiscal year 2002 and the remainder in fiscal year 2003.

The Administration has requested almost $40 million in supplemental funding to allow the IRS to get a head start on a staffing increase, code named STABLE for Staffing Tax Administration for Balance and Equity. It now appears unlikely that Congress can agree to that request.

Question. If that is the case, what would be the fiscal year 2001 need for STABLE?

Answer. In the President's Budget the IRS requested $224 million and 2,835 FTE for the STABLE initiative over a 2-year period which includes a fiscal year 2000 supplemental. This approach was taken to allow the IRS to advance hire and begin training earlier the new personnel that this initiative supports. Doing so would allow the new hires to be engaged in performing their jobs at a full level as early as possible. The IRS still believes that this is the most rational and sensible approach. If we were not to get the fiscal year 2000 supplemental, the entire initiative would have to be implemented in fiscal year 2001.

The Service has since reevaluated its needs for STABLE for fiscal year 2001 using the assumption that Congress might not fund the supplemental in fiscal year 2000. That recosting identifies needs of $213.2 million and 2,501 FTE in fiscal year 2001. The amounts identified in the fiscal year 2001 Congressional Justification for STABLE are higher because they assumed that 301 FTE, from the supplemental, would already have been in place on October 1, 2000.

Question. How likely is it that the IRS will be able to hire almost 3,000 new full-time employees (FTE) in one year?

Answer. The IRS should be able to hire 3,000 new full-time employees (FTE) in one year. The recruitment process is gearing up for recruitment on college campuses this spring to bring revenue agents on board October, 2000. After receiving the "Compliance Initiative" in the fiscal year 1995 budget, IRS had a net increase of 4,671 on-rolls between June 30, 1994 and June 30, 1995.

The IRS is requesting a total of $44 million for operational support contracts. I am told that these are necessary because the IRS does not have in-house expertise in certain areas.

Question. What kinds of functions are covered by these operational contracts?

Answer. Contractual support is comprised of three categories: mandatory, operational, and expertise. Below are some examples of each type of contract:

—Mandatory contracts are required by law or agreement with other Federal agencies. These include National Archives storage of tax records; Treasury's Financial Management Service activities for tax refunds and lockbox collections; and, Low Income Taxpayer Clinic grants.

—Operational contracts support IRS operations. Examples include funding for Currency Transaction Report processing, FedWorld management of the IRS Web Site; and, Multilingual Interpretation services for Walk-in offices.

—Expertise contracts are required to obtain expertise outside the IRS. Some of these activities include developing and administering customer satisfaction surveys and rewriting of IRS Forms and Publications into "plain English."

Question. How long will the IRS need to rely upon outside expertise in these areas? In other words, when can we expect that these funds will be non-recurred?

Answer. The $44 million that the IRS is requesting is to restore our unfunded operational level. Operational costs have risen because of demands placed on the agency as a result of RRA 98, the reorganization, and lower staffing levels. The changes caused by RRA 98 and the reorganization have required expansion and adjustments to the scope of work of many operational contracts. We see contracting out for services as the best use of limited resources and as an enhancement to our areas of unfamiliar expertise. Therefore, we do not foresee that these funds will be non-recurred.

The IRS fiscal year 2001 budget request includes $144 million and 1,633 full time equivalent staff years (FTEs) for an initiative known as Staffing Tax Administration for Balance and Equity (STABLE). STABLE is intended to stabilize and strengthen tax compliance and customer service programs. The FTEs being requested for this initiative are allocated among submission processing, telephone and correspondence, document matching, examination, collection, and tax exempt and government entities.

Question. How does the IRS determine the number of FTEs to allocate to each of the functional areas within the STABLE initiative?

Answer. There were three objectives for the STABLE initiative: increase compliance activity, free up compliance staff that had been detailed to customer service areas, and increase customer service.

We first applied staff to those areas that would allow new and additional audit coverage and increase compliance case closures. Those areas were defined as the Automated Collection System, Collection, Underreporter for Information Returns, Examination, Tax Exempt and Submission Processing. We also wished to free up half the staff from Examination and Collections that do walk-in and Toll Free work during the filing season (800 FTE). This allows 400 of these FTE to address the backlog of cases in exam and collection and consequently improve the audit coverage rate. Third, we wanted to increase customer service levels that support Walk-in and Toll Free telephone service to the taxpayer. This increase in fiscal year 2001 will allow IRS to perform all aspects of IRS' mission more effectively and efficiently.

Question. Does the IRS have a business case showing the expected benefits and costs for each part of the STABLE initiative?

Answer. The following performance information highlights the objectives of the STABLE initiative to balance continued improvements in customer service with targeted investments in compliance programs that focus on high-income filers and sectors of the economy with special enforcement needs.

Measure	Fiscal year 2000	Fiscal year 2001
Toll-Free Level of Service	65 percent [1]	70 percent [2]
Field Audit Coverage > $100K	0.76 percent	0.81 percent
Field Collection Delinquent Accounts Closed	751,745	1,009,774

[1] Actual level of service as of March 11, 2000.

[2] This revision is dependent on a call demand consistent with experience thus far in fiscal year 2000, continued achievement of current telephone performance, and increased staffing of 500 FTE provided by the STABLE Initiative.

As the chart on the following page illustrates, the total return on investment for the STABLE initiative is 5.3 to 1. Although STABLE is not a revenue-driven initiative, Examination, Collection and Document Matching functions will generate substantial direct enforcement revenue.

[Dollars in millions]

Budget activity	Employment category	Fiscal year 20000		Fiscal year 20001		Revenue Generated							6-year ROI
		FTE	Cost	FTE	Cost	Fiscal year 2000	Fiscal year 2001	Fiscal year 2002	Fiscal year 2003	Fiscal year 2004	Fiscal year 2005	Total fiscal years 2000–2005	
Enhancing Compliance:													
Automated Collection System	Cust Svc Rep	75	$11.8	450	$32.2	$46	$428	$810	$900	$900	$900	$3,984	23.4
Collection	Revenue Officer	.....	.....	33	3.2	.....	4	28	39	45	45	161	8.1
	Other	.....	.....	17	1.2	.....	.....	.....	.....	.....	.....	.....	.....
Underreporter—Information Returns	Tax Exam (Temp)	40	4.8	200	12.8	15	68	93	104	108	108	496	7.9
Examination	Revenue Agent	9	1.5	633	69.8	.....	−28	150	232	264	288	906	2.2
	Other	2	0.2	189	13.6	.....	.....	.....	.....	.....	.....	.....	.....
Tax Exempt	Technical	4	0.6	68	6.4	.....	.....	19	19	19	19	76	2.0
Submission Processing	Cust Serv Rep	50	5.7	408	28.9	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal		180	24.6	1,998	168.1	61	472	1,100	1,294	1,336	1,360	5,623	6.1
"Freeing Up" FTE:													
Walk-Ins	Cust Serv Rep	48	6.3	200	15.4	.....	61	65	67	69	70	332	4.1
Toll-Free Telephone Service	Cust Serv Rep (Temp)	50	6.1	200	13.2	.....	61	65	67	69	70	332	5.1
Subtotal		98	12.4	400	28.6	.....	122	130	134	138	140	664	4.9
Total		278	37.0	2,398	196.7	61	594	1,230	1,428	1,474	1,500	6,287	6.0
Enhancing Customer Service:													
Walk-Ins	Cust Serv Rep	.....	.....	33	2.5	.....	.....	.....	.....	.....	.....	.....	.....
Toll-Free Telephone Service	Cust Serv Rep (Temp)	13	1.6	300	19.8	.....	.....	.....	.....	.....	.....	.....	.....
Underreporter—CAWR	Tax Examiner	10	1.2	104	5.6	.....	.....	.....	.....	.....	.....	.....	.....
Subtotal		23	2.8	437	27.9	.....	.....	.....	.....	.....	.....	.....	.....
Total—STABLE Initiative		301	39.8	2,835	224.6	61	594	1.230	1,428	1,474	1,500	6,287	5.3

In its congressional justification, IRS notes, that "staffing resources devoted to compliance and enforcement programs have declined by more than 20 percent over the last 5 years because of the need to transfer compliance staff to customer service activities." Also according to IRS, additional workload increases, including some associated with the IRS Restructuring and Reform Act of 1998 (RRA 98), have further eroded IRS' enforcement presence.

Question. How much of the decline in compliance and enforcement programs stems from IRS employees' lack of understanding about how to implement the provisions of RRA 98 rather than the additional work associated with the provisions?

Answer. While it is true that enforcement revenue declined by 6.5 percent ($2.3B) between fiscal year 1998 and fiscal year 1999, total net revenue collected rose by 6.4 percent ($105B). Our purpose in shifting resources to customer service activities was to increase voluntary compliance, which would result in taxpayers filing a correct return, and paying the correct amount, thus increasing total net revenue collected. We believe that the opportunity cost of implementing RRA 98 provisions has resulted in an approximate 4 percent decline in "output" for both Examination and Collection in fiscal year 1999. Reductions in various output measures beyond this can be partially attributed to some initial lack of understanding regarding RRA 98, especially in the Collection function. As stated in response to the previous question, we are aggressively taking actions via training and all-Collection and all-Examination manager's meetings to address the concerns of our front-line employees regarding how RRA 98 has and has not changed their job responsibilities.

Question. What actions are being taken to help ensure that employees understand the specific requirements of RRA 98 as it relates to their jobs?

Answer. The IRS has instituted an aggressive three-phased training program to ensure that employees understand how the IRS Restructuring and Reform Act of 1998 (RRA 98) affects their jobs.

Phase I (completed July 1998–January 1999)

—Provided basic training to 51,318 employees to explain the overall objectives of the legislation, the reasons it was enacted, and its immediate and long-term impact on the IRS;
—Posted information on IRS' internal web site and linked to an IRS National Resource Center where employees could find information and ask questions.

Phase II (completed May 1999–September 1999)

—Provided formal training on specific Act provisions to employees whose direct responsibilities were affected. The training had clear learning objectives, testing and evaluation;
—Delivered specialized training courses on: Due Process, Installment Agreements, Offers-In-Compromise, Seizures, Relief from Joint and Several Liability, Third-Party Contacts and Interest Netting;
—Provided section 1203 training to 97,965 employees; and
—Delivered section 1204 training on the use of enforcement statistics to all managers as well as all collection and examination employees.

Phase III (to be completed during fiscal year 2000)

—The overview training of Phase I and the technical training of Phase II have been incorporated into the basic employee training programs of all job types in the IRS.

As part of the STABLE initiative, IRS has proposed a supplemental fiscal year 2000 appropriation that would allow the hiring of 301 FTEs in fiscal year 2000. That advance hiring, according to IRS, would ensure that most training of new hires would be undertaken in fiscal year 2000, allowing the impact of these new hires to be fully maximized in fiscal year 2001.

Question. Since the persons hired in fiscal year 2000 will only be on board for part of the fiscal year, how many persons will the IRS have to hire in fiscal year 2000 to realize the 301 FTEs that year?

Answer. IRS would hire 1,202 people in fiscal year 2000 in order to expend 301 FTE.

Question. When in fiscal year 2000 would IRS have to bring those persons on board in order to ensure that most training is done in fiscal year 2000?

Answer. We plan to hire these people at the beginning of July.

As required by RRA 98, IRS is in the midst of a major reorganization designed to improve service to taxpayers. IRS plans to reorganize around four operating divisions, each with beginning-to-end responsibility for serving major groups of taxpayers. IRS has several units within the new division already in place and has said that it will "stand-up" the remaining units, including the two largest divisions, by October 2000.

Question. What exactly does IRS mean when it says it will "stand up" the organization by October 2000? Will all employees be assigned to a new operating division by then?

Answer. The term "stand up" refers to five critical elements that the IRS has determined must be met in order to efficiently and effectively "stand up" a new organization. Those elements are:

—The Division Commissioner is in place and the key management positions have been filled;
—All personnel actions have been completed to non-competitively and competitively realign employees to the new division;
—The Budget has been created and financial management responsibilities have been transferred to the Division Commissioner;
—The Division has the delegated authority to fulfill its mission; and
—Management Systems and necessary workarounds have been developed and are in place to allow the Division to function.

All employees will be assigned to the new operating divisions by 10/1/00 because in order to effectively "stand-up" the organization, we must follow the second "stand-up" element (mentioned above) by completing all of the necessary personnel actions to non-competitively and competitively realign all IRS employees by 10/1/00.

Question. What changes will be noticeable to taxpayers who try to contact IRS, and how does IRS plan to inform taxpayers of any such changes?

Answer. Essentially, the reorganization will be transparent to taxpayers. However, they will be receiving an increased level of service when they contact the IRS via telephone and correspondence and e-mail resulting from enhanced modernization changes. The enhancements include procedural changes, the Taxpayer Bill of Rights, new technology, and new organizational structure.

Additionally, the IRS will continue with Problem Solving Days, Taxpayer Advocate Service emphasis and the Citizens Advisory Panel to increase accessibility to IRS and resolve issues. Taxpayers are also beginning to experience enhanced services provided by the IRS' e-filing program offering them the option of e-filing their federal and state tax returns together, getting their telephone calls answered more timely and more often, and receiving identifying information from employees upon receipt of their call.

Conversely, we have been notifying taxpayers for the past 2 years through a whole myriad of methods including press releases, marketing campaigns, the Internet, meetings with liaison groups, outreach to the Hill and Practitioner meetings. We plan to continue this method of information sharing throughout this process.

The IRS request states that by investing in technology and improved business practices, the fiscal year 2001 budget request avoids the traditional staff increases that would otherwise be required.

Question. What specific information system and business practice improvements to be implemented in fiscal years 2000 and 2001 will produce the efficiency gains implicit in this statement?

Answer. Most of the business practice improvements we have been pursuing in fiscal year 2000 and plan to pursue in fiscal year 2001 are designed to improve our service to the taxpayer. These include:

—Increasing the use of easy to use alternatives to paper filing;
—Simplifying notices and correspondence;
—Meeting demands for walk-in assistance;
—Pursuing penalty reform;
—Improving and increasing use of upstream education and delinquency prevention techniques;
—Identifying potential areas of non-compliance and developing effective treatments;
—Providing a quality work environment;
—Providing better tools and training to enhance customer service;
—Improving service by reorganizing and refocusing along customer segments; and,
—Measuring progress and performance against a balanced measurement system.

Although we will be implementing some new computer systems in fiscal year 2000 and 2001, the majority of the systems that will improve IRS efficiency will be implemented from fiscal year 2002 onward.

Question. If, during fiscal year 2001, IRS will still be in the process of aligning field staff and workloads to the new organizational structure, what kinds of efficiency improvements does IRS realistically expect during this transition?

Answer. They will be minimal. Some of our performance measures will show slight increases in fiscal year 2001, based on the STABLE initiative being funded. However, the dramatic improvements in performance will only be realized when

business practices are reengineered and technology is modernized. Unfortunately, almost all of the technology spending and focus in the last 2 years has been devoted to addressing the Y2K problem and responding to the IRS Restructuring and Reform Act of 1998 requirements. We are just now beginning the long-term program of business practice reengineering and technology improvement that will allow the IRS to provide improved service and taxpayer treatment while also increasing the effectiveness of compliance.

Question. Has IRS considered the possibility that productivity may actually decline during this transition period due to a combination of factors, including employee uncertainty, management changes, and training demands?

Answer. Although we realized that productivity would decline during this transition period for the factors mentioned, most of the decline to this point could be attributed to three other factors. First, the expanding economy continues to steadily increase the IRS workload. Since 1993, the number of individual tax returns over $100,000, which are generally more complex, has increased by 63 percent. Meanwhile, because of budget constraints, the IRS staff has dropped by 17,000 FTE since fiscal year 1993, resulting in fewer staff to handle a greater workload.

Second, on top of these general trends, certain specific provisions of the IRS Restructuring and Reform Act alone have required about 4,000 additional FTE to administer.

Finally, almost all of the technology spending and focus in the last 2 years has been devoted to addressing the Y2K problem and responding to Taxpayer Relief Act of 1986 and RRA 98 requirements. We are just now beginning the long-term program of business practice reengineering and technology improvements that will allow the IRS to provide improved service and taxpayer treatment while also increasing the effectiveness of compliance.

The impacts are that productivity has already declined in audit coverage, while improving in customer service. We have addressed the declining productivity in audit coverage with our STABLE initiative that will provide the compliance staff necessary to improve productivity. In fact, by proposing a "jump start" on the STABLE initiative through a fiscal year 2000 supplemental appropriation, we hope to train the new staff hired in fiscal year 2000 so that full performance and improved productivity are achieved more quickly.

Another major focus of IRS' reorganization efforts have been to create pre-filing assistance groups within each operating division to increase emphasis on helping taxpayers before they file their returns. At the same time, IRS has said that most IRS employees and their front-line supervisors will continue to do the same or similar work in the new organization.

Question. To what extent will IRS be reallocating staff to pre-filing groups, particularly in the divisions that serve individual taxpayers and small businesses?

Answer. Investments in taxpayer education, and other pre-filing activities will help taxpayers better understand their tax responsibilities. In the end, these efforts will reduce taxpayer errors and generate lower demand for audit staff. There are about 1,300 full-time positions involved in pre-filing activities. The reorganized IRS will require approximately 6,200 pre-filing positions in the Divisions that serve individual taxpayers and small businesses. These positions will provide taxpayer education and communication products and services to more than 156 million individual and small business taxpayers.

IRS is currently calculating how many of these additional 4,900 positions can be filled by internal realignments. Obviously, increasing the IRS staffing devoted to pre-filing functions by 4,900 will require realigning some positions currently providing audit coverage and other filing and post-filing activities. We were concerned about the effect a staffing shift of this magnitude would have on our already declining audit coverage rate in the short term. However, if our STABLE initiative in the fiscal year 2001 budget were funded, audit coverage rates would be stabilized and toll-free service, a key part of IRS pre-filing activities, would slightly increase.

Question. What is the expected impact of any reallocation on compliance staffing?

Answer. We believe that increasing the number of staff dedicated to pre-filing activities will pay off in the long run in helping taxpayers understand and comply with the tax laws. This understanding will increase taxpayer compliance and reduce audit coverage requirements. Therefore, to meet the increased demand for positions performing pre-filing activities, IRS plans to draw down compliance staffing over time as the W&I and SB/SE Divisions become operational.

However, until we reach that level of taxpayer understanding, it is critical that taxpayers remain confident that everyone is meeting their tax responsibilities. Any reduction of staffing from current compliance levels will continue to aggravate a declining audit coverage rate. Funding of the STABLE initiative will stem the decline

in audit coverage and lay a basis for long term taxpayer education efforts that will increase taxpayer compliance.

Question. Does IRS' current staff have sufficient expertise to design and implement planned pre-filing initiatives? If not, how will IRS develop this expertise?

Answer. Yes, we have the expertise in place to effectively design and implement planned pre-filing initiatives. We are more concerned whether staffing will be available to provide these initiatives.

In the effort of designing and implementing planned pre-filing initiatives, the Service followed a three-pronged approach. The first aspect of this approach was to consult with various external stakeholders for input and advice in designing the future organizational structure based upon their needs as IRS customers.

Second, the Service brought together the vast experiences of its' internal workforce to aid also in the design and implementation efforts. This workforce represents the experience of each of the current functions within the Service at various organizational levels. For example, members serving on the design and implementation teams include executives, top-, mid- and first-level management and first-line employees representing each of various functions.

The third aspect of this approach was the hiring of a major consulting firm to help guide the process and provide input and insight from a private-sector perspective. Based upon this approach we believe the design and implementation of pre-filing initiatives will represent the needs of our customers in the four operating divisions. For example, current walk-in employees are already involved in pre-filing (as well as filing and post-filing) activities and will be trained to accommodate new initiatives.

However, if the STABLE initiative is not funded in fiscal year 2001, the audit coverage rate will continue to decline as increased returns (for taxpayers over $100,000 in income) are handled by a constant or declining audit staff. Concerns over this continuing decline will then increase pressure to transfer staff from pre-filing activities (customer service) to post-filing activities (compliance). Therefore, any advantages to be gained from a better-educated taxpayer base will not be implemented. Moreover, customer service gains in the past 2 years will be lost.

In its fiscal year 2000 appropriation, IRS received $140 million to fund the reorganization initiatives. IRS' request for fiscal year 2001 includes an increase of $40 million on top of the $140 million base. In both years, these funds were to cover expenses related to such things as recruitment, relocation, buyouts, training, equipment, and information system modifications.

Question. How is the $140 million for fiscal year 2000 being allocated among these various areas? And

To what extent does IRS expect to use its buyout authority in fiscal year 2000?

Answer. During the implementation of the Tax Exempt/Government Entities and Large and Midsize Businesses operating divisions in fiscal year 2000, the Service planned $10 million for buyouts; approximately 330 employees at $30,000 per buyout which includes the Voluntary Separation Incentive Pay (the buyout), terminal leave and payment to the OPM Retirement Fund.

Question. For fiscal year 2001, how is the total $182 million to be allocated among these areas?

Answer. The following table shows the allocation of funding for fiscal years 2000 and 2001:

ORGANIZATION MODERNIZATION EXPENSES

[In millions of dollars]

Category	Fiscal year 2000 projected	Fiscal year 2001 estimate
Services & Supplies (Contracts)	17	29
Personnel Costs:		
Buyouts	10	36
Recruitment	3	3
Moving Expenses: Relocations	41	17
Equipment	5	4
Training	27	27
Space & Housing		27
Rent	7	6
IS—Computer Moves	11	11

ORGANIZATION MODERNIZATION EXPENSES—Continued

[In millions of dollars]

Category	Fiscal year 2000 projected	Fiscal year 2001 estimate
IS—RIS Implementation	19	22
TOTAL FROM ORG MOD	140	182

IRS is planning an extensive training effort in conjunction with the reorganization effort. This training is referred to as "modernization-related training." IRS also delivers other types of training, referred to as "sustainment training," as part of its day-to-day operations.

Question. How do these two types of training relate to one another?

Answer. As part of its design work, the Phase IIB Modernization Team defined modernization training as skills needed for working in the new business unit and/or preparing for new business unit. Sustainment training (e.g. CPE and advanced functional training) is defined as skills enhancement and training not included in modernization. The definition of modernization training evolved from being position-based to being focused on skills acquisition (modernization) versus skills enhancement (sustainment).

The design team conducted a course by course analysis of the total training needs of each business unit, recommending 5.7 million hours of training for all business units at an estimated cost of $29.9 million. These costs were subsequently refined and adjusted downward based on revised stand up dates, applying alternative delivery methods and distinguishing between modernization and sustainment training.

Day-to-day or sustainment training continues as we move towards standing up the new business units. Internal procedures guide decisions as resources and demands change. Training to deliver a successful filing season remains our top priority; followed by training to support business units that have stood up and training of new hires and employees assigned to new positions.

Question. What type of modernization-related training is currently underway and what is planned for fiscal year 2001?

Answer. Each business unit has identified its training needs for fiscal year 2000, and actions are being taken now to identify fiscal year 2001 needs. Determining training needs is a dynamic process and is changing as we bring the modernization plan from design to reality. This year, much of the training efforts are devoted to training needs assessment, analysis of needs, and design of training materials and products.

In fiscal year 2001, design and development costs will continue, and delivery will be an additional cost as we produce and present the training to the various business unit populations Servicewide.

Limited training has occurred except for those units with newly selected employees or employees already assigned to the new business units. For example, the Taxpayer Advocate organization has obligated $1.054 million this year. More training is anticipated as we move closer to stand up.

Although we do not currently have an approved modernization training plan, by the end of this month, all business units will have validated their fiscal year 2000 training needs and certified as to the availability of staff hours to attend training.

Question. For fiscal years 2000 and 2001, what is IRS' full training budget when both modernization-related and sustainment training are considered together? How much time would a typical front line or management employee expect to spend in training?

Answer. The training budget totals $106 million in fiscal year 2000 and $109 million in fiscal year 2001 for modernization-related and sustainment training. The fiscal year 2001 amount does not include additional funds for training new employees under the STABLE initiative.

A typical manager could expect to receive 40–120 hours of training during fiscal year 2000 and fiscal year 2001 based on work assignments.

The typical frontline Revenue Officer can expect to attend training amounting to the following number of hours.

Fiscal year 2000: a range of 120 to 134 hours, depending on work assignments. This represents 40 hours of CPE, 6 hours of Electronic Research, 16 hours Automated Trust Fund Recovery, and 72 hours of RO Unit 4 for certain ROs.

Fiscal year 2001: a range of 100 to 120 hours, depending on work assignments. This represents 40 hours of CPE, 8 hours of Electronic Asset Locator Training, 4

hours of Fraud Referral Training, 32 hours of Seizure Training and an undetermined number of hours for training related to the technical requirements in the Small Business/Self Employed Business Unit.

The typical frontline Revenue Agent can expect to attend training amounting to the following number of hours:

Fiscal year 2000—approximately 205 hours. Training will consist of 80 hours CPE (optional and mandatory topics such as Electronic Research and Third Party Contact) and other specialty and mandatory training, e.g. TEFRA, Reports Generating software, UNAX, sexual harassment.

Fiscal year 2001—approximately 188 hours. Training will consist of 80 hours CPE (mandatory and optional topics), plus courses of varying length dealing with new procedures in the business unit and various mandatory training such as tax law changes, UNAX and sexual harassment. In fiscal year 2001, it is anticipated that 800 Revenue Agents recruits will be hired in April 2001. The new hires will receive Phase I and II training, totaling 21.4 weeks of training including classroom and OJT. New hires typically do not attend CPE.

The typical front-line employee in Submission Processing Centers can expect to receive 40 to 45 hours of training, depending on work assignments, during fiscal year 2000 and 2001. When the transition to 8 centers processing individual returns and 2 centers processing business returns, a typical front-line employee could expect to receive an additional 50 to 60 hours of training based on work assignments.

The typical frontline Tax Auditor can expect to attend training amounting to the following number of hours:

Fiscal year 2000—approximately 195 hours. Training will consist of 80 hours CPE (optional and mandatory topics such as Electronic Research and Third Party Contact) and other mandatory training.

Fiscal year 2001—approximately 174 hours. Training will consist of 80 hours CPE, plus courses of varying length for new procedures in the business unit and various mandatory training such as UNAX and sexual harassment.

The typical frontline employee in Tax-Exempt and Government Entities can expect to attend training amounting to the following number of hours.

Fiscal year 2000—a range of 100–160 hours, depending on work assignments. Training will consist of 40 hours CPE, 40 hours automation, 6 hours electronic research, 16 hours orientation to new business unit, 120 hours for new hires in Phase I training, and mandatory training such as UNAX, sexual harassment.

Fiscal year 2001—a range of 120–400 hours, depending on work assignments. Training will consist of 40 hours CPE, 40 hours Phase II automation, Phase I & II courses of varying length for new occupations in business unit, and the various mandatory training such as UNAX and sexual harassment.

During fiscal year 2000 and 2001, the typical new front-line employee in Customer Service could expect to receive 64 to 176 hours of training, depending on work assignments. A typical experienced front-line employee in Customer Service could expect to receive 84 hours of training, including 24 hours mandatory training, 40 hours continuing skills enhancement training, and 20 hours of training related to their work assignments.

IRS experienced some difficulty in developing and delivering early training related to the Restructuring Act. This included (1) "world class customer service" training that was discontinued and redesigned on National Treasury Employees Union concerns and (2) section 1203 training that, according to the Commissioner, contributed to confusion among employees.

Question. What is the IRS doing to ensure that planned modernization-related training does not encounter similar problems?

Answer. RRA 98 is a technical and procedurally complex piece of legislation with many provisions that required coordination between Office of Chief Counsel, functional operations and training activities. Decisions regarding procedures needed to be completed before technical instructional products could be issued.

The configuration of the operating divisions calls for educational resources to be part of the organizational structure; thus accountability exists for ensuring alignment between procedural and instructional activities. Staffs working on the new procedures will, in large measure, be within the same entity as those developing training products.

Training professionals are working with each operating division to ensure training needs are identified and integrated into plans for development and delivery.

Section 1205 of Title I of RRA 98 requires IRS to establish a training program to ensure that IRS employees are trained in areas such as taxpayer protections. IRS fiscal year 2001 budget request also states that IRS shall maintain a training program to ensure that IRS employees are trained in taxpayer rights, dealing courteously with taxpayers, and cross-cultural relations.

RRA 98 provides that it should be the goal of IRS to have at least 80 percent of all federal tax and information returns filed electronically by 2007.

Question. What percentage of federal income tax returns were filed electronically in 1999, and what percentage does IRS expect to be filed electronically in 2000 and 2001?

Answer. In 1999, 23.4 percent of all individual income tax returns were filed electronically. In 2000, we expect to receive approximately 27 percent of all individual income tax returns electronically. In 2001, we expect to receive between 29.5–32.1 percent electronically.

Question. What percentage of information returns were filed electronically in 1999, and what percentage does IRS expect to be filed electronically in 2000 and 2001?

Answer. In 1999, 94 percent of information returns were filed either electronically or on magnetic tape. Updated projections for 2000 and 2001 are currently being prepared by the Office of the Assistant Commissioner (Research and Statistics of Income). We will forward them to you as soon as they become available.

Question. What annual growth rate in the electronic filing of tax returns is necessary if IRS is to achieve the 80 percent goal by 2007? How does IRS expect to achieve this growth rate?

Answer. By 2007, IRS expects to receive approximately 138.6 million individual income tax returns. In order to reach the goal of 80 percent in 2007, IRS would need to receive 110.9 million tax returns electronically, or approximately 76 million more returns than the approximately 35 million returns that will be filed electronically this year. With 7 years to go to 2007, that means that the electronic filing volumes would have to increase by approximately 11 million per year.

The IRS has developed a strategic plan for Electronic Tax Administration entitled "A Strategy for Growth" in order to make significant progress toward achieving the goals established by Congress. As required by the IRS Restructuring and Reform Act of 1998, the strategic plan was designed to eliminate barriers, provide incentives and use competitive market forces to make significant progress toward (1) the overriding goal of 80 percent of all tax and information returns being filed electronically by 2007, and (2) the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically by 2003. The strategic plan is updated annually to reflect new developments and to incorporate the suggestions received from the Electronic Tax Administration Advisory Committee and other interested stakeholders.

Question. What does IRS plan to do to increase electronic filing by those taxpayers with a balance due?

Answer. Because of the expanded electronic payment options that are being made available to taxpayers, more and more balance due filers are choosing to file electronically. Through March 31, 2000, 986,452 taxpayers had electronically filed balance due returns compared to 726,693 in the comparable period last year, an increase of 35.8 percent.

Last year over 53,000 tax payments were made by credit card and approximately 75,000 payments were made by Automated Clearing House (ACH) Direct Debit where taxpayers can authorize either their checking or savings to be debited as part of their electronic return. This filing season, more electronic payment options (credit card and ACH direct debit payment) have been made available to taxpayers, such as accepting debit payments through TeleFile and accepting credit cards for Forms 1040ES, estimated tax payments, and Forms 4868, extensions of time to file. As of April 1, 2000, we have achieved a 205 percent overall increase as compared to the same period last year. Under our electronic payments initiative, the IRS will continue to expand the electronic payment products and services available to taxpayers in future years.

Question. Is there anything Congress can do legislatively to help achieve the 80 percent goal?

Answer. Electronic tax administration would benefit from Congressional support in the following three critical areas:

—Supporting the electronic filing provisions in the President's fiscal year 2001 Budget;
—Supporting IRS' request for additional funding for ETA in fiscal year 2001; and
—Supporting the privacy protections provision contained in the Taxpayer Bill of Rights.

The President's fiscal year 2001 budget request contains two provisions that are intended to make electronic filing of income tax returns more attractive to taxpayers. These provisions would provide taxpayers with:

—A temporary, refundable tax credit for the electronic filing of individual income tax returns. The credit would be for tax years 2002 through 2006—$10 for each

electronically filed return other than TeleFile returns, for which the credit would be $5; and

—One or more no-cost options for preparing and filing individual income tax returns over the Internet beginning no later than tax year 2002.

The IRS also needs support of its fiscal year 2001 budget request which includes $3 million for the expansion of electronic tax administration's highly successful marketing campaign. In addition, both the IRS and taxpayers would benefit from the privacy protection provision in regard to electronic tax administration that is contained in the Taxpayer Bill of Rights 2000.

One legislative proposal in the President's fiscal year 2001 budget request calls for a refundable tax credit for persons who file electronically. The credit will be $10 for those who file on-line and $5 for those who file via the telephone.

Question. How were the amounts of this credit determined? Why is the proposed credit less for persons who file via the telephone?

Answer. A number of factors were considered, but generally the amount of the credit was set at the typical extra charge for electronic filing for taxpayers who prepare their own returns using electronic tax preparation software. If they choose to transmit their return information to the software publisher for electronic filing with IRS, the charge is typically about $10. Sometimes, there is no incremental charge to the taxpayer; instead the extra cost is built into the price of the software. The intent of the temporary tax credit is to encourage taxpayers—especially those whose returns are already being prepared by computer—to try electronic filing. We believe that once taxpayers try it, they will realize how much their own burden is reduced and how much faster and easier many types of errors are corrected that many or most will continue to file electronically even without a tax credit.

The credit amount for taxpayers using the TeleFile system was set lower since there is no charge to the taxpayer to use this system. The $5 credit was viewed as a sufficient incentive to attract more eligible taxpayers to use TeleFile.

Question. How do the credit amounts compare to the dollar savings IRS realizes as a result of electronic filing? How does IRS determine its dollar savings as a result of electronic filing?

Answer. We know that the incremental cost of processing an electronic return is lower than the incremental cost of processing a paper return. The difference is even larger when the relative costs of correcting errors is considered. IRS, however, does not have good data on incremental costs, although we are currently engaged in a comprehensive review of the cost of processing electronic tax returns which will enable us to make such estimates in the future.

Note that existing data shows that the average per return cost of processing electronically filed returns is slightly less than the costs for paper returns. Based on fiscal year 1999 return volumes, we estimate the per unit cost for an electronically-filed return at $4.14 compared to $4.28 for a paper return. As electronic filing volumes increase, fixed costs will be spread over the greater volume, and the per return saving will increase substantially. The IRS also has undertaken several changes that will further reduce costs for handling electronic returns relative to paper returns. These include deploying an authentication approach which will eliminate the paper signature jurat, and consolidating and modernizing service center equipment and procedures used for electronic returns.

Question. How many additional electronic returns does IRS expect will be filed as a result of this credit?

Answer. In general, it is not possible to estimate the number of additional electronic returns that will be filed solely in response to the tax credit. This is attributable to the fact that recent data show significant increases in the number of taxpayers choosing to file electronically. We do not know whether or not the recent increase reflects a new trend; that would have a direct impact on projections of the number of additional returns that are e-filed as the result of the tax credit. However, it is likely that the tax credit would induce at least several million additional returns to be filed electronically.

The STABLE initiative includes 408 FTEs for transcribing 18 million Schedule K–1s filed by partnerships, trusts, and S-corporations so that IRS' Document Matching Program can reconcile that data with information reported on individual tax returns.

Question. How many Schedule K–1s does IRS currently transcribe? and,

How many Schedule K–1 cases are currently worked in the Document Matching Program? And,

What have been the results of those cases?

Answer. IRS does not currently transcribe any K–1s received on paper. As a result, there are no cases currently being worked in our Automated Document Matching Program. As stated in the fiscal year 2001 STABLE initiative, 18 million paper

documents, together with 11.5 million K–1s received electronically, provide information on income (or losses) distributed to individual partners, beneficiaries, and shareholders and represent in excess of $500 billion in total income. Processing these documents will allow IRS' Document Matching Program (Underreporter Program) to reconcile K–1 data with information reported on individual tax returns.

Our plan, stated in the STABLE initiative, is supported in James R. White's testimony for GAO before the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives on March 28, 2000. Mr. White testified that the "IRS' plan is consistent with a recommendation we made in 1995—namely that IRS devise ways to enter all Schedule K–1 onto the computer so they can be used in the document matching program and for other compliance programs." (GAO/T–GGD/AIMD–00–133)

The STABLE initiative includes 500 FTEs for toll-free telephone service for fiscal year 2000–2001. According to IRS, this staffing increase is "designed to address declining staffing levels and the substantial increase in the amount of time required per case due to provisions of RRA 98." At this requested level of staffing, IRS says that it will be able to provide a 60-percent level of service.

Question. To what extent has the actual staffing for toll-free telephone service declined between fiscal years 1998 and 2000? In providing this comparison, please show separately, for each year, the number of FTEs provided by (1) staff in the toll-free program; (2) detailees from other program areas in the Customer Service function; and (3) detailees from other IRS functions, such as Examination and Collection.

Answer: FTEs for fiscal year 1998 to 2000 as well as detailees and support from other functions are as follows:

	Fiscal years		
	1998	1999	2000
Toll Free [1]	7,399	8,191	7,593
Exam details to Toll-Free	309	654	569
Appeals (Referral-mail/E-Mail support) details To Toll-Free			99

[1] Detailees from other program areas within Customer Service are included in the Toll Free FTE above but are not separately identifiable.

Question. What are the provisions of RRA 98 that are increasing the time telephone representatives spend assisting taxpayers?

Answer. Provision 3705 requires that the IRS provide Spanish language assistance and the option to taxpayers of speaking to a live assistor. In fiscal year 2000, the IRS received 200 FTE to implement this provision. We have identified an additional 259 FTE needed to satisfy this provision in fiscal year 2001 for the toll-free operation. Provision 3462, which addresses Offers in Compromise case processing in the Automated Collection System (ACS), will require 138 FTE in fiscal year 2001.

Question. What has IRS done to identify the underlying reasons for this additional time, and what actions can IRS take to minimize such increases?

Answer. Customer Service conducted a thorough analysis of the fiscal year 1999 telephone operations. The results indicate that we need to develop new methods of planning and preparing ourselves for rapid shifts in market needs. Some of the actions IRS is taking to minimize the effect of the increased need for live assistors (to address provision 3705) are:

—Use of intelligent call routing;
—Implementation of a nationwide telephone system messaging feature to allow callers to leave messages requesting service from taxpayer service assistors; and
—Implementation of an integrated work planning and scheduling process to more effectively align resources to provide service to taxpayers.

IRS has initiated a call content study to assist us in better defining taxpayer needs. We hope to use this information to provide our employees with the training and tools to allow them to better serve taxpayer needs.

Question. What other factors, if any, have increased the time telephone representatives spend assisting taxpayers?

Answer. The handle times for the three major product lines (i.e., 1040, 8815, and 4262) have increased slightly overall. Although better call routing technology has enabled us to more efficiently direct customers to the appropriate assistance, the following factors have increased the time Customer Service Representatives spend providing service to taxpayers:

—The types of calls our Customer Service Representatives handle have also shifted to more difficult issues, which necessitate more time to handle.

—The screening of Referral-Mail, which refers taxpayer questions to specialists for response, for compliance messaging. To improve customer service this year, we use employees for Referral-Mail screening to collect pertinent data to facilitate the messaging process. As a result, a slight increase in the time spent on calls is to be expected.

One of the IRS' key performance indicators is "toll-free level of service." IRS defines that measure as "the number of calls answered (less those calls abandon while in the queue waiting for the next available assistor) compared to the total number of calls attempted." The toll-free level of service declined significantly between 1998 (70 percent) and 1999 (53.3 percent). IRS' level of service goals for fiscal year 2000 and 2001 are 58 percent and 60 percent respectively.

Question. What were the reasons for the decline in level of service in fiscal year 1999 and what has IRS done, or does IRS plan to do, to increase the level of service?

Answer. The primary reasons for the decline in toll-free level of service in fiscal year 1999 are listed below:

—The Service expanded its hours of operation in 1999 to 7x24 service without additional funding for the increased hours of coverage;

—There were technical problems with the nationwide implementation of the Customer Service Intelligent Call Router, which allowed IRS to manage the telephone operation on an enterprise-wide basis for the first time; and

—There were increased training demands to implement the new tax law requirements.

The 58 percent and 60 percent goals listed in the fiscal year 2001 Congressional Justification were based on the experience of the fiscal year 1999 filing season. For the fiscal year 2000 filing season through March 11, 2000, we are at a 65 percent level of service (LOS) as compared to 50 percent for the same period in fiscal year 1999. Long-term systems improvements that move IRS forward in our ability to provide the appropriate type of service to meet the taxpayer's need (for example, automation alternatives for basic questions regarding return fact of filing or refund status) were made for the fiscal year 2000 filing season. These improvements include:

—Improving work and staff scheduling processes;

—Monitoring and reviewing telephone performance daily and implementing appropriate corrective actions immediately;

—Focusing resources during times that affect the most customers. Beginning April 18, 2000, tax law assistance will be on a 16 hours a day, 6 days a week basis; and

—Modifying tax packages to list TeleTax as the primary method of resolution for tax refund inquiries and redesigning our recorded script messages to provide more opportunities for taxpayers to use the automated refund applications in Telephone Routing Interactive System (TRIS) to reduce routine refund calls handled by Customer Service Representatives.

Based on the current Level of Service (65 percent), combined with reduced call demand from the systems improvements listed above, we are revising our fiscal year 2001 filing season Level of Service goal to 70 percent. This revision is dependent on a call demand consistent with experience thus far this fiscal year, continued achievement of current telephone performance, and increased staffing of 500 FTEs provided by the STABLE initiative.

This year, we plan to test a network prompt routing taxpayers immediately to our automated refund application in TeleTax, which we expect to further reduce demand for taxpayer calls to be answered by Customer Service Representatives.

Question. Why does IRS not expect to regain or exceed 1998's level of service?

Answer. Our ultimate goal is to provide a Level of Service that far exceeds prior years. We expect to provide our customers service commensurate with their experiences in dealing with "best in class" private sector companies. In keeping with "best in class" private sector companies, we believe it is imperative that we provide customers with enhanced automation alternatives when their needs can best be met through automation. For example, basic questions regarding return fact of filing or refund status can best be handled through automated services.

Conversely, customers who have a problem with their refund or who have received a notice need to interact with a Customer Service Representative to resolve their problem. These types of more complex or more comprehensive calls take longer for a Customer Service Representative to complete than calls that will be handled by automation. Additionally, a large percentage of callers with tax law questions currently are not provided live assistance at the time of their call. Their questions are transcribed by a clerk screener, referred electronically to Compliance personnel, and generally answered within 2 business days. We expect to provide live assistance

to callers with complex tax issues within the next few years. When implemented, this additional service will impact the amount of time it takes an assistor to answer the call.

Question. What assumptions did IRS use to develop its performance goal for 2001?

Answer. The 60 percent goal listed in the fiscal year 2001 Congressional Justification was based on the experience of the fiscal year 1999 filing season. The fiscal year 1999 Level of Service of 53.3 percent resulted from difficulties in providing experienced taxpayer assistors to cover the expanded hours of service and technical problems connected with the implementation of the Customer Service Intelligent Call Router.

We have since revised our estimate for fiscal year 2000 to 65 percent based on our actual level of service as of March 11, 2000. As a result of this improvement, we have increased our fiscal year 2001 goal to 70 percent. This revision is dependent upon a call demand consistent with experience thus far in fiscal year 2000, continued achievement of current telephone performance, and increased staffing of 500 FTE scheduled to be provided by the STABLE initiative.

Question. What level of service should IRS strive to provide and how much would it cost? And

How many additional employees would IRS need to increase the toll-free level of service to 75, 85, and 95 percent? What would be the estimated cost for each of these increased service levels?

Answer. The improvements in level of service we are projecting for fiscal year 2001 are based on a combination of ongoing managerial and technological enhancements, coupled with FTE increases described in the STABLE initiative. It is very difficult to segregate this improvement between additional FTEs and other enhancements.

We also project that with an additional 875 FTE (875 + 500 FTE from STABLE initiative), we could raise our level of service from 65 percent to approximately 75 percent. This is assuming no significant change in customer demand due to factors such as passage of new tax legislation, increased notice issuance, or variance in taxpayers' filing patterns. Telephone service is difficult to improve beyond a 70 to 75 percent level of service with additional staff alone. Since "customer abandons" and "busy signals" influence level of service in addition to the number of calls answered, improving beyond 70 percent requires both an increase in FTE and significant improvements in technology. Therefore, projections beyond 75 percent level of service would be unreliable. The appropriate level of service is one that would allow us to provide world class customer service within a recognized number of seconds to all customers who contact IRS for service.

IRS is requesting additional FTEs and plans to use information technology investment funds to implement Phase I of a customer communications modernization project in fiscal year 2001. Phase 1 of that project, according to IRS, is to ensure that taxpayers questions get answered correctly, either by enhanced automated systems or by customer service representatives who have quick access to needed information." Despite the additional FTEs and implementation of the modernization project, IRS congressional justification shows that IRS expects to answer the same number of telephone calls (118 million) in fiscal year 2001 and 2000.

Question. Why is IRS not expecting an increase in the number of telephone calls answered in fiscal year 2001 given the additional resources expected that year?

Answer. We do not anticipate an increase in the number of telephone calls answered in fiscal year 2001 for the following reasons:

—Additional resources we have requested will improve the level of service and reduce the average speed of answer (this is a variable number while service level is a percentage answered within a specific criteria—30 seconds for example), both of which will contribute to reducing the volume of call attempts (demand.); and

—Technology improvements and customer access to the Internet continue to drive demand down as customers research less complex issues.

Question. What level of improvement can be expected as result of the additional FTEs and the technology investments? Will those benefits be offset by an expected increase in demand? If so, what is the expected increase in demand?

Answer. The FTE increase requested for Toll-free under the STABLE initiative is expected to yield an improvement of approximately 5 percent in Level of Service. The filing season 2001 development and deployment activities will be limited to implementing communications infrastructure improvements in our customer communication (call center) operation and procuring a new tool for our large corporate tax examiners. The customer communications improvements will facilitate taxpayer access by offering improved service. This will include improved call responsiveness by increasing the capacity for handling incoming telephone calls, improved quality of

responses by better directing of calls to knowledgeable experts, and improved self-help capabilities. These investments will also provide a platform for later improvements. We do not expect the benefits to be offset by an increased demand unless there are changes in the tax law, increased notice issuance or variance in taxpayers' filing patterns.

Question. When is Phase I of the customer communications project expected to be operational?

Answer. Phase I of the modernization project is scheduled for implementation by January 1, 2001.

Two of the IRS' performance indicators relate to the accuracy of information provided to taxpayers through the toll-free telephone assistance program. According to IRS, the first measure, relating to accuracy of tax law information, declined from 96.1 percent in fiscal year 1997 to 74.1 percent in fiscal year 1999, but is expected to increase to 84 percent in fiscal year 2001. The second measure, relating to the accuracy of account information, also declined between fiscal year 1997 (91.1 percent) and fiscal year 1999 (81.7 percent). Unlike the tax law accuracy rate, however, the account accuracy rate is expected to continue to decline to 63 percent in fiscal year 2000 and remain at that level for fiscal year 2001.

Question. What are the reasons for the declines in accuracy rates between 1997 and 1999?

Answer. The primary reason for the declines in accuracy rates is that we changed the way we measure Tax Law Telephone Accuracy in fiscal year 1999. From 1990 through 1998, we measured Tax Law Accuracy with the Integrated Test Call Survey System (ITCSS). With ITCSS, we measured quality using scripted test questions. The two major weaknesses to ITCSS were:

—IRS could not create test questions to cover every type of taxpayer question; and
—Over time, sites were often able to identify the test questions.

To eliminate these problems, we switched from using test questions to monitoring live taxpayer Tax Law Telephone calls. In October 1997, we centralized and standardized our quality review with the implementation of the Centralized Quality Review Site (CQRS). Sites are now evaluated on the accuracy of actual calls they receive from taxpayers, rather than on test calls. We believe that our current review methodology provides a more accurate assessment of the quality of Tax Law Telephone calls than we received with ITCSS.

Question. What has IRS done, or does IRS plan to do, to increase the accuracy of tax law information provided to taxpayers?

Answer. IRS has taken, or will take, the following actions to increase the accuracy of the tax law information provided to taxpayers.

—IRS has made a commitment to provide world-class customer service training to its employees to provide them with the skills needed to perform their jobs. A training staff was established to coordinate a variety of initiatives such as:
—conducting training needs assessments in conjunction with field operations and Customer Service;
—designing and developing refresher (Continuing Professional Education) courses;
—conducting focus-group interviews regarding the delivery of refresher training; and
—implementing a modularized approach to training that provides targeted, timely, and effective training.
—Beginning in June 1999, the IRS converted to the nationwide standardization and centralization of the review process, the Centralized Quality Review System (CQRS), which is a more comprehensive quality review system with more stringent guidelines than the previous review system-Integrated Test Call Survey System. The CQRS reviews taxpayer inquiries in their entirety and no longer allows for local discretion.
—Local quality monitoring requirements have been doubled at several sites and the defects most often made are now identified and addressed continuously.

As a result of the CQRS, accuracy rates dropped significantly and we had little basis on which to build accurate projections as to what might happen in fiscal year 2001. The "no change" forecast was a very conservative assumption—one that we will revise as soon as the filing season data is analyzed.

Question. Why does IRS expect such a significant decline in the account accuracy rate in fiscal year 2000, and why is no improvement expected in 2001?

Answer. Beginning in June 1999, the IRS converted to the nationwide standardization and centralization of the review process, the Centralized Quality Review System (CQRS), which is a more comprehensive quality review system with more stringent guidelines than the previous review system-Integrated Test Call Survey System. The CQRS reviews taxpayer inquiries in their entirety and no longer allows for local discretion.

In addition, local quality monitoring requirements have been doubled at several sites and the defects most often made are now identified and addressed continuously.

As a result of the CQRS, accuracy rates dropped significantly and we had little basis on which to build accurate projections as to what might happen in fiscal year 2001. The "no change" forecast was a very conservative assumption—one that we will revise as soon as the filing season data is analyzed.

Question. What does IRS plan to do to reverse the expected decline?

Answer. We are committed to improving the Account Quality Rate in fiscal year 2001. At the time we were setting performance targets for fiscal year 2000 and fiscal year 2001 we had just introduced a new performance measuring system for account quality—the Centralized Quality Review System's (CQRS). CQRS is a comprehensive quality review system with centralized remote monitoring of actual taxpayer inquiries in their entirety and no longer allows for local discretion. Accuracy rates dropped significantly under the new system, and we had little basis on which to build accurate projections as to what might happen in fiscal year 2001. The "no change" forecast was a very conservative assumption—one that we are taking steps to improve at every one of our call sites. For example, a modified Accounts Customer Service Guide has been developed and distributed to Customer Service Representatives (CSR) at one site. The guide will be made available on Servicewide Electronic Research Program (SERP). Daily CQRS error data is now shared with employees at several sites. A memorandum was distributed at another site detailing the most frequently occurring errors. The list of errors included omissions of history items and failure to warn of enforcement action. The errors attributed to these two issues have decreased as a result of this initiative. Local quality monitoring requirements have been doubled at several sites. Top defects are now identified continuously. Section Chiefs are doing "group monitoring" in conjunction with a front-line manager and a reviewer from the Quality Assurance staff. With assistance from the Customer Service Field Operation Deputy Commissioners, we will determine the extent that our initiatives actually improve quality. The Deputies are asked to comment on this issue as part of their monthly Operational Reviews. This topic was also included in site reviews that have been conducted at several sites.

Other actions that have been taken to improve account quality include:

—The Accounts Customer Service Guide developed by Ogden is now being tested in Baltimore, Pittsburgh, and Atlanta. It is also now posted on SERP. The sites have been encouraged to start using the guide now.

—Training has been provided on the use of the Quality Review Database to isolate the root causes of the most frequently occurring account errors. This information is then used to target corrective actions, such as managerial monitoring, employee feedback and coaching, and targeted training.

—There is a Customer Service training group that is working with Strategic Human Resources to develop Customer Service training material that is organized into modules by application. This will make it easier to train specifically on accounts applications on short notice.

Monitoring of responses to taxpayers is now occurring in the call centers. Directors have been provided with access numbers that enable them to monitor taxpayer calls in Customer Service Centers within their jurisdiction 24 hours a day, 7 days a week, from the office, or from home.

Another IRS indicator related to its toll-free telephone service is "adherence to scheduled hours." IRS defines that measure as the "percent of work periods where scheduled hours are delivered/met." According to IRS' congressional justification, the toll-free sites are expected to improve adherence to scheduled hours from 24.7 percent in fiscal year 1999 to 40 percent in fiscal years 2000 and 2001.

Question. How are scheduled hours determined?

Answer. Scheduled hours are determined by taking into account the following factors:

—Call demand projected from historical results;
—Call volume allocations by site;
—Staff availability based on skills and training;
—Staff tours of duty;
—Site hours of operation;
—Hours/days where demand is highest; and
—Budgeted resource availability.

Scheduled hours are determined by the number of staff that can be funded with the right training level for the calls that are expected based on historical demand. Sites are funded at an agreed level, based on the budget, to answer a specific workload or volume of calls. Tours of duty and hours of operation are factors that are

part of the equation with growth in FTE targeted to hours/days where demand for assistance exceeds supply.

Question. Why are the toll-free sites having difficulty meeting expected schedules? What actions did IRS take to improve schedule adherence? What other actions does IRS plan to improve adherence?

Answer. Due to a number of issues, scheduling and projecting adherence is complex.

—Early in the year many sites lacked historic "shrinkage" factors—that is, the number of phone employees who are not available for phone work for reasons such as unscheduled leave, breaks, lunch, meeting and read time or for discussions with managers. As a result, the number of employees needed each half-hour was sometimes over or underestimated. Trying to schedule multiple, overlapping shifts with the accompanying breaks and lunches exacerbated this problem. Good data were also not available for call demand during late night/early morning hours and on weekends, and in some cases, these shifts were not staffed appropriately.

—Adherence to schedule was defined very narrowly—95–110 percent of scheduled staffing. In some cases a difference of one or two employees in a half-hour would mean success or failure.

—Further complexity resulted from our need to share resources across all Customer Service functions in order to meet peak demand and still deliver balanced programs. For example, an increase in "paper" inventories means decisions must be made about reducing staffing on phone programs to respond to the customers who write to us.

As the year has progressed, Customer Service has been very diligent in monitoring adherence. A "snapshot" is taken at each call site every half-hour to assess whether required staffing is met. Significant improvement and consistency have been achieved. The sites have realigned tours of duty including breaks, lunches and off-line activities in order to conform to schedule. We continue to refine the scheduling process to ensure that they are realistic and achievable. We have implemented schedule modifications to move staffing into busier times of day when sites have more employees on board and where demand is higher. We have also broadened the definition of "meeting adherence" so that minor deviations no longer results in a self-defined failure. Additional changes in tours of duty, overtime and directing new hires to specific understaffed half-hours will continue to improve adherence.

Question. Do customer service organizations in the private sector have a similar measure? If so, what percentage of adherence to schedule do the top performing organizations consider acceptable?

Answer. Telephone service operations in the private sector do have a similar measure, often using quarter hour increments while IRS currently uses ½ hour increments. It is our understanding that top performing organizations only consider 100 percent adherence to schedule to be acceptable.

Question. What would it take to increase schedule adherence from 40 percent to 55 percent and how would that increase improve the overall level of service for taxpayers?

Answer. Schedule adherence is within a range. From 90 percent to 110 percent of schedule is considered acceptable when calculating achievement. Through April 1, approximately 40 percent of the ½ hour increments were within that range and an additional 36 percent of the ½ hour increments exceeded the 110 percent "cap". Call centers must place staff on tours of duty that contribute to having the right number of people with the right skills on the phone at the time the customer calls, thus delivering their staffing requirement. Care must be exercised to avoid over-, and under-delivery. Call centers must also continue to ensure that staffs adhere to their individual work schedules.

Another important IRS measure is employee satisfaction. Currently, IRS is only able to report employee satisfaction for its overall Customer Service function; it is unable to report separate employee satisfaction numbers for the various program areas within Customer Service, including the toll-free program. According to IRS, employee satisfaction in the customer Service function is expected to increase from 55 percent in fiscal year 1999 to 60.5 in fiscal year 2001.

Question. What actions did IRS take to improve employee satisfaction and what other actions are planned?

Answer. The IRS is developing employee satisfaction improvement strategies at the operational and strategic levels. At the operational level, all managers within the IRS are required to use their workgroup survey results in working with local NTEU representatives and employees to create employee satisfaction improvement action plans relevant to their individual workgroups. This process involves everyone working issues "close to home." All managers have employee satisfaction-related ac-

tions included in their performance management plans. At the strategic level, the IRS and NTEU senior leaders are using Servicewide survey results to plan strategies with a broad impact on employee satisfaction. These leaders are implementing strategies in four areas: management effectiveness, communication as it relates to empowerment/involvement, training, and reprisal.

Question. What is IRS' ultimate goal for employee satisfaction and when does IRS expect to achieve it?

Answer. The IRS views its employee satisfaction efforts as an ongoing improvement process, and IRS management and NTEU expect all managers to strive for incremental improvements each year. Although the IRS does not have a numeric "end" goal for employee satisfaction, we have developed standards derived from normative data collected from the private and public sectors. The standards were calculated using the top 10 percent of the scores from organizations with similar characteristics to the IRS. For a few employee satisfaction indexes, the IRS already scores higher than the standards (e.g., Immediate Manager Effectiveness); however, for other indexes (e.g., Upper Management Effectiveness), the IRS is below the standards. The IRS is encouraging all managers to consider these standards when developing employee satisfaction action plans for their workgroups. Statisticians internal to the IRS and contractors have determined that the strongest predictors of employee satisfaction are the Management Effectiveness and Empowerment/Involvement indexes. These two indexes are two of the four areas targeted by senior leaders for improvement this year. The IRS has been working with a contractor to study the linkages between the three categories of IRS measures: Employee Satisfaction, Customer Satisfaction, and Business Results. Once these correlations have been established, the IRS will use this information to establish a process for determining realistic goals.

Question. Why is IRS unable to measure employee satisfaction for each of the program areas within Customer Service? Given this measure limitation how can the survey results be used to design improvements in a particular program area?

Answer. The IRS measures employee satisfaction by organizational unit; the data is provided down to the smallest managerial unit within the organization. This is done so that every set of data has an "owner" or a responsible official who will use the data according to their level of authority to make organizational improvements.

The Survey 99 employee satisfaction "scores" were provided to each manager at the branch level and above within Customer Service and every other organization of the IRS. These scores were used by these managers as an indicator of how their employees within their direct "chain of command" rated that organizational unit in employee satisfaction. Because these managers received scores that were directly relevant to their specific area of responsibility, they were able to develop goals and actions specifically designed to improve employee satisfaction within that area. In other words, scores below the level of Servicewide Customer Service were available to managers; however, the scores were calculated on management organizational units (branch, division, district, region, etc.) instead of program lines (e.g., Toll Free, Walk-In, Automated Collection System).

The management chain of command and program activities are not often parallel—meaning that a branch chief does not often supervise only one activity. A branch chief frequently supervises Walk-In, Toll Free, and/or other activities making it difficult to separate data among program activities. For the SURVEY2000 cycle, the IRS is attempting to collect data in such a way that it is possible to calculate employee satisfaction scores for the program activities in Customer Service. However, the IRS will continue to provide branch level managers and above employee satisfaction scores based on survey data from all employees within their area of responsibility.

The tax code is complex and IRS has in recent years been accused of applying disproportionate enforcement efforts to small individual taxpayers whose returns involve relatively simple aspects of the law. Some contend that IRS has been less vigorous in enforcing complex provisions of the tax law involving large businesses and wealthy individuals because, in such cases, IRS is likely to encounter a more sophisticated legal defense and lose the case on appeals.

Question. What are the three most serious compliance problems associated with income tax returns filed by individuals? What are the three most serious compliance problems associated with income tax returns filed by businesses? Please provide some detail on the nature of those problems.

Answer. There is no ready consensus in IRS as to the three most serious compliance problems for individuals and for businesses. Nevertheless, for the purpose of this question, we will discuss, for tax returns filed by individuals: (1) underreporting of business income; (2) failure to file required tax returns; and (3) improper claims

related to "family tax benefits." For businesses (corporations), we will discuss (4) abusive tax shelters; (5) transfer pricing; and (6) the research tax credit.

(1) For individual taxpayers, underreporting of business income (including informal supplier income) is the largest single category of the income tax gap, accounting for an estimated $29.2 billion in underreported income taxes in 1992, the most recent year for which published data are available. Non-farm sole proprietors voluntarily report only 56 cents of every dollar of their net business income compared to 93 cents of every dollar for business and nonbusiness individuals combined. The principal cause of high noncompliance among non-farm proprietors is the presence of income not subject to withholding or covered by information reporting. Business income received by individuals from flow-through entities (partnerships and trusts) is covered by information reporting requirements. However, the complexity and rapid growth in the number of such entities poses a particularly serious challenge to IRS. Partnership and trust filings have grown rapidly since 1995 while corporation filings have declined. Tax shelter promoters are marketing the service of establishing trusts for the purpose of improperly reducing taxpayers' income tax and estate tax liabilities.

(2) Failure to file required tax returns undermines the United States' system of voluntary compliance. IRS identifies potential individual income tax nonfilers by using third party data and historical filing information. For tax year 1996, IRS identified approximately 7 million individuals who had not filed returns but who appeared to have a legal obligation to file with a potential tax assessment of more than $200. Moreover, there were millions of other individuals who may not have been legally required to file but may have been eligible for refunds or credits. Many of these taxpayers may lose their right to refunds and self-employed taxpayers may forfeit Social Security Administration (SSA) credits if returns are not filed within certain prescribed time intervals.

(3) Current family tax benefit issues include: filing status, exemptions for dependents, the child and dependent care credit, the earned income tax credit, the child tax credit, education credits, and adoption credits. The increasing number of Family Tax Benefits has resulted in different and sometimes conflicting rules that taxpayers find confusing and compliance has suffered as a result. The Earned Income Tax Credit and the duplicate use of Social Security Numbers for dependent exemptions and Child Tax Credit (claimed on multiple returns) are two of the most well known examples of this problem. The qualifications for benefits related to an individual and the relationship of the individual to the taxpayer often depend on information that IRS has limited ability to obtain without contacting the taxpayer.

(4) Secretary Summers has said that the rapid growth of abusive corporate tax shelters may be "the most serious compliance issue threatening the American tax system today." Abusive corporate tax shelters are transactions that have no economic substance; their only purpose is to reduce corporations' tax liabilities. Such transactions are appearing in an astonishing variety of forms. We believe that they account at least in part for the widening gap between corporate book income and taxable income and for the decline in corporate tax receipts during a year of excellent corporate profits.

(5) The transfer-pricing problem is that commonly controlled corporations can manipulate prices charged between parents and subsidiaries to reduce the taxable income of one or the other and thereby reduce U.S. tax liabilities. For example, a foreign parent of a U.S. subsidiary may charge its subsidiary artificially high prices for raw materials supplied by the parent. This would reduce the taxable income of the U.S. subsidiary (a "foreign-controlled corporation") below what it would be if the subsidiary purchased its raw materials at "arm's length" prices. The increased globalization of the United States economy has resulted in a rapid increase in the number of such transactions.

(6) Section 41 of the Internal Revenue Code allows a credit for an increase in qualified research expenses. Issues involving this credit arise in almost every industry. A recent review found over $9 billion of research credit claims under examination. The development of these cases during examination is complicated by the fact that the issues often arise in the context of a refund, overpayment or offset situation, leaving insufficient time for thorough development of the issues. Because the cases require the understanding of complex scientific or industry-specific issues, IRS is required to devote extensive resources to the development of the cases to determine whether all requirements of section 41 are met.

Question. What procedures and systems does IRS use to identify these compliance problems?

Answer. (1) For individuals, the severity of the problem of unreported business income has been a consistent result of IRS's Taxpayer Compliance Measurement Program (TCMP) studies. The flow-through entity aspect of this problem has been

recently identified in the strategic assessment process for the new Small Business/Self Employed Division of IRS.

(2) The size of the problem of nonfiling of required tax returns also was established by IRS's 1988 TCMP study. During fiscal year 1993 through fiscal year 1995, a multifunctional national nonfiler strategy was conducted using Collection's open inventory. Those activities and subsequent analysis verified that nonfiling remains a serious problem. Moreover, IRS's renewed emphasis on customer service raises the importance of nonfilers since many of them are passing up refunds and credits to which they are entitled.

(3) The family tax benefit issues were identified in part because we are finding that a large number of children are claimed on more than one tax return for various benefits. Also, the growing complexity of tax law in this area is cause for concern that compliance will suffer as a result.

(4), (5), (6) For corporations, the three problems were identified by IRS' National Office Examination personnel. Their information is based on regular discussions with examiners in the field.

Question. Does IRS have specific compliance initiatives directed at those problems? If yes, please provide information on the nature of the initiatives and the amount of resources devoted to them. If no, why not?

Answer. (1) Underreporting of business income: IRS is restructuring itself to provide assistance to taxpayers to understand and meet their tax obligations. The Small Business/Self-Employed Division (SBSE) will have responsibility for providing such assistance to individuals who operate businesses. The Commissioner of this new Division will be Joseph Kehoe, who has extensive experience leading and improving service organizations in both the private and public sectors. To improve the quality of our enforcement programs for business individuals, IRS has developed its Market Segment Specialization Program (MSSP). A goal of the MSSP is to issue Audit Technique Guides (ATGs) that allow revenue agents and tax auditors better to understand the total business environment in selected market segments and become more efficient in their case evaluations. A continuing problem for enforcement in this area is that verifying a small business income often requires the use of audit techniques that may be regarded as overly intrusive, especially when the taxpayer's income statement is found to be reasonably accurate.

IRS is now formulating a strategy for dealing with the rapid growth of partnerships and trusts. One of the elements of the strategy will be improved use of the information reports filed by partnerships and trusts. A large fraction of those reports are filed electronically, and IRS needs to make more effective use of them. Many of the reports are filed on paper; additional resources are needed to transcribe them so that they can be used to direct our outreach and assistance programs as well as our enforcement programs.

(2) To address the problem of failure to file required tax returns, IRS has adopted a Service-wide National Nonfiler Strategy. The objectives of the strategy are to improve filing compliance and to provide better service to nonfilers who are due refunds or credits. The strategy includes initiatives in several areas with specific actions to take place over the next 2 years. For example, the Service will develop and implement communication, education and outreach programs to reach specific types of nonfilers. Emphasis will be placed, for example, on taxpayers that are at risk of losing refunds and SSA credits. The strategy envisions cooperation between IRS and other Federal agencies and State agencies to promote filing compliance. Other initiatives include designing and implementing a nonfiler management information system, improving traditional compliance techniques, exploring legislative opportunities, and studying the feasibility of contracting out certain activities related to nonfilers.

(3) Family tax benefit issues: For duplicated use of SSNs IRS has for several years been able to identify dependents or EITC-qualifying children claimed on more than one tax return. "Soft" notices to the taxpayers involved have been successful in causing some of the taxpayers to file amended returns to correct the duplication or to discontinue the duplication in subsequent years. The Congressionally authorized EITC Compliance Initiative and special appropriation ($144 million with 2,083 FTE in fiscal year 2000) have allowed IRS to address some of these issues as they apply to EITC and peripherally as they relate to associated issues (i.e. dependent exemptions). A substantial effort was made this year to visit high-volume EITC return preparers to discuss the need for increased emphasis on the taxpayer's eligibility to claim an EITC benefit and related benefits. About 72,000 labor hours went into these activities.

IRS is currently testing a system that accesses historical IRS databases and information from the Federal Case Register of Child Support Enforcement Orders and from Social Security records. This system allows IRS to identify returns, as they are

submitted, that appear to have inappropriate claims for tax benefits. The focus is to use information about individuals (typically children) and historical information about the relationship of the individuals to previously filed tax returns. The ready availability of this information allows IRS to take actions to educate taxpayers and tax return preparers, as well as better to identify tax returns requiring enforcement action. Should this initial test prove successful, IRS may be able to expand the system to capture additional information received from taxpayers, such as an indicator that a dependent is totally and permanently disabled or the type of Individual Retirement Arrangement (IRA) for which a deduction is being taken. (The latter item would assist IRS with another impending problem: with the aging of the "Baby Boom" generation, growing withdrawals of funds from IRA accounts will require IRS to know, at the time of the withdrawals, the type of IRA contributions particular taxpayers deducted over the years and the taxpayers' ages to determine the taxability of the funds being withdrawn.) Just as Income Reporting and Matching improved the reporting of income, it can be expected that as the IRS uses data in a more sophisticated manner to determine the eligibility of a taxpayer to claim family related and individual benefits, there will be improved compliance in this important area of tax administration.

(4) The Department of the Treasury has undertaken several initiatives to deal with abusive corporate tax shelters. These include new regulations that are now in effect, administrative reforms, and proposed legislation. The administrative reforms include the establishment of the Office of Tax Shelter Analysis in the Large and Mid-Size Business (LMSB) Division. This office is responsible for planning, coordinating and providing assistance to our agents who are working tax shelter issues. The office also has a staff to coordinate closely with IRS Chief Counsel, receiving and distributing information as needed. IRS will be establishing a Tax Shelter Hotline, which will include a telephone number and e-mail address to provide an easy way for concerned taxpayers and practitioners to provide information on tax shelter promotions. Fifteen FTEs will be allocated to this office. We do not have detailed information on the resources being used in the field to work abusive tax shelter issues.

(5) The IRS strategy for improving compliance in the transfer pricing area has been to shift the focus from after-the-fact audit and litigation of transfer pricing disputes to encouragement of up-front taxpayer compliance and advance resolution of transfer pricing issues. For example, under the provisions of Sec. 6662(e), IRS has moved to ensure that taxpayers apply the arm's length standard at the time they file their original return and have contemporaneous documentation establishing such compliance. Another initiative involves the International Field Assistance Specialization Program (IFASP), whose staff includes three transfer-pricing specialists who provide transfer pricing expertise and assistance regarding technical issue identification and case development throughout the country. A third important IRS compliance initiative directed at the transfer pricing problem is the Advanced Pricing Agreement (APA) program. Under the APA program, IRS and the taxpayer agree in advance on the appropriate pricing methods to be used by the taxpayer for transactions covered by the APA. An APA may protect against both Sec. 482 adjustments and Sec. 6662(e) penalties. These and other specific IRS transfer pricing compliance initiatives are described in detail in IRS Publication 3218 (4–1999), Report on the Application and Administration of Section 482, April 21, 1999. Rough estimates from the IRS Assistant Commissioner (International) function indicate that approximately 65 percent of its international programs field compliance efforts, or about $30 million annually, are devoted to transfer pricing issues.

(6) IRS initiatives to cope with the research credit compliance problem include a new program to employ outside experts to deal with credits claimed for development of internal-use software. These experts have been employed mainly through the Federally Funded Research and Development Center sponsored by the Department of the Treasury. The experts are working with examiners in resolving research credit claims. We are also in the process of hiring experts to deal with research credits claimed by aerospace and motor vehicle firms. The cost of the experts has been at least $1.5 million per year, but this has not been enough to cover all of the cases that need this kind of resource.

For pharmaceutical industry research credit claims, we have established a committee including IRS personnel (from Examination, District Counsel, Appeals, and Chief Counsel) and industry representatives from the largest pharmaceutical industry association. The goal of the committee is to find common ground to resolve research credit issues. For all industries, research credit cases are to be included in the Prefiling Initiative. Under this program, large business taxpayers may request examination and resolution of specific issues relating to tax returns expected to be filed in September through December of 2000.

Question. What has IRS done to track better its enforcement efforts and results involving different categories of taxpayers (e.g., less affluent taxpayers versus more affluent taxpayers and large businesses)?

Answer. We have been centrally compiling the results of our enforcement efforts since 1992 in the Enforcement Revenue Information System (ERIS). This system captures important information about all enforcement cases at many stages of the enforcement process, consolidating information from the existing information systems for the various enforcement functions. In most cases, the data can be aggregated by specific type of taxpayer. The database generates regular reports, and it can also support specific queries.

According to IRS, the additional workload from RRA 98 contributed to a decrease in enforcement presence, audit coverage, and case closures in front-line compliance programs.

Question. Please explain in detail the specific workload increases that contributed to these various decreases.

Answer. The Taxpayer Protection and Rights section of the Restructuring and Reform Act of 1998 (RRA 98) alone contains over 25 provisions affording additional protections to taxpayers. In addition to increased time to train employees in the requirements and ramifications of the RRA 98 provisions and the time to make the substantial alterations in IRS procedures dealing with the audit, taxpayer appeals, and other enforcement processes, the additional protections and new procedures have increased the workload and the time it takes to complete case processing.

Substantial changes to the collection process increase the time to process collection cases. These changes range from requiring supervisory approval for certain collection actions, the review of jeopardy and termination levy actions by IRS Counsel to procedural changes to the Offer in Compromise program, expanded availability of Installment Agreements and extensions of time for taxpayers to provide additional information regarding their offers.

Since the passage of RRA 98, the IRS has received 67,372 innocent spouse (provision 3201) requests that affect approximately 35,459 taxpayers. As of March 6, 2000, there were 51,276 cases in inventory (affecting approximately 26,987 taxpayers) and the current volume is approximately 2,800 cases received each month. The average staff time required to resolve a request for tax relief through the innocent spouse provision ranges from 5 to more than 20 hours, depending on the complexity of the fact patterns in different cases. The IRS has incorporated new audit procedures to determine in each initial examination with the taxpayer whether there are innocent spouse issues that need to be addressed and implemented taxpayer education initiatives (including an "Innocent Spouse" questionnaire on the IRS Internet web page, "The Daily Digital").

Some of the other workload increases are as follows:

—Provision 3417, Third Party Notices, adds an estimate of 30 minutes per case for Examination, Collection, Customer Service, and Tax Exempt/Government Entities.

—Provision 3705 requires that the IRS provide Spanish language taxpayer assistance and the option to taxpayers of speaking to a live assistor. Both of these requirements increase workload for Toll-Free.

—Provision 3462 resulted in modification to the Offer in Compromise program and increased the time necessary to process cases in the Automated Collection System (ACS) and Field Collection.

—Notice activity and processing for innocent spouse (provision 3201) and due process in collection actions (pre-levy notices) [provision 3401] increased workload for Submission Processing.

The IRS budget request includes about $1.9 billion and 22,900 FTEs for the examination activity. That activity includes not only IRS' audit functions but also its taxpayer education and appeals functions.

Question. How much of the $1.9 billion and 22,900 FTEs is for audit, taxpayer education, and appeals?

Answer. The "examination" budget activity consists of $1.6 billion and 19,723 FTE for "audit" (examination), $20.8 million and 223 FTE for taxpayer education, and $173.4 million and 2,063 FTE for appeals. The additional $100 million and 891 FTE is made up of approximately $40 million and 467 FTE for International and $60 million and 424 FTE for Compliance Research.

During a January 2000 conference on IRS modernization, some concerns were raised about decreases in staffing for the Appeals function at a time when workload was increasing. Mention was made, for example, of the impact of the innocent spouse and collection due process provisions on Appeals' workload.

Question. Please provide information on Appeals actual staffing levels and caseload for fiscal years 1998, and 1999; its expected staffing level and caseload for fiscal year 2000; and its budgeted staffing level caseload for fiscal year 2001?

Answer. Appeals provides taxpayers and taxpayer representatives with a channel for impartial case settlement prior to cases being docketed in tax court.

	Fiscal years			
	1998	1999	2000	2001
FTEs	2,087	2,144	2,063	2,035
Closed Cases	71,918	61,507	59,000	[1] 57,000

[1] Appeals does not control its inventory since all cases originate elsewhere in the IRS. With the major changes in IRS, RRA 98 and the pending Compliance supplemental, it is extremely difficult to predict workload.

Question. How, specifically, have the innocent spouse and collection due process provisions affected appeals' workload so far, and what are the IRS' expectations for the future?

Answer. Concerning the innocent spouse program, Appeals has always had these types of cases in inventory; however, with RRA 98 more cases have come to Appeals. In fiscal year 1999 we closed approximately 200 innocent spouse cases, and in fiscal year 2000, through February, we have closed more than 200 cases already. Current inventory is approximately 650 cases. Considering the backlog of cases pending initial decision on claims filed and the Examination initiatives to resolve these cases, it is difficult to predict Appeals future workload. However, at a minimum, we expect our workload to increase by 1,000 cases for fiscal year 2000 and fiscal year 2001.

The collection due process provision has had a significant impact. In fiscal year 1999, we received approximately 5,300 collection cases. For fiscal year 2000 we expect the receipts to increase to 7,400, and in fiscal year 2001 to increase to 20,000.

Question. Are there other provisions in RRA 98 or any administrative changes that have had or are expected to have a significant impact on appeals' workload, either positively or negatively, in 2000/or 2001?

Answer. The other areas we expect to have a significant impact are Early Referral and Mediation, Arbitration, Offers in Compromise, and Tax Exempt Bonds. RRA 98 modified the procedure for Tax Exempt Bonds, which allows issuers to appeal an adverse determination. Appeals' is currently in the process of developing training classes to prepare the Appeals Officers for the Tax-Exempt Bond cases. The impact on Appeals will be more in fiscal year 2001 and the out years.

The impact of RRA 98 on IRS' Collection function has been extensive. For example, Title III of the Act focuses on provisions to help ensure that taxpayers have adequate protections while dealing with IRS about their tax matters. IRS has stated that it is meeting the implementation requirements of the law. IRS also talks about the Collection function being committed to working its inventory base on "taxpayer-oriented priorities".

Question. What are these taxpayer oriented priorities?

Answer. Collection's work has been reprioritized to emphasize service to taxpayers that have been proactive in attempting to resolve their problems. This means that Collection staff resources are directed toward:

—Taxpayers that "walk-in" to an IRS office and wish to discuss their tax liabilities. These "walk-in" contacts are usually the result of computer-produced correspondence regarding an unpaid tax bill or the non-filing of a tax return.

—Investigating and bringing to resolution Offers-in-Compromise that have been submitted by taxpayers that seek to resolve their tax liabilities by paying less than the full amount owed.

—Supporting Customer Service to deal with work overflows, especially during the filing season, when taxpayers visit or phone with tax questions.

These taxpayer-oriented priorities come before work on other assigned collection accounts. The other assigned collection accounts consist of Taxpayer Delinquent Accounts, for which a tax liability has been assessed and unpaid, and of Taxpayer Delinquency Investigations, for which there is reason to believe that a tax return was due to be filed but was not received.

Question. Are the priorities fair and equitable to taxpayers who pay their taxes when they are due or might they be seen as "coddling" delinquent taxpayers?

Answer. We have focused our efforts to serve taxpayers that have contacted us. These efforts leave fewer resources to devote to delinquent accounts for which taxpayers have made no effort to resolve their liabilities. Some of this unassigned work consists of relatively high priority cases, including some employers who withhold income and Social Security taxes from their employees but fail to pay it over to the

Treasury. This can be seen to be unfair both to those taxpayers who have timely filed all returns and paid all taxes due and to those who seek us out to resolve their liabilities. Unfortunately, if we expended our resources first on those taxpayers that were not seeking to voluntarily resolve their liabilities, there would not be sufficient resources to properly serve those who have come to us. These taxpayers would then justifiably believe that they were being treated unfairly.

In order to stretch our available resources over more accounts, we have expanded the authority of various Service functions to enter into installment agreements with little or no verification of the taxpayer's financial condition and reduced the investigation required prior to declaring certain types of accounts to be "Currently Not Collectible." Despite these efforts, the number of cases that cannot be assigned for active field investigation continues to grow. Our efforts to direct staffing toward the priorities listed above are partially responsible for the decline in enforcement activity against uncooperative taxpayers. Although some might perceive this as "coddling" delinquent taxpayers, the Collection staff resources currently available do not permit us to properly work some relatively high priority matters.

In its fiscal year 2001 budget request, IRS talks about streamlining the Offer-in Compromise program and decreasing the need for verification of financial information.

Question. From a fairness and equity perspective, why is IRS making it easier for delinquent taxpayers to "walk away" (or to pay much less than the actual amount owed) from their tax debt? Shouldn't the standard in terms of justification be more stringent rather than less? What are the risks in terms of revenue and fairness?

Answer. As part of our overall reengineering plan for the collection process we are incorporating the use of all collection alternatives into appropriate situations. Offer-in Compromise is one of the alternative approaches to ensure that all taxpayers have some option for making payment on their delinquencies. We anticipate that this expanded use of the offer program will increase the overall dollars collected by providing taxpayers whose liability may have previously been reported as uncollectible with a means of resolving their account.

Information from the IRS' Collection Division indicates that many front-line employees have been reluctant to take all necessary actions needed to close cases because of fear of reprisal stemming from section 1203 of RRA 98. Under that section, IRS employees are subject to termination for misconduct in their dealings with taxpayers.

Question. What is IRS' strategy for ensuring that front-line employees follow enforcement guidelines and procedures needed to properly close cases?

Answer. A number of actions have been taken to ensure that front-line employees follow enforcement guidelines and procedures to properly close cases:

—There have been several national video teleconferences, including one with Commissioner Rossotti, in which the proper use of enforcement actions was discussed.

—Internal Revenue Manual have been rewritten to clarify enforcement procedures after RRA 98.

—A conference of all Collection division chiefs from the 33 district offices was conducted. The proper use of enforcement actions was a major topic during the conference.

—A meeting of all Collection field group managers was conducted for the first time. The Commissioner, the Chief Operations Officer and the Assistant Commissioner (Collection) were present at that meeting. The managers of the front line revenue officers were advised that one of their major concerns should be the evaluation of case activity to verify that enforcement actions are taken when appropriate and that if such actions are not being taken when appropriate, employee non-performance should be documented.

—The Collection Quality Measurement System, a post-closure case review process, has been revised to include the review of revenue officer judgments made during case processing. This includes judgments regarding the use of enforcement tools for appropriateness and timeliness.

Some additional actions are underway:

—A new course covering the asset seizure process is being developed for revenue officers. This should clarify a number of areas where uncertainties remain as a result of RRA 98 changes.

—The Internal Revenue Manual Seizure and Sale Handbook is being revised to incorporate additional instruction and guidance on appropriate use of seizure as a collection tool.

The proper use of enforcement has been an issue due to the major change in direction that now requires all alternatives to enforcement first be considered. This change in direction is partly based on policy change and partly on the new law. In

the past, the mere failure of the taxpayer to act to resolve their liability was sufficient justification for enforcement action and failure to take immediate enforcement action in those cases was a reason for a negative employee evaluation. Now there are questions at the front line as to how intensive and exhaustive our attempts to secure voluntary taxpayer cooperation should be prior to enforcement. Since judgment must be used to deal with the range of potential delinquent taxpayer actions, situations, and attitudes, the guidelines must allow the flexibility to deal with the taxpayer in an appropriate manner. This leaves us with guidelines that are open to interpretation based on the facts of the individual case at hand and there can be differing judgments among individual front-line employees based on those facts.

Question. What has IRS done and what is it planning to do to help employees better understand section 1203 and to allay any unjustified fears stemming from that section?

Answer. The Service has taken a number of steps to deal with employee fears regarding section 1203. There have been:

—A national video teleconference in which Commissioner Rossotti directly addressed the issue and emphasized that it required a willful act on the part of the employee to be found in violation.

—Formal Section 1203 training has been given to all employees.

—At the recent meeting of all Collection revenue officer group managers, Counsel discussed section 1203 with the front line managers and provided guidance for them that should be shared with their employees.

Since very little time has passed since the most recent efforts to allay fears about section 1203, it is not felt that additional actions should be taken until we determine the effects of the information shared at the Collection group managers meeting.

Section 1203 has raised issues other than unjustified fears based on a misunderstanding of the provision and its potential ramifications. One major issue has been the large number of procedural changes that make many formerly routine actions now a potential section 1203 violation. Front-line employees are still in a period of adjustment. Practices that had become ingrained after decades of use have had to be abandoned or modified; many employees may be overly cautious while they get comfortable with the new procedures. Another major issue is the concern about an unjustified claim by a taxpayer or taxpayer representative that a section 1203 violation has taken place. To date, the vast majority of claimed section 1203 violations that have been investigated have been closed with no finding against the employee.

However, there have been instances where an employee has incurred substantial legal expense and/or undergone considerable mental anguish during the course of the investigation before being found innocent of any wrongdoing. Stories that circulate about such incidents naturally put a chill on some potential enforcement actions where there is concern that a section 1203 violation, even if unjustified, may be claimed. There are no penalties for alleging a section 1203 violation that has no basis in fact and such an allegation may be used merely as a tactic to delay collection action.

Section 1205 of Title 1 of RRA 98 requires IRS to establish a training programs to ensure that IRS employees are trained in such area as taxpayer protections. IRS' fiscal year 2001 budget request also states that IRS shall maintain a training program to ensure all IRS employees are trained in taxpayer rights, dealing courteously with taxpayers and cross-cultural relations.

Question. What is the status of IRS' collections training? What are the projected costs for the RRA 98 training?

Answer. All collection employees with public contact received training in conflict management by September 30, 1999 as required by Section 1205. A typical experienced front-line employee in Customer Service could expect to receive 84 hours of training, including 24 hours mandatory training, 40 hours continuing skills enhancement training, and 20 hours of training related to their work assignments. The cost to develop and deliver the Section 1205 training is estimated to be $81,000 in fiscal year 1999, $32,000 in fiscal year 2000, and $40,000 in fiscal year 2001. These costs include the salaries of course developers and instructors, and other costs such as materials and supplies.

Question. How will IRS determine the impact, or effectiveness, of this training?

Answer. We will assess the effectiveness of the training by analyzing the customer satisfaction and employee satisfaction components of the balanced measures.

IRS' plan for fiscal year 2001 includes the installation of 30 additional Q-Matic systems at walk-in sits, bringing the total number of such systems nationwide to 106. IRS says that those systems "ensure that taxpayer spend the shortest amount of time possible waiting to receive service." However, there is no information in IRS' budget request on taxpayer wait times at walk-in-sites.

Question. How much of the $722 million and 10,785 FTEs being requested for IRS' Collection activity is being allocated to walk-in activities and how much is being allocated to field collection activities?

Answer. The President's Budget for fiscal year 2001 includes $80 million and 1,473 FTE for the walk-in activity. The remaining $642 million and 9,312 FTE are allocated to field collection activities.

Question. How much of the amount allocated to walk-in activities will be used to fund the proposed installation of 30 additional Q-Matic systems at walk-in sites?

Answer. Approximately $1.5 million is included in the Information Systems budget activity to enhance current Q-Matic infrastructure (network) and to purchase the new Q-Matic systems.

Question. How long, on average, did taxpayers have to wait to receive assistance at IRS' walk-in sites in fiscal year 1999? How did those wait times vary, if at all, between sites that had a Q-Matic system and sites that did not? How did those wait times compare to IRS' goal?

Answer. In our Q-Matic sites, the average wait time varies from 2 to 7 minutes. We do not have data available to gauge average wait time in offices without Q-Matic. Those offices measure and report how often taxpayers must wait beyond the established wait time goal of 15 minutes (30 minutes for return preparation). Generally, they report goals are met 97 percent of the time.

As of part of the STABLE initiative, IRS is requesting an additional 233 FTEs for its fiscal year 2001 walk-in activities. IRS says that the staffing increase will allow IRS to increase "level of service".

Question. What is the detailed breakout of these FTE's between headquarters and field locations? How many of these FTE's will actually be used to provide additional walk-in assistance at field locations?

Answer. Since all of the FTEs will be front-line non-supervisory customer service positions, all of the FTEs will be in field locations to supplement the current Walk-In staff. The exact location of these FTEs will be determined during the Plan Development process wherein FTEs will be provided to those field locations exhibiting the greatest need.

Question. How many of the 233 FTEs are intended to replace FTEs provided in the past by detailees from other activities, thus not resulting in any overall increase in the number of FTEs devoted to the walk-in program?

Answer. 200 of the 233 FTEs are intended to replace FTEs detailed from other activities.

Question. How does IRS measure the level of its walk-in service? How much of an increase in level of service does IRS expect in fiscal year 2001 compared to the level attained in fiscal year 1999 and the level expected in fiscal year 2000? And,

What level of walk-in service should IRS ultimately strive to attain? How many FTEs beyond the 233 being requested would IRS need to achieve that level of service? Does IRS expect to be able to provide that level of support as a result of any staffing changes associated with its reorganization?

Answer. IRS does not measure level of service for Walk-In offices. Each taxpayer coming into the office and waiting for an available employee is served. One measure of customer satisfaction for walk-in (rather than level of service—a telephone measure) is wait time. As previously stated, our current wait time goal is 15 minutes or less (30 minutes or less for return preparation). The additional FTE requested will reduce the number of employees detailed to walk-in from other areas. This will enable us to use permanent walk-in employees to provide service faster, more completely and with greater accuracy. Trained, experienced walk-in employees can serve more taxpayers better than the same number of detailed employees. This will also enable those detailed employees to carry on with their regular job duties, enhancing their effectiveness and morale in their own organization.

IRS' budget request list four performance measures related to its walk-in program customers satisfaction, walk-in quality, total walk-in contacts, and employee satisfaction.

Question. To measure customer satisfaction, IRS surveys all walk-in customers for one week every fifth week. How useful will these results be in measuring customer satisfaction if IRS is only surveying customers every fifth week? Why doesn't IRS randomly survey taxpayers every week during the filing season, which is the time when walk-in sites are most busy?

Answer. The Office of Program Evaluation and Risk Analysis, Pacific Consulting Group, Customer Service and the Statistics of Income Division developed the weekly schedule for survey administration based on a methodology that would allow the vendor to achieve the desired response rate and a statistically valid sample. The initial start week was selected at random with the month of March 1998 and marks

the first week of survey implementation. Beginning with the first week, the schedule of rotating every fifth week was developed.

Question. IRS says that it will be measuring walk-in quality "in terms of accuracy and professionalism." Please explain how those characteristics will be measured and what IRS' performance goals are in those areas.

Answer. Accuracy and professionalism will be measured through the walk-in Quality Review Visitation program. Reviewers will anonymously visit walk-in posts of duty (PODs), ask a question, respond to assistor's questions using a prepared (memorized) fact sheet, and complete a Quality Review Visitation Checksheet to document the contact. PODs are selected according to a sampling formula provided by the Statistics of Income division to obtain a precision margin of no less than 5 percent at the national level. Reviewers rate each contact by answering 13 questions "yes" or "no". The responses to these questions will measure the accuracy of the answer given and the professionalism of the employee. Since fiscal year 2000 is the first year these visitations will occur, no performance goals have been set. The results of the fiscal year 2000 reviews will serve as a baseline to set goals for improvement for fiscal year 2001.

Question. IRS uses the Resources Management Information System (RMIS) to track the number of taxpayers visiting walk-in sites. How reliable is RMIS; how accurately does RMIS data reflect the actual number of taxpayers visiting walk-in sites?

Answer. The RMIS system is accurate in collecting and providing data. However, the data that is input into RMIS is captured and input manually. As with any manual system, if there are errors in the original input, there will be errors in the resulting report. As a result, we review the initial reports to identify the errors we can. Those errors are then perfected and the report corrected.

Question. Although IRS reports an employee satisfaction measure for its walk-in program, the value being reported is a composite value that covers all of IRS' Customer Service activities, including toll-free telephone service. Why is IRS unable to separately measure employee satisfaction for the walk-in program?

Answer. The walk-in function is distributed among the 33 districts and reports organizationally in each office to Collection. At the same time, employees from other functions migrate to walk-in during peak times to supplement full-time employees. In 1999, an Employee Satisfaction score was calculated for all organizational levels branch and above, and walk-in constituted only a small portion of these branches.

For 2000, we have developed the capability to identify workgroups whose focus primarily is walk-in service. We will be able to aggregate this data across offices to generate a Special Report for Servicewide Walk-In. In addition, a new survey item asks respondents to identify their function and this will provide a further check on the aggregation. Finally, the survey instructions ask respondents to fill in the manager code for their manager-of-record, thereby eliminating detailees from the aggregation whose full-time function is other than walk-in.

Question. IRS currently has no measure for the timeliness of its walk-in service. Is timeliness an important indicator of the quality of walk-in service? If yes, what is IRS doing to measure it? If no, why not?

Answer. Timeliness of walk-in service is currently measured as customer wait time. Serving customers in a timely manner is one indicator of the quality of walk-in service. It is one of the factors captured in the Walk-In Quality Review Visitation program data. The Q-Matic system also captures time-related data that will be more significant when Q-Matic is fully rolled out to all targeted offices.

Of IRS' $1.584 billion request for information systems, $40 million is for investments to enhance and develop systems.

Question. Please identify the specific systems to be enhanced and developed, the business requirements being addressed by these enhancement/development efforts, the dollar amount being requested for each system, whether there is a business case for each effort, and each effort's expected return on investment.

Answer. IRS prioritized the 15 original fiscal year 2001 business line investment projects (Tier B) using a model from MITRE Corporation, prioritizing by benefits to the three aspects of our Balanced Measures approach: Customer Satisfaction; Employee Satisfaction; and Business Results/Productivity. The result was a scoring of each investment relative to the other investments for each measure. The business units and IS estimated high-level project costs required to deliver the investment. The individual project cost estimates ranged from $.5M to $14.8M and currently total over $60M.

Since the original assessment several new potential initiatives have arisen. In addition, some of the delivery requirements and cost estimates for these proposed business line investments may change in line with fiscal year 2000 budget execution decisions. Once the streamlined business cases (including expected returns on invest-

ment), project management plans and design reviews have been approved, the final determination will be made of which to include in the requested $40M Tier B funding allocation. This is scheduled for completion in June 2000. Those projects that do not get funded in fiscal year 2001 will continue to be evaluated for potential implementation in subsequent years.

Following are the 17 potential investments (including two additional projects which have been defined since the initial case screening was completed) in the Tier B category:

Integrated Case Processing NT—$3.35M

ICPnt will dramatically improve taxpayer relations, employee satisfaction, and increase productivity for the more than 25,000 Customer Service and Taxpayer Advocate employees. By providing more IRS customer service employees with a single work station that can access all legacy systems, taxpayers receive more complete and quicker answers. In addition, the case management database provided by ICPnt is able to identify prior taxpayer case activity.

Employee Plans/Exempt Organization Determination System—$2.75M

Processing of determination requests, contacts with requestors and deposits of fees are not efficiently managed by the 15-year-old decentralized systems in use. Redesign of the system will improve the efficiency and effectiveness of IRS responses and actions.

Business e-file Program—$1.53M

Not all forms and schedules for business filers are available for electronic filing. This effort will support the Service's goal of significantly increasing the number of electronically filed returns by allowing businesses and preparers to file additional types of business forms, schedules and statements electronically. This funding will enable the electronic filing of at least one class of business tax returns, possibly Form 1120.

Chief Counsel CASE Management Information System (CASE–MIS)—$2M

The CASE initiative enables Counsel employees to accomplish their tasks in the most cost effective and efficient manner. CASE–MIS is the most critical component of CASE. It includes a number of custom applications for the Counsel organization. Organizational modernization will render obsolete many business rules in the fully automated Chief Counsel CASE–MIS environment. Updating the system (e.g., databases, reports, and forms) to incorporate the policies and procedures for the new business units will save costly manual work and maintain Counsel's ability to deal timely with the needs of the Courts, taxpayers and IRS.

Near Term Electronic Filing & Electronic Fraud Detection—$14.8M

Not all forms and schedules for 1040 filers are available for electronic filing. In addition, taxpayers cannot submit multiple copies of schedules (e.g., Schedule C) nor submit comments or supporting information. Making these additional forms and schedules available for electronic filing supports the Service's goal of significantly expanding this capability to more individual filers. Paperless electronic filing will be possible through use of Personal Identification Number (PIN)-based electronic signatures. Because error rates are much lower for electronic returns than for paper returns this initiative will also result in less rework, requiring fewer contacts with the taxpayer and fewer delays. With increased volumes in electronic filing, the Electronic Fraud Detection System and the Tax Return Database will require additional analysis and system capacity.

Notice Improvement Projects—$3.8M

Current notices to taxpayers are not easily understood and do not use the latest technology to support graphic print capabilities. This initiative will provide support for redesigning and printing taxpayer notices.

Audit Site Work Center Secure Access—$10.5M

During an audit the revenue agent, officer and manager need access to research material, customer accounts, administrative services, and audit support tools from remote sites (e.g., taxpayer's business location). They must do this without disclosing privileged taxpayer information or compromising government security. This initiative provides security measures to ensure sensitive taxpayer information will be protected properly. It supports secure remote communications systems and infrastructure to enable the revenue agent and officer to be as informed and responsive to taxpayers as possible.

Taxpayer Advocate Service Management Information System Redesign—$1.7M

Redesign and consolidation of multiple stand-alone systems will enhance the Taxpayer Advocate's ability to identify problems and recommend changes to business processes and systems that are causing repeated problems for taxpayers.

Queuing Management System—$1.7M

To improve the efficiency of IRS response to taxpayers walking into IRS service sites, this investment deploys an automated management tool to about 125 Walk-In sites. The system is already available at selected major sites.

Commissioner's Complaint System—$.7M

Four stand-alone IRS systems and the Treasury Inspector General for Tax Administration (TIGTA) database are used today to assure that taxpayer and employee non-taxpayer account related complaints are addressed. Aggregating this data into one database will enhance the complaint processing executive's ability to monitor progress, to look for patterns across the different complaint types and to suggest systemic improvements to eliminate causes of complaints.

Integrated Collection System Secure Dial In—$4.16M

By expanding access to tax data, research and communications tools to Revenue Officers working in remote sites, IRS will resolve taxpayers' issues and questions more quickly.

Chief Counsel Web Authoring & Electronic Document Redaction System—$1M

The Office of Chief Counsel issues legal opinions to taxpayers at their request on their tax liabilities. These documents are subject to public release under the Freedom of Information Act (FOIA) but only after taxpayer identifying information has been deleted. Once this information is deleted, the documents are considered "redacted," made ready for publication. This project is required: (1) to better support the processes currently in place to comply with specific provisions of RRA 98 mandating the release of certain documents on the Internet; (2) to provide an overall document drafting environment that better supports the authorship of any document whose ultimate purpose is the analysis or explanation of law, and whose probable destination is the Internet; and (3) to significantly improve the final work product that is ultimately disseminated by Counsel to all taxpayers by means of the Internet. The eRedact project improves the current processes in place so as to raise the level of assurance that confidential taxpayer information (or other critically important privileged information) is never inappropriately disclosed through the release of such documents on the Internet.

World Class Customer Service Training—$3.23M

Improving training for customer service representatives is important to meeting our customer service improvement goals. The investment will fund a proof of concept for providing training through state of the art computer based training (CBT) technologies.

Field Assistance Mobile Van Units—$.5M

Taxpayers in remote locations have difficulty accessing IRS walk-in services. Mobile vans equipped with laptop computers, cell phones, fax machines and telecommunications and encryption support will expand walk-in services to remote locations.

Performance Management System—$2.67M

Not all IRS managers and executives have performance measurement data consistently available to analyze in a timely or user friendly manner. Converting the current Executive Management Support Systems to the best web-based technology will expand access to this data to all management levels and increase managers' analytical capability.

Appeals Centralized Database System (ACDS)—Electronic Case Processing—$4.73M

Because cases and case information from Examination, Collection, Tax Exempt and Government Entities Division (TE/GE) and Counsel are currently received in Appeals in hard copy, processed and entered into ACDS manually, taxpayers are not receiving Appeals attention in the shortest possible time frames. Receiving cases, case information and issue data electronically will reduce the time for Appeals to respond to taxpayers. NOTE: This initiative was not defined during the initial project evaluation/assessment process.

Electronic Tax Law Assistance—$1.5M

This initiative increases IRS' capacity to respond to taxpayers' growing requests for tax law assistance via the internet. NOTE: This initiative was not defined during the initial project evaluation/assessment process.

Question. Since these new systems are directly related to IRS' organizational modernization, why is IRS' request via the Information Systems appropriation rather than ITIA, where Congress has legislated specific controls over the use of systems modernization funding?

Answer. The business line (Tier B) investments are not related to IRS' Organization Modernization or to enterprises-level systems model projects funded through the Information Technology Investment Account (ITIA). As new business operating divisions stand up, their near-term needs for Information Technology support are increasing. Business line investments (Tier B) modify or enhance existing systems, provide limited change in functionality, or provide a new system to support a limited implementation, and are often needed regardless of the changing organization structure.

The ITIA funds the Business Systems Modernization Program. Related projects create or enable major business process change, provide significant new technical functionality in support of business change or form an integral component of the Modernization architecture. These projects are generally long-term and service-wide in nature.

The Information Systems appropriation is funding the business line (Tier B) investments which modify or enhance existing systems, or provide a new system to support a more limited implementation to a specific business unit (e.g., Tax Exempt and Government Entities Division (TE/GE) or Large and Mid-Size Business Division (LMSB)) which will not be receiving support from the ITIA modernization initiatives. These systems generally provide limited change in functionality or provide a bridge between the current and Modernization architecture.

According to IRS, the fiscal year 2000 budget included $250.4 million for Year 2000 efforts, of which $214.6 million is being reallocated to operations and maintenance for fiscal year 2001 "to fund essential IRS technology, continuing the work begun under the Year 2000 program for the Integrated Submission and Remittance Processing System and Service Center Mainframe Consolidation, and achieving goals of Organizational and Business Systems Modernization."

Question. Please provide the specific dollar amounts allocated to each of those areas.

Answer. The specific dollar amounts allocated for the Integrated Submission and Remittance Processing System is $22.1 million, Service Center Mainframe Consolidation is $81.6 million and the balance of $110.9 million is for Organizational and Business Systems Modernization.

Within the $214.6 million funding level mentioned above, there are $16.5 million in labor related costs. This includes a small amount of training, travel and space/housing costs related to labor.

Question. When does IRS anticipate completing the Service Center Mainframe Consolidation project?

Answer. The Service Center Mainframe Consolidation Project will consolidate the last Service Center (Philadelphia Service Center) in December 2000. All sites will be consolidated prior to the filing season that begins in January 2001. Consolidation activities such as equipment removal, physical reconciliation against delivery orders and inventory, equipment maintenance and system enhancement will continue after this date. The IRS will conduct a broad post-implementation review covering hardware, software, staffing and management issues. During this time, production sites will identify lessons learned and the nature of improvements required for further action.

In February 1998, GAO recommended, among other things, that IRS' Chief Information Officer (CIO) be given budgetary and organizational authority over all IRS systems development, research and development, and maintenance activities (GAO/AIMD/GGC–98–54, Feb. 24, 1998). In its current Information System budget request, IRS states that, in fiscal year 1999, it restructured the Information Systems (IS) organization and began the process of including regional and service center IS operations under the CIO. IRS also states that during fiscal year 2000, IRS is continuing to realign IS operations under the CIO.

Question. When will the realignment be completed? Will the realignment give the CIO authority and budgetary control over all IS development and acquisition, including Research and Development? If not, what will be excluded and why?

Answer. IRS continues to move closer to the Commissioner's vision of an IS-shared service support structure with centralized management of IS resources. Groups of non-IS employees performing key IS work such as systems development,

systems operations, network management, telecommunications and desktop support will continue to be transitioned into IS through December 2000. The new structure centralizes IS management of Computing Centers, Telecommunication units, Desktop operations, Enterprise Services, Enterprise Technology Engineering and Infrastructure Projects under IS directors at IRS Headquarters.

Delegation Order No. 261, "Authority to Govern all Areas Related to Information Resources and Technology Management," and Policy Statement P–1–229, "Management and Control of Automated Data Processing (ADP) Property," signed by the Commissioner on November 12, 1999, gives the Chief Information Officer authority and control over all IS development and acquisition of ADP property in the IRS.

IS has responsibility for activities to develop, deploy, operate and maintain most IRS applications systems. At this time, a number of memoranda of understanding have been signed, or are in process, that document the transition of IS functions from other organizations. Also, the CIO organization has begun discussions on centralization of IS functions within other organizations (e.g., Criminal Investigation, Procurement Compliance Research) not currently reporting to IS. For example, with respect to Compliance Research function, analysis is currently underway to determine which IS-related components should be realigned and which components are related to business based data analysis functions and should remain in Compliance Research. While the majority of IS resources have been centralized under the Office of CIO, the expected completion date for the centralization of non-IS information technology resources is December 2000. Part of the Phase III modernization includes "standing up" the new IS structure and completing the transition to the newly designed organization over the next several months.

The goal of creating such investment account is to ensure that agencies request full funding in advance for the entire cost of a capital project so that the full costs are known at the time decisions are made to provide resources. In establishing these accounts, the Office of Management and Budget requires that (1) the capital assets support the agency's mission and (2) the assets have demonstrated a projected return on investment.

Question. Why is IRS asking for an appropriation of $119 million in fiscal year 2001 and an advance appropriation of $375 million for fiscal year 2002, when it has $438 million remaining in ITIA from the fiscal year 1998 and 1999 appropriation acts?

Answer. Planned Business Systems Modernization expenditures will require $119 million funding in fiscal year 2001 in addition to the funds remaining from prior fiscal years. The advance appropriation of $375 million ensures the continuity of projects approved at various milestone decision points, since delay of certain projects (particularly those modernizing IRS' infrastructure) would negatively impact the entire modernization effort. Recently, the Congressional Appropriations Committees approved release of $148.4 million from ITIA to the IRS, leaving $289.6 million in the fiscal year 1998 and fiscal year 1999 ITIA. IRS is now assessing the impact of the approved release on current plans in terms of the remaining availability in fiscal year 1998 and fiscal year 1999 appropriations. These plans involve additional requests for release of funds before September 30 to support the Integrated Financial Systems (post Milestone 3 system design), planning and development for projects at various milestone decision points and for ongoing program management and architectural engineering activities.

Question. Of the $438 million remaining in ITIA, about $230 million is set to expire on September 30, 2000. Given that the modernization program has been delayed and its scope scaled back, does IRS still need the entire $230 million between now and September 30, 2000? If so, why, and what is IRS' plan to address the expiration of these funds?

Answer. IRS is assessing the impact of the response from the House Subcommittee on Treasury, Postal Service, and General Government approving the release of $148.4 million in ITIA funds from the fiscal year 1998 availability. We plan to request additional release of funds before September 30 to support the Integrated Financial Systems (post Milestone 3 system design), planning and development for projects at various milestone decision points and for ongoing program management and architectural engineering activities.

Question. What investment does IRS plan to make with the $119 million and $375 million? Please provide a list of the specific systems IRS plans to invest in; how each will support the agency's mission; whether each system investment is supported by a business case, and each system's expected return on investment?

Answer. IRS requires the $119 million and the $375 million as a continuous funding source to support the known portfolio and the projects to come from the vision and strategy phase.

Vision and Strategy (Tax Administration)

—Reengineering of business processes (Accept Filing, Provide Account Assistance, Correct Non-Filing and Underreporting and Collect Unpaid or Overdue Balance)

Vision and Strategy (Internal Management)

—Development and deployment of the Integrated Financial Systems and the Integrated Personnel System

Development and deployment

—Fiscal year 2002 Release for Customer Communications, Customer Account Data Engine (CADE), Security and Technology Infrastructure Releases (STIR) and Enterprise Systems Management (ESM)
—Fiscal year 2002 Release builds on fiscal year 2001 Release to improve the taxpayer's level of access to Customer Service toll-free telephone systems
—CADE will incrementally replace the Master Files and the Integrated Data Retrieval System (IDRS) with new technology to provide IRS with the capability to service taxpayers in a manner similar to that provided by commercial-sector financial service organizations
—STIR delivers in incremental releases the common integrated technical infrastructure to support and enable the delivery of modernized business systems
—ESM will deliver inventory and asset management, systems and network management, problem resolution help desk support and performance metrics to support service level agreements

Planning, development and deployment

—Telecommunications Enterprise Strategic Program (TESP) will plan the strategic direction of the IRS' telecommunications program and build a business case for redesigning and rebuilding the telecommunications infrastructure to support the target modernized environment
—CRM Exam (1120) will provide a commercial-off-the-shelf solution to provide the majority of the tax computation functionality that is now inadequate

Planning and development

—Solutions Development Laboratory (SDL), Virtual Development Environment (VDE) and Enterprise Integration and Test Environment (EITE)
—Projects will create the necessary development and test environment for modernized applications and solutions.

Funding will also be required for ongoing program management to include Enterprise Life Cycle (ELC) maintenance and support from the Federally Funded Research and Development Center (FFRDC) Contract for independent verification and validation services, support to the enterprise architecture and modernization blueprint and business integration.

All business systems projects will be supported by a business case. The Customer Communications business case was presented, along with other Milestone 3 deliverables, at the May 22, 2000 Core Business Systems Executive Steering Committee meeting. The project was able to meet the criteria for exiting Milestone 3 and received approval to proceed to Milestone 4. Infrastructure projects will also be supported by business cases but without cost benefit information. Infrastructure projects are necessary because they help the agency meet standards or regulations, such as security, privacy and disclosure, or they provide some of the means for other projects to produce business benefits.

Question. How does IRS know what its fiscal year 2001 and later investments and associated costs are when the organizational restructuring, business process reengineering, system modernization architecture, and system development life cycle—all of which will guide the modernization—have not yet been completed or implemented?

Answer. IRS is aware of requirements for the fiscal year 2001 and later investments related to the known portfolio, based on the strategic business projects from the Business Systems Planning process and the "in-process" initiatives with required infrastructure and ongoing program management. IRS has slowed certain projects while accelerating program management, including completion of the enterprise architecture and deployment of the Enterprise Life Cycle (ELC). We have made substantial progress towards strengthening our program management capabilities. We are now working with contractors to obtain reliable cost and schedule estimates, and are confident in defining investments because we are so far along in those activities that are guiding modernization. However, there are certain unknowns at this point, such as the cost for the follow-on activity from business process reengineering; early estimates will be replaced by more reliable cost and schedule estimates as the activity moves to the milestone decision. In addition the IRS

has tasked Booz-Allen & Hamilton, the organizational modernization contractor, to assist the IRS in the vision and strategy phase, focusing on organizational design, location and business processes. This business decision has resulted in additional cost; we have worked with the contractor to obtain reliable cost and schedule estimates.

According to IRS, one of the projects to be funded from the information technology investment account is a commercial-off-the-shelf product to make certain complex tax computations. This, on the surface, appears to be an improvement to a legacy system. In addition, the congressional justification indicates that IRS used information technology investment account funds in fiscal year 1999 to procure automation hardware and software for the Taxpayer Advocate's Office and to procure additional automation equipment for customer service sites. (Note: IRS would like to clarify that the statement regarding the procurement of automation hardware and software for the Taxpayer Advocate's Office and additional automation equipment for customer service sites was inadvertently placed in the CJ under the ITIA category. The funding was actually from the ISY appropriation. IRS regrets any confusion.)

Question. What criteria or decision making tool does IRS use to determine whether its information systems projects should be funded from the information systems appropriation or from ITIA?

Answer. The ITIA funds the Business Systems Modernization Program; related projects create or enable major business process change, provide significant new technical functionality in support of business change or form an integral component of the Modernization architecture. These projects are generally long-term in nature.

The Information Systems appropriation is funding the business line (Tier B) investments which modify or enhance existing systems, or provide a new system to support a more limited implementation to a specific business unit (e.g., Tax Exempt and Government Entities Division (TE/GE) or Large and Mid-Size Business Division (LMSB)) which will not be receiving support from the ITIA modernization initiatives. These systems generally provide limited change in functionality or provide a bridge between the current and Modernization architecture.

When IRS submitted its initial expenditure plan in 1999, it requested funds to run its modernization initiatives through October 1999, at which time IRS planned to submit another expenditure plan. Due to delays in preparing the plan, IRS, in December 1999, submitted a request for $33 million to provide "stopgap" funding until the second expenditure plan was submitted for congressional approval. In a December 22, 1999, letter to IRS approving the $33 million request, the Chairman of the Senate Appropriations Subcommittee on Treasury and General Government directed IRS to, among other things, expedite completion of its modernization systems architecture and implementation of its Enterprise Life Cycle.

Question. As of March 1, 2000, how much had IRS obligated from ITIA? Please provide a list of specific accomplishments that have results from these obligations.

Answer. IRS has obligated $55.7 million from ITIA to support planning and initial architecture activities. IRS installed a base of program management capabilities; funded support of improvements to the governance structure which resulted in the establishment of Sub Executive Steering Committees responsible for strategic planning and oversight of major projects. We funded the PRIME Program Management Office to include executive management, communication, quality assurance, program level configuration management, finance and administration, contracting and procurement, process management, and project directors. Funding supported Enterprise Life Cycle (ELC) deployment and training.

IRS tasked the PRIME to begin establishing architectural approaches, principles and major projects for modernized systems development to clearly define how modernized systems will be designed, how they will fit together, what products will be used, and how/where those products will be applied. We tasked the PRIME to begin focusing on business integration goals, e.g., managing integration issues, partnering with integrated project teams, business operating divisions and business process owners, analyzing and assessing solutions based on best practices and maintaining the Blueprint for the business domains of change.

The Business Systems Planning process was installed, allowing IRS initially to identify five strategic projects that will deliver substantial taxpayer benefit in the next 3 to 5 years. Integrated project teams were formed to support the strategic projects, the near-term projects and infrastructure. IRS began design of an integrated technology infrastructure to support both the new and existing Business Systems Modernization projects. We also began refining the existing infrastructure projects to align with emerging priorities of the Program, and identified the need for a number of additional infrastructure projects to support those priorities.

Question. Has IRS used any of these funds to purchase equipment? If so, what was purchased and for what activities?

Answer. Of the obligated funds, $1.5 million for the Virtual Development Environment (VDE) project covered hardware purchases using ITIA funding. Funding purchased the development environment to support the Customer Communications project. VDE provides a software development environment enabling geographically distributed projects and developers access to standardized tools, information and services. Customer Communications, in fiscal year 2001, will deliver solutions that improve the taxpayer's level of access to Customer Service toll-free telephone systems through hardware and software upgrades, increased telecommunications bandwidth and call-handling capacity, the development of new business processes, and the introduction of new automated services.

In December 1998, IRS hired its PRIME contractor to "partner" with IRS in modernizing its systems. Since then, IRS has issued multiple task orders to begin work. In addition to the PRIME, IRS has other support contractors to assist with its modernization. GAO has reported in the past that IRS has not had a good track record in managing contractors (GAO/AIMD–96–140, Aug. 26, 1996). IRS has stated its intention to build the capability to effectively manage contractors before its starts acquiring modernized systems.

Question. When does IRS expect to have verifiable information technology acquisition management capabilities defined and implemented? Until then, how will IRS effectively manage the PRIME and other contractors?

Answer. One of our major deficiencies has been the lack of performance-based contracting, therefore IRS is restructuring the PRIME task orders to reflect clarified roles and responsibilities between the PRIME and IRS. These revised task orders will be reorganized to parallel the major program offices in order to allow for enhanced monitoring and accountability; the standard Statement of Work will require the acquisition teams to more clearly articulate their requirements, to specify deliverables and to more effectively outline acceptance criteria. Improvement of the acquisition management process and products resulting from this restructuring will evolve to performance-based contracting of ITIA-funded projects. In addition, IRS is completing the establishment of the Business Systems Modernization Office (BSMO) and focusing its management resources on implementing expanded procedures to track the progress of projects through earned value management, enforcing the Enterprise Life Cycle (ELC) and developing a central project management data system. As this effort to strengthen the program has proceeded, IRS has slowed most project level activity. IRS continues to manage the contract in a responsible manner.

Question. What steps has IRS taken to ensure that it has an adequate number of experienced personnel in place to provide acquisition and contract management?

Answer. The Business Systems Modernization Office (BSMO) is responsible for overseeing acquisitions for the Business Systems Modernization Program. BSMO has filled positions with individuals from within the Business Operating Divisions and Information Systems to ensure the right skill sets are available both managerially and technically. External hires have brought additional managerial and technical skills to augment the qualified resources already in place. We will continually assess and identify additional needed skill sets and we are building flexibility into the organization by realigning the BSMO to the Enterprise Life Cycle (ELC). Roles and will be established to allow BSMO to further identify needed skills in accordance with the ELC and to prepare to staff according to project and program needs. BSMO is working closely with IRS Contracting Officers assigned to the PRIME contract and Contracting Officer Technical Representatives directly support the Program Directors for BSM projects. BSMO is also working with subject matter experts from MITRE Corporation, the Jefferson Consulting Group and the Software Engineering Institute.

Question. Please provide information on the organization and FTEs devoted to overseeing acquisitions for this year and next.

Answer. Sixty-six (66) FTE are currently overseeing acquisitions related to the Business Systems Modernization Program in the Business Systems Modernization Office (BSMO) with planned growth to 75 FTE.

BSMO is currently staffed with personnel from Business Operations and Information Systems organizations supporting the Program through program management, which includes project planning, program control, quality control and budget; program coordination and integration, which includes process management, process integration and communication; and architectural engineering. In addition, Program Directors are important components of BSMO and are responsible for management oversight of Tax Administration (Vision and Strategy), Infrastructure, Near Term Release, Customer Account Data Engine (CADE) and Internal Management projects.

In June 1999, GAO reported that IRS' $35 million initial expenditure plan was the first in a series of incremental plans that IRS planned to prepare over the life

of the modernization and as such, specified modernization initiatives through October 31, 1999 (GAO/AIM/GGD–99–206, June 15, 1999). GAO also reported that, if implemented properly, the plan represented an appropriate first step toward successful modernization. However, GAO did express concern that the modernization roles and responsibilities of IRS, the PRIME contractor, and other support contractors had not yet been adequately defined. Accordingly, GAO recommended that IRS, in future expenditure plans, explain the nature and functioning of IRS' "partnership" with its contractors, including the respective roles and responsibilities of IRS and its contractors.

Question. Has IRS defined the nature and functioning of its "partnership" with the PRIME and other modernization contractors? If so, please describe. In providing your response, please explain each party's roles and responsibilities, including how IRS maintains an arm's length relationship in managing and controlling the contractors (including negotiating task orders and contracts), ensures that the interest of the government is adequately protected, and holds contractors accountable when they do not perform according to the task orders or contracts.

Answer. IRS and PRIME have recognized the lack of a well grounded partnering process. This risk, if unmanaged, would result in continued confusion over who is responsible for specific deliverables, roles, responsibilities and accountabilities. The risk has been identified and is being managed by the Business Systems Modernization Office (BSMO). Our risk mitigation plan currently reflects joint IRS/PRIME activities towards the establishment of shared operating disciplines between the two organizations to be completed in June 2000.

It is important to note the partnership concept was never intended to influence the way IRS is managing and controlling the PRIME contract. IRS is currently maintaining and will continue to maintain a formal government/contractor relationship in terms of managing the contract, including all negotiations, to ensure that the interest of the government is protected.

Also, the IRS is restructuring the PRIME task orders to reflect clarified roles and responsibilities between the PRIME and IRS. These revised task orders will be reorganized to parallel the major initiative Program Offices in the BSMO. This will allow for enhanced monitoring and accountability. As part of this effort, a standard Statement of Work will be promulgated. This standard will require the acquisition teams to more clearly articulate their requirements, to specify deliverables and to more effectively outline acceptance criteria. Improvement of the acquisition management process and products resulting from this restructuring will evolve to performance-based contracting of ITIA-funded projects.

IRS has had the PRIME contract in place for over 14 months. To fund modernization initiatives during this time, Congress has authorized IRS to obligate $68 million from ITIA. IRS has also used selected IS appropriations to fund modernization support contractors and IRS personnel.

Question. Since the PRIME contract was awarded, how much has been obligated and expended on modernization? Specifically, how much ITIA and IS appropriation funds have been obligated and expended on the PRIME contractor, other IRS support contractors (e.g., MITRE), and IRS staff dedicated to managing and overseeing modernization activities?

Answer. PRIME: ITIA obligations are $53.5 million and expenditures are $8.3 million; IS obligations are $10.4 million and expenditures are $10.4 million. MITRE: ITIA obligations are $1.4 million and expenditures are $1.3 million; IS obligations are $14.3 million and expenditures are $9.7 million. ISC: ITIA obligations are $.836 million and expenditures are zero; no IS obligations. IRS staff: 66 FTE ($3.9 million).

Question. What benefit and progress does IRS have to show for the modernization funds invested thus far? In your response, please address whether program office management structures and processes are completely in place and the office fully staffed and operational, if the Enterprise Life Cycle has been implemented and staff trained to use it, and whether the system modernization architecture and sequencing plan have been completed. In addition, what specific modernized systems does IRS plan to implement for the 2001 filing season?

Answer. The benefits and value realized to date include: establishment of a comprehensive business systems planning function to perform business process and reengineering analyses critical to facilitating the definition and prioritization of the IT investment portfolio; development, implementation, and pilot of program, project, and system life cycle management processes; completion of the conceptual framework for providing effective oversight of modernization program and projects; initiation of in-process milestone reviews of all near-term projects to determine their readiness to proceed with the next scheduled life cycle milestone activities; and reassessment of the delivery schedule and functionality of the near-term projects and

reduction in the scope of some strategic projects to ensure that required infrastructure is aligned so that infrastructure deliverables are in place in time to support required functionality (security, corporate access to databases, etc.).

The Business Systems Modernization Office (BSMO) will be fully established as an integral component in the governance of the Business Systems Modernization Program during fiscal year 2000. BSMO is currently staffed with personnel from Business Operations and Information Systems organizations supporting the Program through program management; program coordination and integration; and architectural engineering. Program Directors are responsible for management oversight of Tax Administration (Vision and Strategy), Infrastructure, Near Term Release, Customer Account Data Engine (CADE) and Internal Management projects. We continue to pursue realignments of personnel and publish competitive announcements to fill remaining vacancies.

Management processes, however, are not completely in place. We have recently completed a mapping of roles and responsibilities to the Enterprise Life Cycle (ELC) and identified significant gaps and overlaps, which we have corrected by realigning the IRS and PRIME program management offices with major ELC processes. The effect of this realignment will be to clarify the boundaries and the interfaces among and between the IRS and PRIME program management offices for major ELC activities.

The ELC is being implemented and deployed to the project teams, and we are now completing ELC deployment to BSMO personnel and key BSM program stakeholders. The Deployment Plan also calls for a completed BSMO Charter and Transformation Plan, with validated and integrated processes and procedures by July 7, 2000. The Plan will produce role-based training for each role and individual as a result of skills and needs assessments. While training, coaching and other initiatives will be ongoing throughout the year, the Deployment Plan will first prioritize roles/training classes to ensure that the right classes are developed and delivered as needed. We will perform a Baseline Performance Assessment against our Metrics Program in the fourth quarter to identify gaps and deficiencies, and prepare a Process Improvement Plan to resolve those gaps and deficiencies.

Over the last month, the Service has made significant progress in the development of the Enterprise Architecture. Detailed product definitions have been deployed, timelines have been built, and work has commenced to populate those products. To be useful, the Enterprise Architecture must be flexible and informed by current business strategies, priorities, and technology opportunities. The Service will deliver regular "point in time views" of the architecture. Blueprint 2000 will be the first of these documents and will be delivered no later than September 30, 2000. Included within Blueprint 2000 are those products necessary to define the near-term sequence of modernization and transition initiatives.

IRS plans to implement the Customer Communications project next spring, which will enhance the Customer Service automated call distributors (ACDs), install new centrally located voice response units to provide standard applications platform for telephone applications, develop a new automated tax refund software application, delivering both English and Spanish-language services, and add Automated Collection System (ACS) taxpayer calls to the list of telephone products using the Intelligent Call Routing capability.

We understand that IRS is still working to establish a fully functioning program management office for its modernization effort.

Question. What has accounted for the delays in establishing a fully functioning program management office?

Answer. Members of the Core Business Systems Executive Steering Committee initiated many discussions with key representatives of the Business Systems Modernization Office (BSMO) and the PRIME regarding the content and approach of the projects composing the Business Systems Modernization program. These discussions concentrated on current stakeholder requirements, filing season schedules, capacity, and program risks. In turn, these discussions generated a full assessment of the BSMO program and projects. We learned that there was insufficient capacity to do the work envisioned in the time allotted, program level processes and procedures were not yet mature enough to effectively control and manage the program, risks and risk mitigation steps had not been fully identified, and there was a danger in allowing the projects to continue moving ahead of the program.

As we implement a solution to prevent this from recurring, and establish goals and processes to ensure future successes, we are also revising and refining Program Office management structures and processes. As the first activity in the ELC Deployment Plan, we have recently completed a mapping of roles and responsibilities to the ELC and identified significant gaps and overlaps, which we have corrected by realigning the IRS and PRIME program management offices with major ELC

processes. The effect of this realignment will be to clarify the boundaries and the interfaces amongst and between the IRS and PRIME program management offices for major activities.

Question. What assurance does Congress have that IRS has spent the funds on modernization wisely if IRS does not yet have a fully functioning program office 14 months after hiring the PRIME contractor?

Answer. First, it is important to note that although there was a recent change in management direction, the work produced still provides a base from which to move forward and the related funds were well spent. The Enterprise Life Cycle (ELC) products completed or in process at the time of the revised strategy are being assessed as part of the milestone readiness reviews. Rescoping the projects while accelerating program activities will ensure that projects will not pass a milestone decision until all documents are in place and approved. Stronger, more mature program management will be ensured with processes being put in place to track progress through earned value management, enforcement of the ELC, a central project management function and a risk mitigation program.

When IRS submitted its initial expenditure plan in 1999, it requested funds to run its modernization initiatives through October 1999, at which time IRS planned to submit another expenditure plan. Due to delays in preparing the plan, IRS, in December 1999, submitted a request for $33 million to provide "stopgap" funding until the second expenditure plan was submitted for congressional approval. In a December 22, 1999, letter to IRS approving the $33 million request, the Chairman of the Senate Appropriations Subcommittee on Treasury and General Government directed IRS to, among other things, expedite completion of its modernization systems architecture and implementation of its Enterprise Life Cycle.

Question. What portion of the initiatives set forth in the initial expenditure plan were fully satisfied on time and within budget? For each not satisfied, explain the magnitude and the nature of the shortfall and the reason(s) for the shortfall.

Answer. At a high level, in the category of building management capability, we planned to spend $12 million and actually spent $15 million. The 25 percent variance was a direct result of funding the PRIME Program Management Office for 6 months rather than the three originally planned. In Supporting Business Goals, we planned to spend $16 million and actually spent $12 million. In general, project start up was slower than expected due to slippages in Business Systems Planning activity and delays in staffing teams. In Developing Enabling Infrastructure, we planned to spend $7 million and actually spent $8 million. While there were schedule slippages in the start up of infrastructure project activity, the cost variance mentioned was due to initiation of additional contractor activities required to bring projects in compliance with the lifecycle.

The initial expenditure plan reflected the start of the Business Systems Modernization planning phase. While the IRS has made substantial progress against the benefits and deliverables communicated in the plan, it is critical to note that the IRS has reassessed and revised the strategy for the program, recognizing the need to slow down project level activities while strengthening the program level activities. Lessons learned during this reassessment period are resulting in stronger and more disciplined program management practices.

This reassessment means, however, that the targets set for deliverables in the initial expenditure plan are being revisited. The Business Systems Modernization Office (BSMO) has initiated a program-wide milestone readiness review to determine the readiness of each project to proceed to Milestone 3 (system design). The major objectives of the review are to identify the gaps between Enterprise Life Cycle (ELC) work products and delivered work products, ELC required reviews and completed reviews, and delivered business cases and OMB Exhibit 300B instructions. A team of IRS, MITRE and CSC personnel will prepare a report of each project's readiness and recommended next steps. The report for the first milestone review for STIR, CC and e-Services was completed March 2000. Other reviews are being scheduled as part of ongoing project/program monitoring procedures.

Question. What progress has IRS made in completing the architecture and implementing its Enterprise Life Cycle? When precisely does IRS plan to have them completed? Does IRS envision moving forward with any of its projects before these two initiatives are completed? If so, please explain the risk of proceeding without their completion and how these risks are being effectively mitigated?

Answer. Over the last month, the Service has made significant progress towards the development of the Enterprise Architecture. Detailed product definitions have been deployed, timelines have been built, and work has commenced to populate those products. To be useful, the Enterprise Architecture must be flexible and informed by current business strategies, priorities, and technology opportunities. The Service will deliver regular "point in time views" of the architecture. Blueprint 2000

will be the first of these documents and will be delivered no later than September 30, 2000. Included within Blueprint 2000 are those products necessary to define the near-term sequence of modernization and transition initiatives.

The Service has made significant progress towards the development and deployment of the Enterprise Life Cycle (ELC). Specifically, we have completed the Business Case Procedure, which provides detailed "how to" instructions on preparing business cases for all five ELC milestones, and integrated those instructions with the activities and work products that project teams will be performing/producing. We will complete the rest of the Investment Decision Management (IDM) procedures and the Review and Acceptance process for inclusion in the Process Access Library (PAL) by July 2000.

The ELC is being implemented and deployed to the project teams, and we are now completing ELC deployment to Business Systems Modernization Office (BSMO) personnel and key Business Systems Modernization program stakeholders. The Deployment Plan also calls for a completed BSMO Charter and Transformation Plan, with validated and integrated processes and procedures by July 7, 2000. The Plan will produce role-based training for each role and individual as a result of skills assessments and needs assessments. While training, coaching and other initiatives will be ongoing throughout the year, the Deployment Plan will first prioritize roles/training classes to ensure that the right classes are developed and delivered as needed. We will perform a Baseline Performance Assessment against our Metrics Program in the fourth quarter to identify gaps and deficiencies, and prepare a Process Improvement Plan to resolve those gaps and deficiencies.

IRS is moving forward with the fiscal year 2001 Release. To avoid any development not in compliance with the latest IRS Blueprint, the fiscal year 2001 Release is limited to the first release of Customer Communications, which is consistent with the architectural principles of Blueprint 1997.

IRS will move forward with projects that are more infrastructure oriented and will not be significantly affected by the areas that will undergo revision in Blueprint 2000. The major differences between the Modernization Blueprint published in 1997 and Blueprint 2000 will be in the Business Process, Organization and Location areas. Also, Blueprint 2000 will comply with the definitions in the ELC. Projects that are primarily technology or infrastructure foundations will continue. These include the Customer Account Data Engine, the Security and Technology Infrastructure Release and some components of Customer Communications.

Question. What is delaying IRS from submitting its second expenditure plan? Given that the $33 million provided in December 1999 was supposed to fund the modernization through February 2000, how does IRS plan to fund the program past this timeframe?

Answer. The second expenditure plan requesting the release of $176.3 million was delivered to Congress on March 10, 2000. This plan reflects spending requirements beginning April 1, 2000. Except for $6.3 million planned for the Customer Communications Aspect upgrades, the $33 million provided in December 1999 is entirely committed.

In January 2000, IRS began reassessing its modernization program management structures and approaches. In addition, IRS has rotated and re-assigned key personnel.

Question. What was the cause of this reassessment? What were the results of IRS' reassessment? What changed as a result? What delays will this portend for the modernization initiatives underway? What is the status of the modernization program, including the initiatives funded thus far? What is the strategy and associated timeline for moving ahead, and when can we expect to see the next expenditure plan?

Answer. Members of the Core Business Systems Executive Steering Committee, over the past several months, initiated many discussions with key representatives of the Business Systems Modernization Office (BSMO) and the PRIME regarding the content and approach of the projects composing the Business Systems Modernization Program. These discussions concentrated on current stakeholder requirements, filing season schedules, capacity, and program risks. During these discussions, shortfalls in our approach were identified and the lessons learned documented. These discussions, together with the lessons learned and recent directives from oversight bodies, resulted in a revised program strategy and redirection of some efforts.

We learned that there was insufficient capacity to do the work envisioned in the time allotted. Neither were program level processes and procedures mature enough yet to control and manage the program effectively. Nor had risks and risk mitigation steps been fully identified, although there was danger in allowing the projects to continue moving ahead of the program.

Therefore, IRS is implementing a near-term strategy to address lessons learned and oversight guidance. The strategy is to deliver near-term customer service improvements during the 2001 filing season, accelerate the establishment of the BSMO, assess the current status of the entire program, enforce Enterprise Life Cycle (ELC) requirements program-wide, update the Blueprint, improve coordination with the new IRS business organizations and revise the PRIME task orders. Specific program management changes include:

—perform a program-wide milestone readiness review to determine the readiness of each project to proceed to Milestone 3 (system design); identify gaps between ELC work products and delivered work products, ELC required reviews and completed reviews, and delivered business cases and OMB Exhibit 300B instructions;

—enforce the ELC milestone standards, rescheduling the strategic business systems projects (except for Customer Account Data Engine (CADE)) back to pre-Milestone 2 (concept definition) and focus on the BSMO enforcing a stricter ELC process that demands all artifacts at each decision milestone;

—construct Blueprint 2000 and align with new business organizations, incorporating into Blueprint 2000 the needs of the new business organizations for Filing Season 2001 and Filing Season 2002 and employ the latest, most efficient technical solutions to the portfolio of projects under consideration; and

—revise the PRIME task orders to reflect clarified roles and responsibilities between the PRIME and the IRS and improve the acquisition management process and products to evolve to performance-based contracting of ITIA-funded projects.

As we are revising the PRIME task orders, we are limiting spending to only the PRIME Program Management Office, the Customer Communication project for fiscal year 2001 and architecture-related activities. IRS has just received approval from the Subcommittee on Treasury, Postal Service, and General Government for the release of $148.4 million in ITIA funding against the fiscal year 1998 availability. These funds will be applied to the definitized task orders as directed by the Subcommittee in its approval letter. Before September 30, 2000, IRS plans to request additional releases of ITIA funding to support post-Milestone 3 activity for the Integrated Financial Systems and for other Business Systems Modernization projects reaching various milestone decision points, for architectural engineering and for ongoing program management.

Question. In light of the reassessment, what changes has IRS made to strengthen its readiness and capability to modernize?

Answer. The IRS will to continue to make progress towards the Business Systems Modernization, as directed by Congress, by focusing on completing planning efforts for Phase I of Business Systems Modernization, completing the deployment of the Enterprise Life Cycle (ELC), completing the architectural blueprint efforts including the publication of Blueprint 2000, beginning development and deployment activities focused around filing season 2001, and completing the procurement, integration and deployment of a new examination tax calculating tool.

One of the core activities to strengthen our readiness and capability to modernize will be the maintenance and update of the action plan which resulted from the program-wide milestone readiness review. This review determined the readiness of each project to proceed to Milestone 3 (system design); identified gaps between ELC work products and delivered work products, ELC required reviews and completed reviews, and delivered business cases and OMB Exhibit 300B instructions. In addition, the enforcement of the ELC milestone standards, rescheduling the strategic business systems projects back to Milestone 2 concept definition (except for Customer Account Data Engine (CADE)) and focus on the Business Systems Modernization Office (BSMO) enforcing a stricter ELC process that demands all artifacts at each decision milestone will add additional rigor and discipline to our Modernization Program. The construction of the Blueprint 2000 and its alignment with new business organizations, incorporating the needs of the new business organizations for filing season 2001 and filing season 2002 and employing the latest, most efficient technical solutions to the portfolio of projects under consideration, will provide a cohesive, over-arching vision of how the new processes can serve their customers. Last, but of no less importance to the Program, the revision of the PRIME task orders to reflect clarified roles and responsibilities between the PRIME and the IRS will improve and add more structure to the acquisition management process and products to evolve to performance-based contracting of ITIA-funded projects.

In IRS' fiscal year 2001 request ($119 million) and fiscal year 2002 advance request ($375 million) for ITIA funds, IRS is proposing new legislative conditions that it must meet in order to obtain congressional approval to obligate these funds from the account. These conditions differ from those in the fiscal year 1998 and 1999 ap-

propriation acts. Under the existing conditions, for example, IRS' expenditure plan request has to, among other things, implement the Modernization Blueprint and comply with applicable federal acquisition regulations. Under IRS' proposal, this and other conditions would be eliminated. Instead, IRS would have to submit an expenditure plan to Congress that, among other things, meets the Office of Management and Budget's capital planning and investment control requirements.

Question. Please describe the conditions that would be eliminated and those that would be added.

Answer. The appropriation review language eliminates the following conditions that are present in the language for the fiscal year 1998 and fiscal year 1999 appropriations: Provide a plan for expenditure that 1) implements the IRS Modernization Blueprint submitted to Congress on May 15, 1997; 2) meets the requirements of the May 15, 1997, IRS SLC (Systems Life Cycle) program; and 3) complies with acquisition rules, requirements, guidelines, and systems acquisition management practices of the Federal Government.

The appropriation review language also clarifies two original conditions: (1) the condition on meeting the OMB Information Systems Investment Guidelines established in the fiscal year 1998 budget has been clarified by the focus on the OMB Circular A–11, Part 3; and (2) the condition on submitting a plan for approval by IRS Investment Review Board (IRB), Office of Management and Budget (OMB), IRS Management Board and for review by GAO, has been reworded to reflect review and approval by Treasury and OMB and review by GAO.

No additional conditions have been incorporated in the language.

Question. What is IRS' rationale and justification for these new conditions? Is IRS encountering problems meeting the existing conditions? If adopted, would the new conditions apply to the previously appropriated ITIA funds? If yes, why?

Answer. Part of IRS' rationale for the new conditions is that the two major focus areas of those conditions, implementation of the Modernization Blueprint and the Enterprise Life Cycle (ELC), will be completed and repeatable processes, thereby obviating the need for specific reference in the language for the fiscal year 2001 request or future requests. The revisions made to the conditions are not based on problems in meeting the existing conditions. On the contrary, given IRS' revised strategy of accelerating program activities while slowing project activities, IRS is confident that it will be able to demonstrate to oversight bodies that we have mature, disciplined practices in place to enforce the ELC and ensure strict adherence to the Modernization Blueprint.

In addition, adoption of the requested language will help to streamline the process for requesting release of ITIA funding, allowing BSMO to manage the contracts more effectively. Finally, incorporating the OMB Circular A–11, Part 3, into the language serves to subsume some of the existing criteria while ensuring that investment decisions are tied to the latest standards and guidance on IT investments.

The original conditions will apply to all ITIA spending plans submitted to Congress, requesting release of funding appropriated in fiscal year 1998 and fiscal year 1999. IRS' budget request for fiscal year 2001 includes $145 million for the fourth year of a 5-year Earned Income Tax Credit (EITC) compliance initiative, which is funded outside the discretionary spending caps. The initiative was begun in response to an IRS study, released in April 1997, which showed that of $17.2 billion in EITC claimed by taxpayers for tax year 1994, $4.4 billion (or about 26 percent) was over-claimed. In fiscal year 1999, about 2,400 FTEs were devoted to the EITC initiative, and IRS estimates that about 2,100 FTEs will be expended in both fiscal years 2000 and 2001. According to IRS, the initiative includes expanded customer service, strengthened enforcement, and enhanced research.

Question. Of the 2,400 FTEs in 1999, how many were devoted to (1) customer service, (2) enforcement, and (3) research? Please provide a similar breakdown for the estimated 2,100 FTEs in fiscal years 2000 and 2001.

Answer. In fiscal year 1999 resources devoted to these areas were as follows:

Customer Service	1,368
Enforcement	666
Research	28
Other	323
Total	2,385

Note: other FTE includes Chief Communication and Liaison, Submission Processing, Taxpayer Advocate, Walk-In, Taxpayer Education, Counsel, Appeals, Information Systems, and Electronic Tax Administration.

The estimated FTEs earmarked in fiscal years 2000 and 2001 are as follows:

Customer Service	1,107
Enforcement	651
Research	33
Other	289
Total	2,083

Note: other FTE includes Chief Communication and Liaison, Submission Processing, Taxpayer Advocate, Walk-In, Taxpayer Education, Counsel, Appeals, Information Systems, and Electronic Tax Administration.

Question. What will happen to these FTEs once the initiative is over and the related outside-the-caps funding ends?

Answer. None of these employees will lose their jobs. We will maintain an EITC compliance program-either from operating level resources or a separate appropriation-after the outside-the-caps authority ends.

Congress is being asked to continue funding this initiative even though congressional justification for fiscal year 2001 contains no information on any results realized over the past 3 years.

Question. Please provide, with as much specificity as possible, information on the results of this compliance initiative to date. We are specifically interested in such things as the amount of improper EITC payments that were identified and stopped as a result of IRS' efforts and any quantifiable evidence of improved compliance as a result of this initiative.

Answer. The compliance initiative has allowed the IRS to improve awareness of the EITC eligibility process by enhancing local marketing and promotional efforts through IRS district offices. We have partnered with tax professionals to ensure they are aware of new tax law changes and due diligence guidelines through mailouts, internet bulletins, and publications, such as the 2000 EITC Tax Professional Kit and CD–ROM. In addition, the IRS has conducted 9,000 "face-to-face" educational and outreach visitations with practitioners that prepare high volumes of EITC returns.

In fiscal year 1998, the first year of the EITC compliance initiative, a total of $977 million was protected and collected through the EITC initiative. (Protected revenue refers to refund dollars prevented from being issued prior to the start of examining an EITC claim for refund, and includes both EITC amounts and changes in other tax liabilities) This was accomplished through issuing over 600,000 math error notices and opening over 800,000 cases for examination. In fiscal year 1999, the second year of the EITC initiative, a total of $1.1 billion in revenue was protected and collected through the EITC initiative. This was accomplished through completing nearly 600,000 examinations and opening nearly 300,000 returns claiming EITC for examination. We also issued over 400,000 math error notices.

Question. Why did the congressional justification not include any such specifics?

Answer. Although the congressional justification did not include specifics on the amount of improper amount of EITC payments that were identified and stopped as a result of IRS efforts in the accomplishments of the Earned Income Tax Credit (EITC) Compliance Initiative, IRS does report this information on a quarterly basis in the IRS Tracking EARNED INCOME TAX CREDIT APPROPRIATION report. The report is provided each quarter to the Chairs of the Senate and House Appropriations Committees.

The congressional justification says that IRS intends to "measure the effects of Servicewide programs on compliance levels for the EITC-eligible populations." IRS has said that it is going to use its study of tax year 1997 EITC returns as a baseline compliance measure.

Question. When does IRS expect to have the baseline data? Why is IRS not using the results of the tax year 1994 study cited above as its baseline?

Answer. The IRS is in the process of perfecting the 1997 study data. When these data has been fully developed and analyzed, a report will be issued.

Prior to 1998, the Criminal Investigations Division had primary responsibility for conducting EITC compliance studies. When funding for the EITC compliance initiative began in fiscal year 1998, responsibility for the EITC compliance studies was assigned to the Assistant Commissioner for Research, which traditionally conducts compliance research for the Service. With the shift in responsibility to Research, there were changes to the methodology that was used in the TY 1994 studies. The change in methodology makes it difficult to interpret and compare the differences between the TY 1994 study and subsequent studies.

Question. When does IRS expect to have data to compare to the baseline to show the overall effect of this initiative on EITC compliance? Why, in the third year of a $100 million plus initiative doesn't IRS have such information?

Answer. Examinations on tax year 1999 returns have recently begun.

The fiscal year 1998 study was conducted by auditing tax year 1997 returns filed in 1998. The audits were completed in 1999. The results are currently being reviewed and analyzed for inclusion in a report on EITC Baseline Compliance.

The chart on page SD–3 of IRS' congressional justification shows a proposed increase of 2,528 full-time equivalent positions for fiscal year 2001. All of that increase is in the "policy/program professional staff" category.

Question. Normally, with an increase in professional staff, you would expect to see some increase in support staff, such as clerks and secretaries, but the chart shows no increase in those areas. Why?

Answer. These 2,528 positions will be spread to IRS field offices throughout the nation. The staffing increase will be assigned primarily to front-line positions in direct support of each program. Many of the positions are permanent professional employees with specialized skills in such areas as tax exempt bond examinations or securing payments from delinquent taxpayers. These field offices, for the most part, have support staff in place. It is anticipated that the small increase in any individual office will not require significant additional support staff.

IRS says that its workforce has decreased by more than 16 percent since 1992, while handling significant workload increases due to tax law changes and customer demand. On the other hand, IRS acknowledges an increasing reliance on contractor support and expertise.

Question. What has been the level of contractor support in FTEs for 1998, 1999, and 2000? What is the projected level of support for 2001? In providing this information, please distinguish between information technology-related contractor support and contractor support that is not information technology related.

Answer. Information concerning the level of contractor support in FTE for fiscal years 1998, 1999 and 2000 is not available. In general, the Service does not mandate numbers of FTEs that contractors must use to perform work required under a contractual arrangement. This methodology in contract management has resulted from several changes in Federal contracting regulatory and policy guidance. These changes include the preference for performance-based changes in Federal contracting regulatory and policy guidance, and increased emphasis on acquiring commercial items and adopting commercial practices. One of the basic principles of performance-based concepts is to describe the work to be performed in terms of "what" is the required output or desired outcome rather than "how" the work is to be performed or specifying the level-of-effort to be applied. The commercial item's acquisition methodology does not include the old requirements for voluminous and detailed cost and pricing data to address every aspect of the contractors' proposals, which often included the number of personnel to be used to satisfy the requirements. Again, the overall emphasis in these cases is on "results" rather than detailed descriptions of "how to." Consequently, the information requested is not available because it has not been specifically collected or tracked.

The amounts approved for fiscal year 1998, fiscal year 1999, and fiscal year 2000 and requested for fiscal year 2001 for operational support contracts are as follows:

[In millions of dollars]

1998	128.7
1999	157.2
2000	209.5
2001	271.2

The amounts spent for operational support contracts (OSC), Information Systems (ISY) and Information Technology Investment Account (ITIA) funded information-technology related contracts are as follows:

[In millions of dollars]

Fiscal year	OSC	ISY	ITIA
1998	128.7	[1] 311.8	.....
1999	157.2	[1] 454.4	25.8
2000	209.5	[1] 331.6	[2] 268.4

[In millions of dollars]

Fiscal year	OSC	ISY	ITIA
2001	271.2	[1] 284.7	[3] 312.0

[1] Fiscal year 1998 from month 15 actual; fiscal year 1999 from month 16 actual; fiscal year 2000 from current financial plan; fiscal year 2001 from ISB Congressional Justification.

[2] $29.9M already spent in fiscal year 2000. Will spend an additional $12.2M against released money in fiscal year 2000. Will spend additional $226.3M against next ITIA releases in fiscal year 2000. The total anticipated expenditure for fiscal year 2000 is $268.4M. The $226.3M assumes release of $176M in April and a follow-on request in July.

[3] The $312M assumes $119M appropriation request is approved by Congress.

Question. How does this level of support offset the reported reduction in IRS's workforce (i.e., to what extent has contractor staff replaced IRS staff)?

Answer. Contractor support for IS projects has, over the long term, replaced some IS personnel. After the IRS experienced a sustained reduction of FTEs starting in 1996, the IRS increased the number of contractors for Information Technology projects, to fill in the work of maintaining existing systems and operations. Contracting also allows the IRS to acquire needed state-of-the art expertise for short-term or transitional efforts.

Other than Information Systems, much of the work in the Operational Supports Contracts is for new work for which we did not have staff or expertise (such as ETA Advertising) or increased workload (Beckley Accounting Support).

The level of contractor support does not offset the reported reduction in IRS' workforce. Part of the reason for the decline in the IRS workforce is because funding was reduced for FTEs in essential functional areas to pay for the services provided by contractors.

In July 22, 1999, testimony before the Subcommittee on Oversight of the House committee on Ways and Means, the Commissioner, among other things, discussed IRS' implementation of certain provisions of RRA 98, including the provision related to third party notices. That provision required that IRS give notice to taxpayers whenever it might be contacting a third party, such as a bank, about the taxpayers situation. The Commissioner noted that the notice IRS prepared to satisfy that provision "was sent to many more taxpayers than needed" and "were poorly written, causing undue concern to many taxpayers. On February 14, 2000, IRS announced that it was replacing the problem notice with 15 new, more clearly worded, letters and notices that were designed for specific situations facing taxpayers.

Question. Did the development of a poorly written notice and the decision to send it to many more taxpayers than needed reflect a failure of IRS to follow established procedures, a weakness in those procedures, or a combination of both?

Answer. The implementation of RRA 98 section 3417 proved to be a major challenge for learning to properly and accurately apply new and complex statutory provisions to very sensitive taxpayer situations. The learning process required that we identify the specific situations where third parties could be contacted in order to understand the overall impact of the legislation. In negotiating this difficult learning curve we had to address a continuing stream of legal and policy issues.

One issue involved the development of a letter that was intended to provide all taxpayers with the advance notice required by the statute. To ensure that all appropriate taxpayers received the notice, procedures were established to send the letter out whenever there was a possibility of a third party contact. This blanket approach assured our compliance with the law during the initial implementation period, while we negotiated the learning process described above.

Fortunately, a great deal of progress has been made since the initial implementation. New letters have been developed and implemented and guidance and training materials have been provided to all employees. We are continuing to work through the legal issues and will be publishing draft regulations shortly which will help to clarify the requirements of the legislation.

Question. What controls were in place then to ensure that notices were clear and properly directed? What was the Taxpayer Advocate's role in the notice preparation and/or review process? What was the role of the IRS executive known as the Notice Gatekeeper?

Answer. The following procedures were in place for new or revised notices/letters:

—The notice owner develops or revises their letter/notice. Employees in the Taxpayer Correspondence Branch do not normally own notices/letters.

—The notice owner coordinates the notice/letter with all pertinent stakeholders (i.e. Chief Counsel and affected operations units). If a new notice/letter is created, the notice owner obtains a number for the notice/letter.

—The notice owner sends to the Taxpayer Correspondence Branch the final version of the notice/letter along with a Form 1767 and Notice Gatekeeper Form.

—The Notice Gatekeeper reviews the Gatekeeper form for various reasons, one being the impact on telephone operations. The Correspondence Clarity analyst reviews the notice/letter for clarity, makes recommended changes, and coordinates those changes with the notice/letter owner.

—After the notice owner and Correspondence Clarity analyst agree on the changes, they sign the notice/letter. Then the notice owner takes notice/letter to the appropriate area to produce and issue the notice.

The notice/letter owner has responsibility for ensuring that notices and letters are properly directed.

The Taxpayer Advocate Service was not included in the initial implementation process; however that office was included in the subsequent implementation.

The Notice Gatekeeper responsibilities include:

—Review of the notices/letters to determine the effect of the notices/letters on telephone operations;

—Review and approval of notices/letters for expedited review, which is the same as a limited review of notices/letters. If issues arise that are not resolved between the notice owner and the clarity analyst, the Notice Gatekeeper and an appropriate representative from the owner's area will make the final decision. If more than one functional area is involved, the Notice Gatekeeper will call a meeting of the Correspondence Council (directors or designees from all functional areas that are affected by the notices) to resolve the issue.

—After the owner's concurrence, the Notice Gatekeeper has the final approval signature.

The Notice Gatekeeper has numerous other responsibilities; however, they do not directly apply to the development or revision of notices/letters.

Question. How, if at all, have the controls, including the roles of the Taxpayer Advocate and the Notice Gatekeeper, been revised since then?

Answer. The Notice Gatekeeper established an integrated project team to manage all ongoing notice projects. This team brings cross functional parties together to evaluate the projects and handle significant issues. In addition, a Notice Governance Council at the Assistant Commissioner level was established to provide oversight to the integrated project team. This high-level body provides guidance to and acts as a sounding board for the team. The Taxpayer Advocate's Office has representation on both councils.

A separate unit has also been established within the Taxpayer Advocate Service to better focus on proactive, burden reduction oversight issues. This organization is not, as yet, involved in the notice review process.

IRS has four pilot sites dedicated to looking behind the results of customer satisfaction surveys. These four sites are to determine the best way to integrate survey data into how IRS does business on a daily basis.

Question. How were those four sites chosen?

Answer. The IRS considered two primary factors when selecting the four field offices that would pilot the use of customer satisfaction survey data:

—Did the office have sufficient survey data to begin identifying underlying causes of taxpayer dissatisfaction?

—Did the office have sufficient staff and resources available to dedicate to a 9-month project on customer satisfaction?

Volunteers for the pilot projects were also solicited. If sites that volunteered met the two criteria listed above, they were considered potential pilot sites. Using this information, sites were selected from across the country to better represent the different customers served by the IRS. The final site selections were made by senior IRS leadership.

The four pilot sites are:

—North Central District (working to improve service to Examination customers)

—Ohio District (working to improve service to Employee Plan and Tax Exempt Organization Determination Request customers)

—Southwest District (working to improve service to Collection customers)

—Kansas City Service Center (working to improve service to Service Center Examination customers)

Question. How will the survey results be used to improve walk-in and telephone service?

Answer. Later this year, IRS will examine the results of the walk-in and telephone service surveys to make recommendations regarding ways to improve service to taxpayers.

Throughout its congressional justification, IRS list customer satisfaction measures for the following activities: Automated Collection Systems, Toll-free Telephone Assistance, Service Center Examination, Appeals, Walk-in, Exempt Organizations Determinations and Examinations, and Employee plans Determinations and Examinations. In each case, IRS' goal for fiscal year 2001 is the same as its plan for fiscal year 2000.

Question. Why would IRS not be anticipating improved levels of satisfaction in those areas?

Answer. Fiscal year 1999 was the first year that Customer Satisfaction was used as a balanced measure by the IRS. Because of the newness of this measure and the uncertainty of how actions may impact future results, it was difficult to project future year goals. In setting goals for fiscal year 2000 and fiscal year 2001, organizations set targets that reflected either slight increases or a rollover from the fiscal year 1999 results. The IRS needs additional experience using this measure, including time to conduct more in-depth analysis of the correlation between individual elements within each survey and the overall satisfaction score, in order to more confidently project future year results. Using fiscal year 2000 customer satisfaction results and more detailed analysis of fiscal year 1999 results, organizations will be expected to review and modify, as appropriate, the fiscal year 2001 goals when the final performance plan for fiscal year 2001 is submitted as part of the fiscal year 2002 Congressional Justification.

In an April 1999 report on IRS' customer service management strategy, GAO found that prioritizing many suggested short-term improvements initiatives would be a necessary first step in managing the improvements (GAO/GGD–99–98, Apr 30, 1999).

Question. Please provide an update on the status of efforts to implement 157 short-term customer improvement initiatives-identified in January 1999 at the conclusion of a priority-setting process? And

How will IRS determine the costs of implementing these initiatives and what improvements have resulted?

Answer. The implementation of near-term customer service improvement initiatives has been and continues to be a high priority for the IRS. To oversee and ensure the successful implementation of these initiatives, the Service established the Taxpayer Treatment and Service Improvements Program Office in the spring of 1998. To date, many of the initial short-term customer service improvement initiatives (emanating from the President's National Partnership for Reinventing Government [NPR] and other prominent sources) have been implemented with several more significant initiatives scheduled for implementation this year. Examples of current accomplishments are depicted in the table below and shown respectively within the Service's three goals.

Service to each	Service to all	Productivity through a quality work environment
Improved telephone service 7x24 coverage Call routing implementation Enhanced electronic filing and payment 941 Tele-File (Small Businesses filing by phone) Credit Card Payments for balances due Expanded Walk-in hours; evenings and Saturdays Improved Power of Attorney processing Enhanced education communication with small businesses and small business organizations Conducted local and national Problem Solving Days	Implemented penalty reform by notifying first time filers of waived penalties and providing information on prevention Expanded Low Income Taxpayer Clinics	Provided enhanced electronic research capabilities for customer service reps Developed and implemented customer service training Elevated grade levels of Customer Service positions Implemented pilots/tests to address issues identified in Customer Satisfaction Surveys

Service to each	Service to all	Productivity through a quality work environment
Increased accessibility to and simplification of alternative payment methods		

Customer service improvements scheduled for implementation by 1/1/2001 include centralizing the audit reconsideration process, continuing the expansion of small business outreach, increasing the oral abatement authority of front-line tax assistors, providing multi-lingual walk-in service via contracted telephone translation support, and expanding business hours of audits.

The Service has implemented, and continues to implement, the noted projects primarily within its base budget. Although funding of $40 million (and 500 FTE) was provided in fiscal year 2000 for several of the Reform and Restructuring Act of 1998 (RRA 98) provisions, most of these customer service improvements and the many RRA 98 provisions received no additional funding. While the Service has not specifically tracked the cost of implementing each initiative, it is apparent through the realignment of resources, that there has been a tradeoff within the IRS. The ramifications of such tradeoffs have yet to be determined. However, it is clear that with the implementation of the identified initiatives the IRS has and continues to significantly reduce taxpayer burden while serving the nation's taxpayers in a more effective, efficient, and convenient manner.

Attached is an excerpt from the Commissioner's 2000 publication of "Modernizing America's Tax Agency." The material conveys additional information on completed customer service initiatives and RRA 98 provisions.

One improvement initiative was to have an intensive agency-wide special training program to introduce employees to the new customer service approach.

Question. Has agency-wide customer service training been completed? What were the results of employee assessments of the quality and usefulness of the course?

Answer. Course 8530, entitled "IRS Balanced Measurement System: Customer Satisfaction Strategies," was created to support the Service's focus on providing top-quality customer service to taxpayers, and the requirements described in the IRS Restructuring and Reform Act of 1998. The course is being delivered to over 60,000 front-line IRS employees with direct taxpayer contact. The course first rolled-out to the field in July 1999, starting in the Examination function. To date, training has been delivered to the following functions: Examination, Customer Service, Collection, Submission Processing, and Appeals. Over 61,400 front-line employees have received course 8530 training. The development and implementation of a version of course 8530 for the Taxpayer Advocate function is the last course 8530 training initiative, and should be completed in the near future.

Course 8530 has been rated very highly by trainee assessments. The course format is interactive and readily encourages student participation, which many employees felt added to the overall quality of the course material. Employee feedback also indicated that the function-specific design of each version of course 8530 improved the usefulness of the course.

Question. What was the cost to deliver this training? Please indicate what elements are included in your basis for calculating the cost (e.g., materials, salaries for course managers, instructors).

Answer. To date, the cost incurred to develop and deliver Customer Satisfaction Strategies training is $3.5 million. This includes $1.4 million in contract costs for the design and development of customized training for five separate operating functions having taxpayer interaction (Examination, Collection, Customer Service, Submission Processing, and Appeals) and the costs of training materials, pilot classes, and Train-the-Trainer sessions. The balance of $2.1 million represents the costs of field delivery, including travel expenses, and the rental of off-site space.

Question. Do you plan to assess whether the training course had an impact on the quality of customer service provided? Why or why not?

Answer. We expect to see the impact of this and other training in improved results in the customer satisfaction and employee satisfaction portions of the balanced measures. IRS managers are provided training on how to use balanced measures in a new course, "IRS Balances Measurement Approach to Leadership." Balanced Measurement of Performance is one of the five "levers of change" IRS is using in its effort to change the agency's culture to support the new mission that gives equal weight to customer service and compliance. The balanced measures are designed to link directly to IRS' three strategic goals of service to each taxpayer, service to all taxpayers, and productivity through a quality work environment.

A critical aspect of establishing an appropriate balanced measurement system is establishing the measures based on what IRS needs and wants to measure in order to achieve its strategic goals and mission, rather than simply what is most easily measured. This balanced measurement system must define quantities that are relevant to each strategic goal and that indicate progress on all three goals.

Also critical to the measurement systems is following the guiding principle that measures must be aligned at all levels of the organization, from the top to frontline employees. This binds the organization around a common goal, rather than creating conflict and mistrust. IRS has made progress in developing and implementing balances measures, but given the magnitude of this challenge it admittedly has encountered problems. At this operational level, IRS is measuring customer satisfaction, employee satisfaction and business results.

Question. What would constitute a balance between these sometimes competing goals? How will IRS know when the measures are in balance?

Answer. The elements of the Balanced Measurement System—Customer Satisfaction, Employee Satisfaction, and Business Results—each represent an important aspect for assessing progress toward the organization's goals. Any activity involving balanced measures, such as setting goals, assessing progress, and evaluating results, must consider all three elements. While there is no formula to determine equilibrium among the measures, the impact of the actions taken by the IRS will be reflected in the measurement results and will help shape future plans and strategies for improving overall performance.

In any given year, the mix of improvement programs and strategies proposed is likely to cover all three elements—customer satisfaction, employee satisfaction, and business results. The purpose of the IRS' balanced measurement approach is to ensure that each element is given due consideration. Working within a framework of limited resources, the senior management team must address some of the most pressing and critical issues by prioritizing and then selecting a mix of strategies and programs aimed at achieving overall progress toward the mission and strategic goals of the IRS.

The second IRS strategic goal is service to all taxpayers, with objectives to increase fairness to all and increase overall compliance. IRS must apply the law with integrity and fairness to all, so taxpayers who do not comply are not allowed to place a burden on those who do comply. This aspect of IRS service is important both to protect revenues flowing to the Treasury and as a matter of fundamental fairness.

Question. Please explain the linkage between the goal of "service to all"—increasing fairness to all and increasing overall compliance—and the quality and quantity measures being used for that strategic goal.

Answer. The IRS is developing both strategic and operational balanced measures tied to its strategic goals. The strategic measures will be used to assess the organization's overall performance in delivering on the mission and strategic goals. The strategic measure of "service to all" will be a measure of voluntary compliance that the IRS is working on developing but which is currently not in place. This measure will allow the IRS to assess the impact of its programs and services on the overall level of compliance by taxpayer segments.

The operational measures will be used the assess the effective execution of particular components of the organization (e.g., the compliance program in Wage & Investment, the customer assistance program in Small Business/Self Employed.) The Operational Measures of "service to all" are measures of the quantity of cases/events and the quality of those cases/events.

—The quantity measures provide information about the volume and mix of work products and services provided by IRS operating units. This information will assist the organization in assessing and making future decisions about the levels of compliance and customer assistance activities necessary across taxpayer segments in order to assist taxpayers in meeting their tax responsibilities and to also address compliance issues when appropriate.

—The quality measures provide information about how well IRS operating units developed and delivered their products and services. The quality measures help the organization ensure fairness to all by regularly assessing such factors as whether IRS personnel devoted an appropriate amount of time to a matter, properly analyzed the issues presented, developed the facts regarding those issues, correctly applied the law to the facts, and complied with statutory, regulatory and IRS procedures, including timeliness, adequacy of notifications and required contacts with taxpayers.

The third IRS strategic goal is to increase productivity by providing a quality work environment for its employees. IRS must not only provide top quality service to taxpayers, but it must do so efficiently, using the fewest possible resources.

Question. Please explain why IRS anticipates that a single measure—employee satisfaction—will measure progress toward "increasing productivity through a quality work environment."

Answer. The development and implementation of the balanced measurement system at the IRS is an incremental process. The initial focus of the measures effort has been on the development of operational measures. The operational measure of "Productivity through a Quality Work Environment" is employee satisfaction by business unit. This information will assist each business unit at the IRS in assessing how well it is doing in providing a work environment that enables employee productivity through quality leadership, adequate training, and effective support services.

At the strategic level, the IRS is using an overall servicewide employee satisfaction score and plans to begin the development of a measure of productivity in fiscal year 2001 that will help assess the organization's progress in using its resources with increasing effectiveness over time. Preliminary thinking is that the productivity measure will be an aggregate indicator of the services the IRS is producing compared to the resources used. There are complexities that will need to be addressed in developing this measure, however, such as determining a means to account for the mix of work performed and such factors as varying levels of complexity and difficulty across product and service lines.

Balanced measures are indicators of organizational performance and a guide to Improve performance. Using them for this purpose requires IRS employees to "get behind the numbers" to understand what is really happening.

Question. How well are IRS managers trained to "get behind the numbers," and how successful have they been in developing action plans to address balanced measures results?

Answer. By the end of fiscal year 2000, the majority of managers will have completed a 3-day course (Balanced Measures Approach to Leadership) designed to help them understand how to incorporate the Balanced Measurement System into their day-to-day management activities. As part of this course, managers have been provided with and trained to use a tool called the "Balance Checking Matrix" designed to facilitate "getting behind the numbers" and ensuring that each Balanced Measure area is considered in solving problems and determining courses of action. The Matrix also helps identify any Balanced Measure area where additional steps may be necessary in order to reduce possible negative impacts of a selected strategy or program.

The IRS completed its first Business (Operations) plan under the Balanced Measurement framework for fiscal year 2000 and specific actions were identified at all levels of the organization (e.g., National Office, Region, District, Division, Branch, Group) in each area of balanced measures utilizing feedback from customer surveys, employee surveys and business results data. A review of progress against these plans is now underway as part of the IRS' mid-year Business Review. Information obtained from these reviews will be used to identify methods for improving the development of future action plans in alignment with the Balanced Measures.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

Question. We have all read over the recent reports regarding the ongoing GAO study of the IRS, and other challenges the IRS is encountering in implementing the Restructuring and Reform Act. This year's request asks for an increase of $769 million over fiscal year 2000, much of which is directed to Processing/Management, Enforcement, and Technology. Additionally, the request is looking to add over 2,500 FTE in order to implement the necessary reforms.

Can you describe for us some of the recent successes in reforming the IRS and also let us know which areas in the process still concern you?

Answer. IRS has achieved some worthy successes in several essential areas:

—Electronic Tax Administration is making excellent strides towards reducing the burden associated with electronic tax preparation and filing.
  —More people are able to file totally paperless returns in 2000 because the IRS expanded its Practitioner PIN Pilot to include about 18,000 tax preparers.
  —Eleven (11) million postcards containing e-file customer service numbers (ECN) were mailed to taxpayers who used a computer to prepare their own return last year.
  —More electronic payment options (credit card and ACH debit payment) have been made available to taxpayers this year.

—Marketing—ETA has launched a brand new marketing campaign this year entitled "30 million Americans Use IRS e-file." It is a fully integrated campaign with new TV, radio and print advertising.

—Internet—Millions of taxpayers have discovered that the IRS home page on the World Wide Web is an excellent and convenient source for tax forms and tax information.

—Additional forms and schedules are now on the IRS home page. Some of these include Schedule J—Farm Income Averaging; Form 8271 Investor Reporting of Tax Shelter Registration Number; Form 8582–CR—Passive Activity Credit Limitations; Form 6781—Gains and Losses from Section 1256 Contracts and Straddles.

We have also included the following information on the IRS website:

—Innocent Spouse information: To educate and inform taxpayers of their rights under the new RRA 98 innocent spouse provisions and help them to make correct and accurate claims;

—Installment Agreements: This IRS site has an interactive calculator that helps a person figure the monthly payment, and then prints out an installment agreement form for the taxpayer to file;

—Web Site Alerts: Alerts taxpayers and practitioners about problems that could effect them;

Other Web Site links have been established and include but are not limited to: Web Site Small Business Corner; Expanded Web Site Tax Professional Corner; Web-based Customer Service; Notice information on the Web; Expanded Web Site Orders; CD–ROMS, etc.

—Media—The IRS "Local News Net" supplements the Web site's Digital Dispatch (there are over 70,000 Digital Dispatch subscribers) by providing localized, targeted and immediate information for tax practitioners. It is a system capable of reliable and efficient delivery of information to the tax professional community across the nation.

—Forms by Fax: Taxpayers can receive more than 150 frequently used tax forms 7 days a week, 24-hours-a-day from IRS TaxFax;

—Recorded Tax Information with 148 topics available 24-hours-a-day using a touch-tone phone;

—Automated Refund Information was accessed by 34 million taxpayers in fiscal year 1999; through March 11, 2000 the number stands at over 14 million.

—Problem Solving Days continue to be a great success story on the problem resolution front. Last year, nearly 32,000 people took advantage of the program. According to the National Taxpayer Advocate's 1999 Annual Report to Congress, the IRS handled over 57,000 cases during the first 2 years of the program.

—The Citizen Advocacy Panels achieved several major successes during the first year of operation. In addition to the South Florida panel, three additional Citizen Advocacy Panels were established in the Brooklyn, Pacific-Northwest and Midwest Districts. Included in the accomplishments of the past year, the Pacific-Northwest panel worked with their local district's small business lab to develop software that analyzes questions posed to the IRS through the Service's Web-site, the "Digital Daily". The result should be improved categories of responses-more closely meeting the needs of taxpayers.

The GAO states that in 1996 (the most recent year for which there are complete records), there were as many as 12 million suspicious returns with under reported taxes amounting to $15 billion. The IRS pursued only a portion of these, and ultimately wrote off over $10 billion.

Question. What drives the decision to determine which cases the IRS will pursue?

Answer. The IRS receives over 1 billion information return documents annually. With Tax Year 1997 returns, which are currently being screened for the Underreporter Program, initial screening identified 13 million cases with potential discrepancies. Initially screened cases are then subject to further analysis to ensure that IRS applies its resources using risk-based analysis. The President's Budget does request additional resources to dedicate to this process in 2001.

Question. How can the IRS do a better job of performing its dual missions; enforcing compliance and at the same time providing professional and informed customer service?

Answer. The basis for our fiscal year 2001 budget request provides the best way for the IRS to meet the legitimate service expectations of the vast majority of compliant taxpayers who voluntarily pay their taxes and, at the same time, enforce compliance, which strengthens the fairness of the whole tax system. By investing in reengineering IRS' business practices and technology together with limited staffing increases, as proposed in the STABLE initiative, we will be able to perform all aspects of the IRS mission more effectively and efficiently.

The additional staffing is only modestly more than present level and would still be less than the IRS staffing level of 1997. This is possible because our basic strategy to meet increased workload and service demands depends on reengineering business practices and technology. Freeing up positions through business systems investments is a critical requirement. By investing in technology and improved business practices, the fiscal year 2001 budget request avoids the traditional staffing increases that would otherwise be required. The investment in modernization is critical for this strategy to work.

Question. Overall, how would you rate the restructuring process. Is the IRS about where it should be at this point?

Answer. The restructuring process is on track and achieving the construction of the new IRS. An integral part of the overall IRS Modernization program is the establishment and implementation of balanced performance measures that support and reinforce achievement of the IRS' mission and overall strategic goals. We have designed, approved and implemented the new IRS Balanced Measures approach to leadership including a focus on three key elements: Employee Satisfaction (the employee's view of and satisfaction with their job), Customer Satisfaction (the customer's view of service provided) and Business Results (the accomplishment of business goals). Training for all employees is underway and near completion. All Executives, Top and Mid-level managers, Bargaining Unit employees and NTEU officials are receiving this training.

Balanced measures implementation is just one of the five levers of change being implemented to establish the new IRS. For example, IRS is currently Revamping its Business Practices, establishing Four Operating Divisions to focus on specific customer segments, and developing new Management Roles with Clear Responsibility and acquiring New Technology. These five levers of change including Balance Measures will help IRS achieve its three strategic goals, driven by its five guiding principles and founded upon the IRS' Mission Statement.

One of the key initiatives for the IRS in the fiscal year 2001 is the Staffing Tax Administration for Balance and Equity, or STABLE initiative. A portion of this request was to be funded through a proposed supplemental in fiscal year 2000 of the $40 million and 301 FTE. The STABLE request for fiscal year 2001 is an additional $144 million.

Question. Assuming Congress will not fund your supplemental request for fiscal year 2000, can you briefly describe for us the priorities in the funding of STABLE in fiscal year 2001?

Answer. In the President's Budget the IRS requested $224 million and 2,835 FTE for the STABLE initiative over a 2-year period which includes a fiscal year 2000 supplemental. This approach was taken to allow the IRS to advance hire and begin training earlier the new personnel that this initiative supports. Doing so would allow the new hires to be engaged in performing their jobs at a full level as early as possible. The IRS still believes that this is the most rational and sensible approach. If we were not to get the fiscal year 2000 supplemental, the entire initiative would have to be implemented in fiscal year 2001.

The Service has since reevaluated its needs for STABLE for fiscal year 2001 using the assumption that Congress might not fund the supplemental in fiscal year 2000. That recosting identifies needs of $213.2 million and 2,501 FTE in fiscal year 2001. The amounts identified in the fiscal year 2001 Congressional Justification for STABLE are higher because they assumed that 301 FTE, from the supplemental, would already have been in place on October 1, 2000.

The first priority for these FTE will be to enhance compliance activities. In that vein, $198.8 million and 2,305 FTE will be devoted to new hires for the Automated Collection System, Examination, Submission Processing and the Underreporter Program for Information Returns, Examination, Field Collection, and the Tax Exempt Program. The IRS has detailed approximately 800 persons from Examination and Collection to Customer Service to meet filing season workload peaks in the Walk-In and Toll-Free Telephone programs. To allow some of these detailed compliance personnel to return to their compliance functions, we would also hire 400 staff in the Walk-In and Toll-Free Programs.

Finally, the remainder of the funds, $14.4 million and 196 FTE would be applied to additional increases to the Walk-In and Toll Free Telephone Service programs and the Underreporter Program. These increases would allow the IRS to reach the 70 percent level of telephone service and offer extended hours and Walk-In assistance in non-traditional locations during the filing season. In addition, FTEs would be devoted to an interagency effort to reconcile payroll tax data with employee/employer contributions to the Social Security Trust Fund.

RESULTS OF THE FISCAL YEAR 1999 FINANCIAL STATEMENT AUDIT BY GAO

This past February GAO testified before the House subcommittee on Government Management, Information and Technology concerning the results of their fiscal year 1999 Financial Statement Audit of the IRS. They indicated that the IRS has made progress in addressing issues which were raised in the fiscal year 1998 audit. However, GAO stated that there are still pervasive material weaknesses in areas like automated financial management, accounting procedures, record keeping, and internal controls. GAO agrees that many of the problems facing the IRS will require a substantial and continuous commitment of resources, time, and expertise to correct. These issues may require long-term solutions. GAO indicates that some of the operational and financial management issues can be dealt with in the short-term.

Question. Are you in agreement with GAO's conclusions?

Answer. We agree with the GAO that there are material weaknesses. IRS identified these material weaknesses and included them in our annual Federal Managers Financial Integrity Act (FMFIA) Report to the Department of Treasury. The GAO validated these findings through their audit process. IRS has also self-certified noncompliance with the Federal Financial Management Improvement Act (FFMIA) requirements. Accordingly, IRS developed a Remediation Plan to bring the IRS into compliance [Remediation Plan attached].

Question. What short and long term goals have you established to satisfy the requirements of the financial audit program?

Answer. We have undertaken many short-term initiatives to remedy the material weaknesses, including:

—Reconciled our fund balance with the Treasury;
—Substantially cleared our Suspense Account of old items;
—Addressed security issues regarding override authorities by disabling the override capability in the accounting system to override appropriation-level spending controls;
—Developed subsidiary ledgers for GAO testing purposes; and
—Developed an ad hoc "work around" process to sustain the valuation of our assets. We began this effort in fiscal year 1999 by arriving at a satisfactory balance for our fiscal year 1999 financial statements.

The long-term solution is a replacement for the current administrative and revenue accounting systems. IRS will only be able to achieve compliance with FFMIA through modernization of both the administrative and revenue accounting systems. The ability to integrate both systems will enable true cost accounting and performance reporting as required by the Federal Accounting Standards Advisory Board Statement #4. It is critical that adequate funding be provided for these initiatives.

TAX SHELTER REGULATIONS

Question. I have read with some interest recent reports concerning The Treasury Secretary's effort to close down some of the tax shelters which are used by corporations to avoid paying billions of dollars a year in taxes. He was quoted in the Washington Post as saying that this is the "most serious compliance issue facing the American tax system today". Also, in a meeting last month, the Secretary stated his concerns about these shelters further undermining the voluntary compliance with the tax system by customers. I realize that many of the regulations under consideration are still being formulated; however, other pieces of the package are well on their way to being enacted.

Can you generally describe how this issue might impact operations at the IRS?

Answer. This issue will impact operations at the IRS by impelling us to devote resources to the detection, investigation, and elimination of abusive tax shelters, whose sole raison d'etre is the avoidance of taxes. We have already established an office of "Corporate Tax Shelters" at the National Office under the Large and Mid-Size Business (LMSB) function to deal exclusively with this problem. We are expending resources to combat this problem by taking aggressive measures, including the issuance of summonses, where necessary, to identify taxpayers engaged in this form of enterprise. IRS will also initiate compliance action against companies identified as promoters of abusive tax shelters. In addition, we have established a "hot" line in the National Office, staffed by one of our senior analysts, to answer questions from the public regarding tax shelters. We hope to increase compliance in this area by a combination of taxpayer awareness and enforcement coverage.

Question. What, if any, resources in your budget request are directly focused on addressing these concerns about corporate tax shelters?

Answer. No additional funds have been requested in the fiscal year 2001 budget specifically for the tax shelter program. However, the IRS will make efforts to internally redirect resources to this area. In addition to applying existing staffing re-

sources, we will work internally to increase our travel and enforcement expenses budget in the shelter area. The increased enforcement expense efforts would include hiring outside experts in such areas as asset valuation and actuarial projections.

MONEY LAUNDERING STRATEGY

Question. A new initiative in this year's budget request is the Money Laundering Strategy. The Administration is requesting $15 million and 42 FTE (7 of which are attributed to the IRS) for an organization which will be centrally located under the Department of the Treasury. Your agency plays one of the key roles in this initiative

How will your agency's investigations regarding money laundering and currency reporting violations be impacted by this initiative?

Answer. As a result of the National Money Laundering Strategy, IRS Criminal Investigation (CI) will join other federal agencies, as well as state and local law enforcement agencies in a concerted effort to combat money laundering, through multi-agency task forces. One key action item that the strategy calls for is the designation of High-Risk Money Laundering and Related Financial Crime Areas (HIFCAs). The designation of a HIFCA is intended to concentrate law enforcement efforts at the federal, state, and local level on combating money laundering in high-intensity money laundering zones, whether based on drug trafficking or other crimes. It should be noted that while CI has participated in joint investigations in the past, HIFCA differs from previous efforts in that it is a more organized way of concentrating the resources of all federal, state, and local law enforcement agencies as well as regulatory agencies. The Strategy also calls for increased cooperation among the various agencies by sharing their intelligence databases.

CI is an integral member of the HIFCA Interagency Working Group. The Working Group recommended the first four HIFCA designations, which were subsequently approved by the Treasury and Justice Departments. CI will be an active participant in each of the HIFCAs and will utilize the seven FTEs requested in this initiative in support of the Strategy and the HIFCAs. The FTEs will be allocated as intelligence analysts, special agents, and/or supervisory personnel who will provide investigative and intelligence support to the HIFCAs. Part of the funds requested in this initiative will be used for the training of new personnel, additional computers and other equipment needs.

The Strategy also calls for enhancing the flow of Suspicious Activity Reports (SAR) and other Bank Secrecy Act (BSA) information to the banking and regulatory communities. Under the authority of the Bank Secrecy Act, Treasury promulgated regulations relative to reporting requirements. These regulations require reports such as a Currency Transaction Report (CTR); a Currency Transaction Report by a Casino (CTRC); a Report of International Transportation of Currency or Monetary Instruments (CMIR); and a Report of Foreign Bank and Financial Account (FBAR). These reports are required for transactions in excess of $10,000. The BSA requires the filing of these financial reports with the IRS Detroit Computing Center (DCC).

Beginning in 1996, banks and other financial institutions were required by federal regulators to report suspicious financial transactions to the Financial Crimes Enforcement Network (FinCEN) by filing SARs. The processing of the SAR forms is also performed by the IRS DCC.

To enhance the use of BSA information, current multi-agency SAR review teams located in most of the districts will be expanded and incorporated into the HIFCAs. CI will also increase its current role in joint agency SAR review teams located outside of HIFCA locations by committing additional resources to these teams. The results of the SAR review teams and the utilization of SARs for law enforcement purposes will be recorded and accumulated by FinCEN.

With the anticipated expansion of SAR regulations to include casinos, broker dealers, and money service business in the future, it is essential that alternative opportunities be explored to enhance electronic filing of SARs. A large number of the SARs are filed in paper format. In order to develop the technology to move toward the electronic filing of SARs, it will be necessary for IRS DCC to expend the resources requested in this initiative to evaluate alternative interfaces, and to evaluate the impact and the benefits to the financial institutions that will use electronic filing.

I noted in the National Money Laundering Strategy for 2000 that your organization will be enhancing the resources you devote to conducting Bank Secrecy Act examinations of money service businesses (MSBs) and casinos. According to the Strategy, you will be meeting with Treasury in August to review your program.

Question. Are you currently focusing attention and agency assets in examinations of MSBs and casinos?

Answer. Yes. Per the Strategy Act, the lead on Action Item 2.2.4 is the Assistant Commissioner for Examination. The Secretary of the Treasury delegated IRS Examination regulatory authority for civil compliance with the Bank Secrecy Act (BSA) on Money Service Businesses (MSBs) and casinos. There are three aspects to the Examination Anti-Money Laundering (AML) program-identify, educate, and enforce. Field examiners are responsible for identifying financial institutions that come under the new MSB definition, educating those financial institutions on BSA reporting and record keeping requirements and conducting compliance examinations to ensure that the financial institutions are in compliance with all provisions of the BSA. Examiners must also ensure that each casino has developed and implemented a written program designed to assure and monitor compliance with BSA requirements.

Question. Do you have an outline of what your recommendations and requirements will be to adequately meet the goals of the Money Laundering Strategy?

Answer. IRS Examination and the Financial Crimes Enforcement Network (FinCEN) have a joint task force studying these issues in preparing for the August 2000 meeting with Treasury. Among the potential requirements being reviewed are additional training, laptop computers, specialized computer training for Anti-Money Laundering (AML) field examiners, a national structuring database, and staffing to identify and educate Money Service Businesses (MSBs) on the new MSB registration and suspicious activity reporting (SAR) regulations. The task force will also be considering the use of full-time coordinators and examiners in the AML program.

Question. Will the 7 FTE that you are allocated in this proposal be enough to properly execute the Strategy?

Answer. The $3.1 million and 7 FTE, which are allocated to the IRS, allow us to begin implementation of the Strategy. We will evaluate any need for future resources as we implement the Strategy.

ELECTRONIC TAX ADMINISTRATION

Question. The IRS Restructuring and Reform Act of 1998 (RRA) requires an ambitious schedule in electronic tax filing. The Act requires that 80 percent of all filings be done through electronic means by 2007. To ensure this end you are again requesting funds for Electronic Tax Administration.

Is the 2007 goal still realistic?

Answer. As required by the IRS Restructuring and Reform Act of 1998, the IRS has developed a Strategic Plan for Electronic Tax Administration (ETA) to help us make significant progress toward:

—the overriding goal of 80 percent of all tax and information returns being filed electronically by 2007, and

—the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically by 2003.

We realize that these are formidable goals and reaching the interim goal for 2003 in particular will be extremely difficult.

Included in the ETA Strategic Plan are IRS' official projections of electronically filed returns developed by the professional forecasters under the Assistant Commissioner (Research and Statistics of Income). These projections indicate that between 55.5–64.3 million returns will be received electronically in 2007, or 40–46.4 percent of all individual income tax returns, which would fall short of the 80 percent goal. However, it is important to note that these projections represent baseline extrapolations of current trends, existing marketing approaches, enacted legislation, and confirmed (or reasonably certain) IRS program changes. They do not reflect the full impact of all of the initiatives contained in the Strategic Plan. At this time, the IRS does not have sufficient information to make reasonable projections for many of the future initiatives. As the IRS gains more experience with the impact of the enhancements reflected in the Strategic Plan, increases to the current projections are expected.

Question. Does the IRS currently have adequate systems in place to accommodate a significant growth in E-filed returns?

Answer. IRS' legacy systems are not suited for the e-business challenges that lie ahead. Consequently, within the framework of the Modernization Blueprint the IRS is taking the necessary steps to ensure that the computing infrastructure for Electronic Tax Administration can handle the expected demands of the future. Not only does the IRS expect a significant increase in the number of Electronic Return Originators (EROs) and in the volume of returns that they transmit electronically, but it also envisions developing many new products and services which will enable individual taxpayers and businesses to transact and communicate directly with the IRS. Toward that end, last year the IRS awarded a PRIME contract to Computer

Sciences Corporation and a team of leading technology and consulting firms to be major partners in managing the modernization of IRS' core business and technology systems with near-term focus on improved phone service and electronic filing options.

Question. What is your present capacity?

Answer. Our systems can currently support approximately 50 million electronic filers—more than enough capacity for near-term e-file growth projections.

Question. The RRA authorizes the IRS to pay appropriate incentives to encourage E-filing.

Do you believe the IRS should be paying these incentives?

Answer. The IRS supports providing tax credits to individual taxpayers who file electronically, as well as providing support to tax practitioners who offer e-file products and services to the public.

The IRS supports the President's fiscal year 2001 Budget that would provide individual taxpayers with a temporary, refundable tax credit for the electronic filing of tax returns. The credit would be for tax years 2002 through 2006 and would be $10 for each electronically filed return other than TeleFile returns for which the credit would be $5.

The IRS previously assessed the benefit of providing cash incentives to practitioners. In the fiscal year 1998 Appropriations Bill, Congress authorized the IRS to pay up to $3. for each return filed electronically when the Commissioner of the IRS determines that it is in the best interest of the government to make such a payment. In September 1997, the IRS released a draft Request for Information (RFI) to explore the industry's interest in the cash incentive initiative as well as other arrangements. In response to the RFI, private industry responded that the IRS should invest first in correcting systemic deficiencies, introducing new products and services, and engaging in aggressive national marketing before engaging in direct cash subsidies to the private sector.

The IRS believes that tax practitioners authorized to electronically file tax returns to the IRS (EROs) must be recognized, supported and motivated as ETA product and service distributors. Much as the private sector employs store front operations (whether independent, franchise or corporate owned), the IRS depends upon tax practitioners to promote electronic filing and payment to taxpayers. In support of this vital channel and based on their input, ETA will seek to support EROs by expanding the marketing support available including national advertising and promotional kits; implementing a program of product and service incentives, rewards and special recognition depending upon an ERO's success in marketing ETA products and services; developing an ERO Web site; and establishing an ETA accounts management program.

Question. What is the IRS requesting to provide these incentives?

Answer. The IRS is requesting $3 million in fiscal year 2001 to expand its marketing efforts to communicate the benefits of IRS e-file to both taxpayers and practitioners. The IRS plans to advertise in the television, radio and print media; continue the launch of a business marketing campaign; and conduct the necessary marketing research to ensure that ETA products and services meet our customers' needs. Previously, Congress approved IRS' fiscal year 2000 Budget which included $2.5 million to provide support and non-cash incentives to practitioners. No additional funding for incentives is being requested for fiscal year 2001.

TRAINING

Question. In your opening statement you stress the importance of providing training to your personnel in light of the changes mandated by the IRS Reform and Restructuring Act of 1998. You claim you provided 2 million hours of training in fiscal year 1999 to your employees. You also stated that "training and management are immediate challenges and in fiscal year 2000 we will continue a high level of training."

I share your concern about the need for correct, disciplined and quality training for IRS employees—especially those on the frontlines providing tax assistance to your customers. Specifically, I am concerned about this because I recently have heard from IRS employees in my state who have informed me that they have not received quality training, that the training they have received is often inaccurate and that they have been provided out-dated materials when they have been trained.

How much of your fiscal year 2001 budget request is dedicated solely to quality training for IRS employees. Also, how much of your resources in this current year are being directed to training?

Answer. All of our training is designed using the Training Development Quality Assurance System (TDQAS) to ensure delivery of a quality product. This system

uses a life cycle of assessment of the training need, design of a training product, development, delivery, and then evaluation of the training. During the evaluation stage, information collected from trainee and instructor evaluations is reviewed and comments are incorporated in revised materials in an effort to improve the quality of our training products. The training budget totals $106 million in fiscal year 2000 and $109 million in fiscal year 2001 for modernization-related and sustainment training. The fiscal year 2001 amount does not include additional funds for training new employees under the STABLE initiative.

Question. How many employees will you have trained by the end of this fiscal year?

Answer. Every employee will receive some type of training during fiscal year 2001; depending on their work assignments and career progression, some employees will attend more than one training class during the year. We expect to provide approximately 10 million hours of training to our employees in fiscal year 2001.

Question. In what specific areas are you training your employees?

Answer. Employees will attend technical training and Continuing Professional Education (CPE) depending on their work assignments. Employees also receive training in preventing unauthorized access to tax information and preventing sexual harassment (UNAX). Leadership training is provided to managers at all levels of the organization. Examples of typical training by key occupations follows:

The typical frontline Revenue Officer (RO) can expect to attend training amounting to the following number of hours:

Fiscal year 2000: a range of 120 to 134 hours, depending on work assignments. This represents 40 hours of CPE, 6 hours of Electronic Research, 16 hours Automated Trust Fund Recovery, and 72 hours of RO Unit 4 for certain ROs.

Fiscal year 2001: a range of 100 to 120 hours, depending on work assignments. This represents 40 hours of CPE, 8 hours of Electronic Asset Locator Training, 4 hours of Fraud Referral Training, 32 hours of Seizure Training and an undetermined number of hours for training related to the technical requirements in the Small Business/Self Employed Business Unit.

The typical frontline Revenue Agent can expect to attend training amounting to the following number of hours.

Fiscal year 2000—approximately 205 hours. Training will consist of 80 hours CPE (optional and mandatory topics such as Electronic Research and Third Party Contact) and other specialty and mandatory training, e.g. Tax Equity and Fiscal Responsibility Act of 1992 (TEFRA), Reports Generating software, UNAX, sexual harassment.

Fiscal year 2001—approximately 188 hours. Training will consist of 80 hours CPE (mandatory and optional topics), plus courses of varying length dealing with new procedures in the business unit and various mandatory training such as tax law changes, UNAX and sexual harassment. In fiscal year 2001, it is anticipated that 1,200 Revenue Agent recruits will be hired in April 2001. The new hires will receive Phase I and II basic training, totaling 21.4 weeks of training including classroom and On-the-Job-Training (OJT). New hires typically do not attend CPE.

The typical front-line employee in Submission Processing Centers can expect to receive 40 to 45 hours of training, depending on work assignments, during fiscal year 2000 and 2001. With the transition to eight centers processing individual returns and two centers processing business returns is completed, a typical front-line employee could expect to receive an additional 50 to 60 hours of training based on work assignments.

IRS is planning an extensive training effort in conjunction with the reorganization effort. This training is referred to as "modernization-related training." IRS also delivers other types of training, referred to as "sustainment training," as part of its day-to-day operations.

TAXMOBILE

Question. I indicated in my opening statement that the taxmobile providing tax assistance to citizens in rural North Dakota has been warmly received. In questions for the record last year I asked if the IRS was looking into the option of providing and expanding the use of taxmobiles (or mobile tax units). You indicated that you were conducting two mobile unit demonstration projects in the Georgia and Pacific Northwest Districts and that you planned to "analyze the results of these projects after the (1999) filing season ends."

Can you tell us the results of your analysis, or provide us with those results for the record?

Answer. The Georgia District used five vans for their taxmobile project entitled We're On Wheels (W.O.W). The service was initially available the first 2 weeks in

February. After a very positive customer response, it was extended to cover the week of March 22, 1999. Thirty-two sites were visited. All sites were at least 40 miles from an established IRS office. Service was available from 4:00 p.m. until 8:00 p.m. A total of 1,843 taxpayers were assisted. The cost of the program was $36,000 in training and travel, and $6,300 for the van rental, flyers, posters and sign printing. The Georgia District's project received Vice President Gore's NPR Hammer Award.

The Pacific Northwest District used a 30-foot mobile home for their project. The service was available from January 25 through April 15, 1999. A second unit was placed in service from March 22 until April 15, 1999. A total of forty rural and semi-rural communities were served. Both sites had extended hours of operation on April 15, 1999. A total of 4,871 customers were assisted. The cost of the program was $28,131 for the vehicle lease, transportation expenses, lodging and meals.

Several other districts including North Dakota, Los Angeles, Central California and Michigan have implemented taxmobile projects in fiscal year 2000.

INFORMATION TECHNOLOGY INVESTMENT ACCOUNT (ITIA)

Question. Your budget requests new appropriations of $119 million (and an advance appropriation for fiscal year 2002 of $375 million) to continue the ITIA program. This fund continues the important initial phase of modernizing the IRS' business systems and ITIA has been generally supported by the Congress. We approved earlier requests for funds from the account and to date $68 million has been released. Recently we received a much larger request to release an additional $176.322 million. This request is currently under review.

I am concerned about your fiscal year 2001 request for new funds to add to the ITIA account. Last October your staff envisioned that you would be requesting nearly $265 million from the ITIA account, yet your requests for this fiscal year are significantly lower than that level. In your spending plan for the $176 million you state that "this difference reflects a significant change in management direction. . . . while simultaneously slowing many of the individual project activities."

Given the constraints this subcommittee is likely to face because of an expected low allocation, how can we justify adding a large level of funds to the ITIA account when—by your own admission—your spending plan calls for slowing many of the projected activities in ITIA?

Answer. The management decision to slow project activity while accelerating program activities ensures IRS has disciplined, mature program management processes in place. The request reflects funding for this priority as well as appropriate funding for continued tax administration projects. In alignment with oversight guidance, we are focusing resources on deploying and enforcing the Enterprise Life Cycle (ELC), updating and publishing the Blueprint, realigning the IRS and PRIME program management offices with major ELC processes to clarify boundaries and interfaces, et cetera.

IRS will require the continued funding level to support development costs, to include expected hardware and software purchases. Current plans show several projects scheduled for Milestone 3 (system design) decisions either at the end of fiscal year 2000 or early in fiscal year 2001. In addition, continuous funding is critical to ensure deployment of the infrastructure to support business systems and ongoing program management.

Question. Can you realistically expect to responsibly obligate and manage $119 million for ITIA in fiscal year 2001—assuming Congress approves your pending request?

Answer. We expect to responsibly obligate and manage the $119 million in fiscal year 2001, and also the $211 million in fiscal year 1999 funds, for a total of $330 million. Current plans indicate that the funds appropriated in fiscal year 1999 with the fiscal year 2001 appropriation, if approved, will be required to support project development, infrastructure and ongoing program management. IRS will have in place disciplined, mature processes to ensure the wise expenditure of funds in a responsible manner.

ONE-STOP TAX SHOP

Question. During our discussion at last year's hearing, you discussed ways you were reaching out to enhance service in less urban areas. For instance, you mentioned that you had been in Utah and had established a cooperative "one-stop" tax shop site with that State's tax agency and other parties. Also, in my opening statement I discussed the success we are witnessing in North Dakota with the taxmobile.

What was the experience with the "one-stop" shop in Utah? Is this another example of a partnership between the IRS and the customer upon which you want to ex-

pand? Are you budgeting for expansions of this type of partnership or do you have other examples?

Answer. When it first opened, the Utah site only offered the distribution of forms and responses to tax questions. This office has subsequently expanded to become a full service office. In fiscal year 1999, the Utah tax site served 8,525 customers. This office is one of several in which the IRS and state taxing bodies cooperate to the benefit of the public. For example, there is an IRS office in the Illinois Department of Revenue building in Springfield, IL. Some state tax authority employees are co-located in IRS offices as well. Also, some districts such as Georgia have state tax employees participating in the mobile van projects. Currently, there is no funding in the Customer Service budget for expansion of these projects.

TAX EXEMPT ORGANIZATIONS

Question. Last year we discussed my concerns about the status of tax-exempt organizations. You indicated that you planned to provide additional resources to enhance enforcement and compliance of these organizations with the tax laws. You said during the hearing that IRS has the responsibility of regulating about $5 trillion in tax exempt sector assets but because "it is not really a revenue generating function, (it) tends to be a little bit buried underneath the big structure." But you also said that you hoped to further reorganize your key districts to check on compliance- in addition to having the districts grant tax-exempt status.

Can you report to us on how the reorganization is proceeding? What resources have you directed to this effort?

Answer. The Tax Exempt and Government Entities Division, which was designed specifically to meet the unique needs of the tax-exempt sector,commenced operations on December 5, 1999. The Division was the first of the four major operating divisions in the modernized IRS to begin operations. The mission of the Tax Exempt and Government Entities Division (TE/GE) is "To provide Tax Exempt and Government Entities customers top quality service by helping them understand and comply with applicable tax laws and to protect the public interest by applying the tax law with integrity and fairness to all." Six geographic area offices responsible for exempt organizations examination programs have replaced the former key district office structure. Program and management direction for examination activities in these six areas has been centralized in Dallas to ensure equity and fairness to all exempt organizations.

The resources available to TE/GE in fiscal year 2000 are 2,102 FTE and $156,600,000. For the first time in several years, the IRS budget dedicated to the regulation of the tax-exempt community has improved. For example, we are beginning the process of hiring field agents in the exempt organizations examination program. Assuming that this budget climate continues, TE/GE will be in a better position to meet its responsibilities. A portion of the fiscal year 2001 STABLE initiative is to increase oversight of the tax-exempt bond sector by adding 68 FTE and $12,054,000 to TE/GE.

Question. Is there an increased focus on reviewing and revoking the tax-exempt status of these organizations?

Answer. We believe the creation of the TE/GE Division, one of only four operating divisions within IRS, will increase focus within the Internal Revenue Service on ensuring compliance by tax-exempt entities. TE/GE will pursue compliance through both voluntary programs and the examination program. The primary focus is on promoting voluntary compliance by making available:

—"Personalized" Customer Service through a toll-free telephone line dedicated to serving TE/GE customers available from 7:30 A.M. until 9:30 P.M.;

—The Determination Letter Program which affords the IRS the opportunity for an up-front review of an organization's compliance as it begins to operate;

—Customer Education and Outreach services to create and provide more educational materials and increase outreach efforts to help exempt organizations voluntarily comply with the tax laws; and

—Voluntary Compliance initiatives which will encourage organizations that have not been in full compliance to come to the IRS to resolve their problems.

We believe these initiatives, combined with other changes, for example, the new disclosure requirements, which are making information about exempt organizations more widely available to the public, are key aspects in promoting voluntary compliance.

The TE/GE Examination Program for exempt organizations is also a vital component of our overall approach to ensuring compliance with the Internal Revenue Code. The examination program is a necessary counterbalance to voluntary programs, creating an incentive for organizations to self-regulate. While we do not in-

tend to greatly increase the number of examinations of exempt organizations, we would note that for the first time in several years, the current budget allows us to hire field revenue agents to work in the examination program.

Our examination efforts focus on promoting compliance by resolving problems and promoting future compliance. This is generally not done by revocation, but by less draconian means such as those envisioned by Congress in passing section 4958 "intermediate sanctions" excise tax on excess benefit transactions. As a result of our focus on future compliance, revocation of exempt status is a step that we take in only the most abusive situations.

SUBCOMMITTEE RECESS

Senator CAMPBELL. Thank you, and this hearing is recessed.

[Whereupon, at 10:43 a.m., Thursday, March 23, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2001

THURSDAY, MARCH 30, 2000

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

The subcommittee met at 9:03 a.m., in room SD–192, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Kyl, and Dorgan.

DEPARTMENT OF THE TREASURY

STATEMENT OF JAMES E. JOHNSON, UNDER SECRETARY OF TREASURY (ENFORCEMENT)

OPENING STATEMENT OF SENATOR BEN NIGHTHORSE CAMPBELL

Senator CAMPBELL. Good morning. The committee will be in session. We will go ahead and start. Senator Dorgan is on the way.

This is the second hearing of the Treasury and General Government Appropriations Subcommittee on the fiscal year 2001 budget request. Today, we will be concentrating on the Treasury Department's law enforcement agencies. Appearing before us is the Under Secretary for Enforcement, Jim Johnson. He is ultimately responsible for the actions and budgets of the Treasury law enforcement agencies. Joining Mr. Johnson on panel one will be the Commissioner of the Customs Service, Ray Kelly; the Director of the Secret Service, Brian Stafford; and the Director of the Bureau of Alcohol, Tobacco and Firearms, Bradley Buckles. This is Mr. Buckles' first time before our subcommittee and I certainly welcome him.

Later, we will spend some time talking with Ralph Basham, Director of the Federal Law Enforcement Training Center, and William Baity, the Deputy Director for the Financial Crimes Enforcement Network.

Before we get started, however, I would like to thank all of our witnesses for their participation in Tuesday's technology display. A number of our colleagues in the Senate came by. I was happy to see them there and certainly it gave people from the different agencies a chance to share some ideas. We have gotten a lot of positive feedback from our colleagues that attended the display.

As you are aware, the budget resolution is making its way through Congress. While it remains to be seen what the final result will be, I think it is safe to say there probably will not be enough money to fund all of the $2.5 billion, that is billion with a "b", more

than requested by the President for agencies under the jurisdiction of the subcommittee. Having said that, however, this morning, we will be talking about how much more Treasury law enforcement agencies need to simply continue doing what they are currently doing as well as some of the expanded and new initiatives requested for fiscal year 2001.

For example, the Bureau of Alcohol, Tobacco and Firearms needs $93 million more than last year just to maintain current operations, plus they have requested a total of $105 million for initiatives, including $41.3 million for expansion of the Integrated Violence Reduction Strategy. All of these, I believe, are very important initiatives.

The Customs Service needs $193 million more just to break even and is requesting $41 million more for new and expanded programs, and that does not include the $210 million necessary to fund the Automated Commercial Environment, or ACE, program.

The Secret Service needs an additional $95 million just to stay in business and wants $55 million more to be able to handle their increased workload. Although they have a smaller overall budget, FinCEN and FLETC still need about $13 million more between them to continue current operations.

This morning, we will be looking at how the Treasury law enforcement agencies conduct their business, how they would like to expand it if sufficient funding is available. Much of what they would like to do certainly is laudable and I think they know that they have friends on this committee and we have always tried to do our best for our law enforcement agencies and we will continue to do so.

With that, I am happy to see my colleague and friend, Senator Dorgan, is here. Did you have an opening statement, Senator Dorgan?

STATEMENT OF SENATOR BYRON L. DORGAN

Senator DORGAN. Mr. Chairman, just very briefly, I apologize for being a couple minutes late. First of all, let me welcome the agencies that are here. As you probably have indicated, the folks who have come this morning representing agencies represent about 40 percent of all Federal law enforcement. I have had an opportunity to visit with all of them. The work they do and their agencies do is very important to this country.

I met yesterday afternoon with the head of the Customs agency and I wanted to mention, we talked a bit about the issue of increased terrorism and the difficulty policing our borders. We witnessed at the turn of this past year the apprehension of a terrorist who was coming through a port of entry in Washington State. We were fortunate to apprehend that particular terrorist, or alleged terrorist, but had that terrorist thought through this a bit, there are other places to go through the border with a lot less inspection than a border in the State of Washington.

I brought a cone. In North Dakota, we have a lot of border crossings and this represents——

Senator CAMPBELL. That is it?

Senator DORGAN. This is it. Especially at night, folks coming across the border from Canada, we have videotape of folks who will

get out of their car, move the cone, drive through, and the really polite ones will move the cone back.

Senator CAMPBELL. They could use that as a megaphone to announce their intentions and nobody would hear it.

Senator DORGAN. That is right. But the point is this. With increased potential for terrorists who want to move into this country, we need to be concerned about all of our borders and ports of entry. I am not suggesting that we have an armada of people at remote ports in every circumstance, but we must be concerned about the staffing and what is happening in some of the more remote ports up in the North Dakota, Montana, Idaho area. So I am anxious to hear some of the testimony today.

I wanted to make that point because, once again, we are talking about resources. I notice the administration has requested some significant additional resources in some of these areas and I support that. There is this big debate about enforcement of various things. Well, you can talk about enforcement all day long, but you have got to have the resources and this Congress must be, in my judgment, ready to provide the resources for enforcement in a range of areas if it is going to be criticizing certain policies.

PREPARED STATEMENT

Mr. Chairman, with that, I will submit my entire statement for the record and look forward to hearing the witnesses.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Thank you, Mr. Chairman.

I want to join you in welcoming our witnesses here today. Collectively the people before us this morning represent approximately 40 percent of all of Federal law enforcement. The women and men working for the agencies represented today perform a multitude of tasks—the vast majority of which are rarely reflected upon by the American taxpayer.

They daily protect our borders, enforce our trade laws, collect revenue, prevent terrorist attacks, protect our currency, guard our leaders, stem money laundering and other financial crimes, try to prevent the sale of weapons to those who should not have them, and provide the technical muscle in many of our Federal investigative efforts.

These are activities which I am confident would be strongly supported by the American taxpayers if they only had a greater awareness of what these men and women do each daily for them. They would agree that the tasks performed by these dedicated Federal employees are important and should be adequately funded.

Mr. Chairman, you have correctly noted that it is unlikely—given the constraints which will be placed upon the Appropriations Committee by the Budget Resolution—that we will receive an allocation sufficient to maintain current operations for these agencies, much less fund the requested initiatives. I think this is wrong and I really question what are our priorities. If the average taxpayer were asked if she wanted the border guarded to prevent terrorist attacks or a tax cut amounting to pennies a day—I wager that she'd want to protect our border. Sadly, I fear this budget resolution may prevent us from doing that.

If I may, I want to show the audience and the Subcommittee the sole nighttime defense of our Northern Border. This is what prevents terrorists, drug smugglers, illegal aliens and the like from entering the United States from Canada at many ports of entry across the North. Fortunately, the terrorist who attempted to enter the U.S. last December in Washington state did so at a fully staffed port of entry during the day. We might not have been so lucky had he tried to enter our country at night at the port of entry at Neche or Maida, North Dakota. In my state of North Dakota alone, out of 22 ports of entry, 15 close at night and are guarded only by these cones. We must rely on these cones—and peoples' sense of responsible citizenship—to protect our border.

I am not suggesting that we need to construct a wall or place Federal law enforcement personnel every 10 yards across our Northern Border, but I use this as an example of our priorities. The budget sent to us by the President does not come close to meeting the needs faced by each and every one of the agencies here today. The budget resolution we will soon start debating will further erode our ability to meet these many needs.

Mr. Chairman, I look forward to working with you and the full Committee to do the best that we can to meet these many needs. I welcome our witnesses and will have questions for each of them.

Thank you.

Senator CAMPBELL. In fact, of all the subcommittees, it is my understanding that the President's budget has the largest increased request, of something like 20 percent, through this subcommittee, which may help us when we have to do battle to try and make sure we have our fair share of the spending.

Let us go ahead and start with the panel as listed, with the Honorable James Johnson starting first, followed by Ray Kelly and then Brad Buckles and Brian Stafford last. Go ahead.

STATEMENT OF JAMES E. JOHNSON

Mr. JOHNSON. Thank you, Mr. Chairman, Senator Dorgan. I am pleased to have the opportunity to testify before you today on the fiscal year 2001 budget request for the Treasury Department's law enforcement bureaus and offices.

As you have indicated, testifying with me today on this first panel are Raymond Kelly, the Commissioner of the U.S. Customs Service, Brian Stafford, the Director of the U.S. Secret Service, and Bradley Buckles, the Director of the Bureau of Alcohol, Tobacco and Firearms. On the second panel, we will be joined by Ralph Basham, the Director of FLETC, and Bill Baity, the Deputy Director of FinCEN, who will be testifying in the absence of Jim Sloan, who had a loss in his family and our hearts are with him now.

Directors Buckles and Stafford are appearing before you for the first time in their current positions; I want to take just a moment to commend each of them for their outstanding long-term performance in their careers, and their tremendous contributions to the ATF and the Secret Service, respectively. Over the years, the Treasury Department has benefited tremendously from their insight and intellect on countless occasions. We are especially pleased with their appointments.

Mr. Chairman, so that each of the bureaus can have ample opportunity to present their statements and respond to your concerns, I will summarize and ask that my full testimony be included in the record of these proceedings.

Senator CAMPBELL. Without objection, it will be.

Mr. JOHNSON. As to the Departmental budget, our request reflects the funding that we believe is necessary to most effectively carry out the important law enforcement mission areas for which we are responsible, and which so directly impact the lives of the citizens we serve.

For example, if enacted, this budget would provide the U.S. Customs Service with 273 additional full-time equivalent positions, including 120 FTE for counter-narcotics work. The U.S. Secret Service would be enhanced by 193 additional full-time equivalent agents to carry out its dual mission of protection and investigation.

And ATF would benefit from more than 500 full-time equivalent personnel—that is agents, inspectors, and other staff with an emphasis on substantially enhancing our firearms enforcement efforts.

Overall, the President's budget proposal would add roughly 1,200 FTE to Treasury enforcement above the fiscal year 2000 total enacted level. This represents the largest increase in Treasury law enforcement staffing in over a decade, and reflects Secretary Summers' highest enforcement priorities—counter-narcotics enforcement, counter-money laundering activity, protection of our nation's leaders, firearms enforcement, and enhanced automation for the Customs Service.

Funding is not the only element of strong law enforcement. Equally important are clear policies and a means for setting priorities. The Treasury Department seeks to provide support, oversight, and policy guidance to enhance the performance of our enforcement personnel and to facilitate an even stronger and more coordinated enforcement presence. That presence must also reflect the changing demographics of our population. Our need to recruit and retain the best qualified and most diverse workforce will gain even greater salience if the proposed budget is enacted.

Our recruitment and retention objectives have been aided by the decision of the Office of Personnel Management to grant Schedule B excepted hiring authority to the ATF and to the Customs Service. There are still certain issues that we are working out with respect to executive orders for that authority, but we hope to work those out within the Administration in the near term.

We have also been granted 20 Senior Executive Service positions by OPM for our enforcement bureaus, partially filling a longstanding and critical need to provide benefits more aligned with the high-level skills and expertise that we require of our personnel. While we still have challenges in this area, this number, 20, represents a 15 percent increase over previous levels.

Another component in ensuring a high-caliber workforce is the ability to deliver the highest quality of training available. The Federal Law Enforcement Training Center is key to this goal. The expansion in recent years in the number of employees hired by the 73 law enforcement agencies that participate in FLETC has tested FLETC's ability to meet all training requests. Moreover, advanced training to keep law enforcement officers abreast of the latest trends in fighting crime cannot be compromised. Under the leadership of Director Basham, I believe we are meeting these challenges.

In closing, I want to express my appreciation for the outstanding support of Treasury's law enforcement programs by the chairman, by the ranking member, by the entire subcommittee, and the staff. This was brought to bear, the support was brought in very concrete terms and also symbolically, in the presentation on Tuesday, which I know would not have happened without the support of you, Mr. Chairman, and your staff. It enabled us to show in very concrete terms the good work that Treasury law enforcement does as a unit and separately.

PREPARED STATEMENT

Our law enforcement bureaus have grown, they are better equipped, and they have become more professional as a result of

your oversight and support. I look forward to answering any questions that you might have. Thank you.

Senator CAMPBELL. Thank you. We will continue on with the panel and then we will have some questions.

[The statement follows:]

PREPARED STATEMENT OF JAMES E. JOHNSON

Mr. Chairman, Senator Dorgan, and Members of the Subcommittee, I am pleased to be here today on behalf of Secretary Summers to introduce the fiscal year 2001 budget request for the Treasury Department's law enforcement bureaus and offices. Testifying with me today are the heads of each Treasury law enforcement bureau: Raymond W. Kelly, Commissioner of the United States Customs Service (USCS); Brian L. Stafford, Director of the United States Secret Service (USSS); Bradley A. Buckles, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF); W. Ralph Basham, Director of the Federal Law Enforcement Training Center (FLETC); and William F. Baity, Deputy Director of the Financial Crimes Enforcement Network (FinCEN). FinCEN Director James Sloan suffered a loss in his family and will not be able to join us today.

At the outset of my testimony, I want to thank the Members of this Subcommittee for their strong and continuing support for Treasury law enforcement. I welcome this opportunity to discuss with you the Treasury Department's accomplishments and plans in the important law enforcement mission areas for which we are responsible. I would like to focus on what we regard as the most significant challenges we are facing and how Treasury law enforcement is responding to them, covering our activities over the last year, our plans for the remainder of the current fiscal year, and our budget proposals for fiscal year 2001.

While we continue to face fiscal challenges, the fiscal year 2000 appropriation provides our Treasury bureaus with strong support for carrying forward increasingly complex and challenging missions. We appreciate the support you showed for Treasury's enforcement programs in the appropriations for fiscal year 2000. I am pleased to report that the President's fiscal year 2001 budget proposes a $4.2 billion program level for Treasury enforcement. If enacted, this budget will provide the ATF with an overall increase of more than 500 full-time equivalent agents, inspectors and other staff, and will substantially enhance our firearms enforcement efforts. This budget will provide the U.S. Secret Service with 193 additional full-time equivalent agents over the fiscal year 2000 appropriated level to enable the United States Secret Service to carry out its dual mission of protection and investigation. The President's budget also provides the U.S. Customs Service with 273 additional full-time equivalent positions, including 120 for agents to conduct drug smuggling and money laundering investigations. Overall, the President's fiscal year 2001 budget proposal would add roughly 1,200 full-time equivalent positions to Treasury enforcement above the fiscal year 2000 total enacted level. It represents the largest increase in Treasury law enforcement staffing in over a decade.

DEPARTMENTAL OVERSIGHT

Funding is not the only element of strong law enforcement. It is also important that law enforcement agencies have clear policies and a means for setting priorities. We at the Treasury Department seek to provide support, oversight, and policy guidance to enhance the performance of our enforcement bureaus and to provide strong leadership in the enforcement community.

Over the past year, we have continued to focus on accomplishing the Department's enforcement goals and our bureaus' individual goals. We have relied on the expertise of our professional staff and also on the talent and experience of bureau personnel to work on challenging issues.

Hiring.—Our need to recruit the best qualified and diverse workforce will gain even greater salience if the proposed budget is enacted. We have undertaken two key initiatives in this area.

(1) Schedule B—Late last year, in response to our appeal, the Office of Personnel Management (OPM) granted the ATF and the Customs Service Schedule B excepted hiring authority. This authority is somewhat similar to that currently used by the Secret Service, the Federal Bureau of Investigation, and the Drug Enforcement Administration for criminal investigator recruitment and selection. Some of the benefits of this authority are greater flexibility in targeting recruitment to meet skill requirements and diversity goals, the capability to focus on the large number of intangible skill sets and personal characteristics required, and the ability to find and hire quickly the best candidates for their jobs.

(2) Diversity conference—Last fall, the Office of Enforcement, joined by Management, discussed with each of the bureaus their recruiting and hiring practices, focusing on diversity. We learned that each of the bureaus' recruitment programs had many commendable aspects, but concluded that all could benefit from hearing about the experiences of the other bureaus. Since that time, we have brought together the Equal Employment Opportunity managers from across the bureaus for a series of meetings which will culminate in a diversity conference, to be held next month, which will focus on best practices to recruit and hire a diverse workforce. The conference will also have a training module focusing on best practices for ensuring that, once recruited, minority employees have fair opportunities to advance through the organization over the course of their careers.

Retention.—Retention of employees who have years of experience and in whom we have invested long hours of training is critical. In that regard, the Department has made progress toward meeting the challenges of improving our capacity to develop and retain high-caliber employees. Specifically, we have worked to address workforce retention and workload balancing issues within the Secret Service. My office established an Interagency Working Group on U.S. Secret Service Workforce Retention and Workload Balancing, which included representatives from Enforcement, Treasury's Office of Management, OMB, and the Secret Service. The analysis revealed that Secret Service agents have experienced an extreme increase in the amount of travel and working hours in the last few years due to the increase in the number of protectees and the enhanced level of protection necessary. In fiscal year 2001, the Secret Service will experience a further workload increase when the change of administrations occurs. To begin to alleviate these problems, Treasury's fiscal year 2001 budget proposal includes a significant increase in staffing for the Secret Service.

Senior Executive Service (SES) allocations.—As the Subcommittee is aware, Treasury bureaus have had a critical need for SES positions. Last month, as a result of decisions within the OPM, we allocated 20 additional SES positions to our enforcement bureaus. The lion's share of those positions went to the Customs Service, which, as you know, still faces significant challenges in this area. This is an issue that the Department will continue to work with our bureaus to address.

Demonstration pay project.—In January, ATF implemented its pay demonstration pilot for scientific and technical positions. The demonstration project—developed by a team comprised of personnel from the Office of Enforcement, the Office of Management and the ATF—emphasizes flexibility in approaches to recruitment, and establishes a pay-for-performance system designed to provide incentives to compete with state and local government and the private sector. To date, 223 out of a possible 260 ATF employees have chosen to participate in the program, and the period for choosing to participate has not yet closed. We thank the Subcommittee for this authority as we look forward to making this capacity permanent.

Retirement.—Schedule B authority, increasing SES allocations, and the pay demonstration project are particularly critical in light of the Department's report on retirement and the proposed budget. In response to Congressional direction, the Department, through a contract with the Office of Personnel Management, analyzed the large numbers of criminal investigator retirements that have occurred and will likely continue to occur in the next several fiscal years. Submitted to Congress last fall, the report included the findings and the implications for workforce planning, as well as related information about the recruiting market and selection problems that will affect Treasury's ability to hire criminal investigators and maintain staffing levels. Specifically, the report included an analysis of retirement and attrition patterns from the last 5 years, and the age and years of service of Treasury's criminal investigators. Based on this analysis, it was estimated that the Department would need approximately 2,662 new hires for its criminal investigator workforce between fiscal years 1998 and 2003 in order to maintain Treasury's 1998 fiscal year-end strength of 10,261 criminal investigators. This means that, before we can take advantage of the increases contemplated in the President's budget, we must hire an average of approximately 600 additional investigators each year for fiscal years 1999 through 2003.

Training.—Another aspect of our goal to recruit and retain a high quality workforce is assuring that Treasury law enforcement officers receive the highest quality of training available. The Federal Law Enforcement Training Center (FLETC) is key to this goal. The expansion in recent years in the number of employees hired by the 73 law enforcement agencies that participate in FLETC has stressed FLETC's ability to meet all the requests for training. Although FLETC continues to be able to provide all the basic training needed, currently by using a temporary facility in Charleston, South Carolina, increases in bureau hiring require coordinated increases in funding for FLETC.

To address some of the strain from increased demand for training, we have also been exploring ways to use the latest technology to provide alternative means of delivering training courses. Recognizing that the FLETC facilities cannot accommodate all of the requests for training that are likely to arise in the future, we are searching for ways to use the Internet and video conferencing to provide needed training.

Likewise, the need for advanced training to keep law enforcement officers abreast of the latest trends in fighting crime is critical. We have been working closely with FLETC to explore ways to enhance training to address high-tech crime. One example of this approach is Computer Investigative Specialist (CIS) 2000 training. This course, which includes agents from the Secret Service, Customs, the Internal Revenue Service Criminal Investigations Division, and ATF, uses state-of-the-art training and equipment to teach agents how to deal with the latest computer and encryption technology that they may encounter in conducting an investigation. The CIS 2000 agents have achieved many notable successes in their investigations of counterfeiting, money laundering and various types of fraud as a result of this course.

Through our Implementation Working Group, the Office of Enforcement also continues to monitor FLETC's progress in implementing organizational assessments of FLETC that my predecessor had done. Great strides have been made in addressing some of the problems that had developed at FLETC, and we hope to be able to conclude the Implementation Working Group's work later this year. The next meeting of the Committee will be held in Artesia, New Mexico this spring.

Our budget request for fiscal year 2001 contains important initiatives for the Federal Law Enforcement Training Center (FLETC). We are seeking $6,969,000 for FLETC's mandatory workload. This funding will be used to address entry level training for additional agents and inspectors for ATF and additional agents for the Secret Service. This is the first major hiring initiative for Treasury law enforcement bureaus in many years. FLETC is a key component of Treasury's effort to meet this build-up. Funding also is included for new construction and renovation of older existing structures at FLETC to continue the planned upgrade of facilities crucial to the training of the vast majority of the federal government's law enforcement personnel.

Office of Professional Responsibility.—One of the key functions of the Office of the Under Secretary (Enforcement), is to provide oversight to the Treasury law enforcement bureaus. Over the past few years, our efforts have been enhanced owing to the establishment of the Office of Professional Responsibility (OPR), which Congress directed. OPR completed a number of significant projects in 1999 and 2000, including the reviews of Customs' Office of Internal Affairs, ICDE funding needs, operations at ATF's Tracing Center, and the aforementioned Secret Service workforce review. A number of significant reviews are also underway, such as a prioritization of international training conducted by the bureaus, overseeing a year-long gathering of statistics on encounters with law enforcement to ensure ethnic and minority groups are not being unfairly targeted, and a review of ATF's role in the National Instant Check System (NICS).

MONEY LAUNDERING AND FINANCIAL CRIMES

Preventing abuse of our financial institutions to conceal tax evasion and the movement of money generated by criminal activities is a high priority. It is a problem that cuts across a broad spectrum of criminal activities, from violent crimes such as narcotics trafficking to white-collar crimes such as credit card fraud. This is a matter of great concern for the Treasury Department in our role as guardian of the integrity of the U.S. financial system and its financial institutions.

Current Activities and Priorities for Fiscal Year 2001

Treasury's law enforcement bureaus and offices play a key role in our fight against financial crime. The Customs Service, the Secret Service, IRS–CID, and ATF all investigate money laundering stemming from the specified unlawful activities within their jurisdictions. Additionally, the Financial Crimes Enforcement Network (FinCEN) is charged with administering the Bank Secrecy Act, which prescribes transaction reporting and record-keeping requirements for financial institutions designed to insulate those institutions from money laundering, and to provide a paper trail for investigators. Just last August, FinCEN issued a final rule requiring all money services businesses to register with Treasury. FinCEN recently issued the final rule requiring a subset of these businesses—money remitters and money order and traveler's check issuers, sellers and redeemers—to file suspicious activity reports. FinCEN serves as the central point for collection and analysis of Bank Secrecy Act data and provides case support to law enforcement investigations.

Over the last year we have undertaken or strengthened several initiatives aimed at addressing systemic vulnerabilities in our financial system.

National Money Laundering Strategy.—In September 1999, in consultation with the Department of Justice, the Department of State, the federal financial supervisory agencies, and state and local law enforcement, Treasury published the first National Money Laundering Strategy. The Strategy for the first time articulates a coherent, broad-based attack against the pernicious effects of criminals hiding the proceeds of their crimes.

Since the 1999 Strategy was released, a tremendous amount of progress has been made toward implementing it. Over a dozen interagency groups were formed to ensure progress on priority action items. Less than 6 months after the release of the 1999 Strategy, Treasury and Justice in early March released the 2000 Strategy. The 2000 Strategy announced a number of high intensity financial crime areas (HIFCAs), and described the results of a number of policy reviews. Substantial progress occurred in a number of areas, including a review of whether formal guidance should be given to financial institutions about how to meet their obligations to report suspicious transactions, the aforementioned issuance of suspicious activity reporting rules for so-called money services businesses, a review of rules and practices currently in place to protect the privacy of U.S. persons by limiting access and controlling the use of information collected pursuant to the Bank Secrecy Act, developing a formal process to administer a grant program to support state and local efforts to combat money laundering, and encouraging countries around the world to join in the global fight against this problem.

Particular progress was made this year in the multi-faceted attack on the Black Market Peso Exchange (BMPE) system of money laundering. The Treasury-led BMPE working group helped to produce improvements in investigative techniques used by law enforcement, awareness among the business community, and a multilateral working group of experts from affected governments throughout the hemisphere. In addition, Treasury continued its prominent role in the Financial Action Task Force (FATF), which is defining "non-cooperative jurisdictions" in order to identify and ultimately orchestrate counter-measures against them. The Department also issued a formal advisory encouraging the Government of Antigua and Barbuda to take constructive steps to address serious vulnerabilities in its system of anti-money laundering control. In the future, we expect to be in a position to meet the statutory deadline of February 1 for the annual strategy.

Identity Theft Summit.—Each year American businesses and citizens lose more that $3 billion to credit card fraud. One of the key means by which this fraud occurs is identity theft. On May 4, 1999, President Clinton announced that the Treasury Department would convene a national summit on the subject of identity theft and work with the private sector to help prevent the occurrence of this crime. This summit is part of a larger identity theft initiative that includes case referral, a public education partnership, and sentencing enhancements, which will implement the new legislation that provides the U.S. Secret Service with authority to investigate identity theft violations. The summit, which took place on March 15 and 16, 2000, engaged 250 senior executives from the public and private sectors in a substantive dialogue that we expect will lead to better communication and cooperation on identity theft crimes.

Financial Fraud.—During 1999 the U.S. Secret Service made almost 4,500 arrests for financial crime offenses. The Secret Service also coordinated 28 task forces involving 54 law enforcement agencies throughout the United States. These task forces focused primarily on fraud schemes intended to victimize individuals, banks, credit card issuers, and other financial institutions.

In fiscal year 2001, preventing abuse of our financial system to facilitate criminal activities remains a high priority for Treasury enforcement agencies. Our budget request for fiscal year 2001 supports Treasury's role in implementing that strategy. We are emphasizing (i) technical assistance to financial institutions as well as law enforcement agencies; (ii) enhanced collection and analysis of data that can help us to identify and pinpoint financial crimes; (iii) interdiction of outbound currency; (iv) giving our bureaus the resources to allow them to undertake lengthy investigations of complex illegal transactions; (v) specialized training for our agents; and (vi) partnership grants to state and local governments to leverage the resources they can bring to bear on this problem.

FIREARMS VIOLENCE

Over the last 2 years, few events have so caught the attention of the American public, and indeed the worldwide audience, as the spate of senseless shootings in public places. In our schools, in our places of work, and on our streets, criminal vio-

lence and the easy availability of firearms to criminals have wrought havoc and caused Americans in all walks of life to feel unsafe. Over the last year, both the President and the Congress have responded to these concerns. Treasury, specifically the ATF, with the support of this Committee, has been at the center of this comprehensive response.

The most important development of the past year has been our work with the Department of Justice to provide support for burgeoning collaborative federal, state, and local intensive firearms crime investigation and prosecution plans throughout the country. Between 1993 and 1998, violent crime with firearms fell 37 percent and gun-related homicides declined 36 percent. Firearms prosecutions are increasing. Department of Justice information shows that in 1999 federal prosecutors brought 5,500 firearms cases in the federal courts, 700 more cases than in 1992. Looking ahead, our primary focus continues to be on building firearms enforcement capacity, and providing the tools that enable federal, state, and local law enforcement to use their resources in a strategic manner that will have the most impact on armed crime reduction.

Current Activities and Priorities for Fiscal Year 2001

Integrated Violence Reduction Strategy.—Last fiscal year, the Treasury Department and the Justice Department were directed by the President to provide an integrated violence reduction strategy to further reduce gun violence. The joint Treasury-Justice strategy will be released soon. It will call for more enforcement resources to combat armed violence as requested of Congress in the Administration's fiscal year 2001 budget request and ATF's fiscal year 2001 appropriations request, in order to maximize the impact of current laws on the reduction of gun violence. The strategy will also highlight legislative proposals discussed by the President to further reduce youth violence and improve public safety. Enforcement resources requested will be used to support and enforce current statutory authorities.

The strategy proposes funding for 300 new agent positions, 200 inspector positions and 100 other personnel for ATF to support local intensive prosecution projects like Project Ceasefire in Boston and Project Exile in Richmond, as well as for the Youth Crime Gun Interdiction Initiative, regulatory, and gun show enforcement activities (discussed below). These local strategic projects encompass investigations of armed criminals and illegal traffickers, and inspections of firearms dealers that are the sources of firearms to criminals, as well as those illegally attempting to acquire or illegally possessing firearms.

Consistent with our budget request, the strategy will also call for an expanded effort to support state and local law enforcement agency capability to trace recovered firearms to determine their illegal sources and to speed up trace responses to state and local law enforcement agencies ($9.9 million), and to establish ballistics imaging capability to identify shooters and traffickers where the firearm itself is not recovered ($23.4 million). Our view is that all state and local enforcement agencies with a gun crime problem should have these capabilities, and be able to draw on ATF's information and analysis, expertise, and investigative experience. Expanded and shared information about the illegal gun market will enable more strategic use of federal, state, and local investigative and criminal justice resources.

Commerce in Firearms in the United States.—Treasury strongly supports ATF's efforts to base its firearms inspection program on indicators of criminal access to firearms. In February, ATF released the first annual report on Commerce in Firearms in the United States, providing an array of information concerning the firearms industry and ATF's regulatory inspection program. The 2000 report informs Congress, law enforcement officials, and the public on the activities of ATF inspectors, and how ATF regulatory resources are focused in order to maximize their effectiveness in reducing firearms trafficking and abuse. The report shows the types of activities and inspection strategy for which we are requesting new inspectors and other personnel for ATF. A fair and focused inspection program will reduce the need for more costly criminal investigations and benefits public safety.

Youth Crime Gun Interdiction Initiative (YCGII).—There is a continuing need to focus attention and resources specifically on reducing youth violence and preventing the illegal supply of firearms to juveniles and youth. A fundamental need is for investigators to find out how guns are illegally acquired by young people. In the past year, ATF and local police committed to establishing comprehensive crime gun tracing and youth gun violence reduction efforts with law enforcement agencies in eleven new cities, bringing the total number of cities participating in YCGII to 38 in its third year. In February 1999, Treasury and ATF issued the second year Youth Crime Gun Interdiction Initiative Trace Analysis report, analyzing over 76,000 crime gun traces from 27 cities. The report provides local law enforcement agencies with information about the number of firearms recovered in their jurisdictions, top

crime guns in each city, and their geographic sources, in order to assist local law enforcement agencies with development of effective law enforcement strategies against youth violence. ATF also released the YCGII Performance Report, a survey of over 640 trafficking investigations nationwide involving juveniles and youth engaged in gun crime, demonstrating ATF's enforcement efforts to stop youth and juvenile access to guns through straw purchasers and other illegal channels. We endorse ATF's plan to expand YCGII to 75 cities, and propose to add 12 new cities in fiscal year 2001 to work toward this goal by bringing the fiscal year 2001 participating cities to 50.

Gun Show Report.—In February 1999, Treasury in coordination with the Department of Justice, released a report on gun shows, Gun Shows: Brady Checks and Crime Gun Traces. The report was prepared in response to a directive from the President that the Secretary of the Treasury and the Attorney General provide him with recommendations to address the gun show loophole, that is, the sale or exchange of firearms at gun shows without background checks or tracing records for those acquiring the firearm. The report led to legislation proposing that all transactions at gun shows include background checks and tracing records to prevent access to guns by prohibited persons and to allow law enforcement officials to trace firearms when they are recovered by law enforcement officials. Both licensed and unlicensed gun sellers at gun shows are sources of guns to criminals and other prohibited persons; where there is evidence of criminal activity, enforcement attention is required.

COUNTER-NARCOTICS

Reducing the supply of dangerous drugs entering the United States continues to be another of our high priorities. It is also our most difficult challenge. We are confronted by well-financed criminal organizations that adapt quickly to every advance we make in the detection of illegal drugs. Moreover, interdiction is only one piece of a comprehensive drug control strategy that includes eradication of drug production abroad, sanctions against drug kingpins, investigation and disruption of trafficking activities within the United States, treatment of drug users, and, as mentioned above, combating money launderers.

Current Activities and Priorities for Fiscal Year 2001

Border Coordination Initiative.—We continue to work to strengthen our coordination with other border enforcement agencies to assure that taxpayers get the most effective use of federal resources available for drug interdiction. In September 1998, Treasury and Justice initiated the Border Coordination Initiative (BCI), an innovative system for controlling the Southwest Border. BCI is a strategic plan for Customs and the INS to maintain a seamless, comprehensive, integrated border management system that increases interdiction of illegal drugs, illegal aliens, and other contraband while simultaneously facilitating legal migration and trade. Customs and the INS have set new standards for innovation, interagency cooperation, and operational effectiveness, with locally developed innovations leading to improved coordination and more efficient border operations. As a result of BCI, more than 120 tons of cocaine, marijuana, and heroin were seized by Customs and the INS along the southwest border in 1999—an increase of more than 20 percent over the previous year.

For fiscal year 2001, the budget proposes several important initiatives to strengthen the enforcement and interdiction capabilities of the U.S. Customs Service, our main player in the counter-narcotics fight. Commissioner Kelly can address these programs in greater detail, but summarized briefly they include:

—a $25 million request and 107 FTEs to aid Customs' investigations into the criminal organizations that smuggle narcotics into our country and distribute them in our communities;

—a $10 million request to enhance Customs' ability to detect illegal outbound currency movements; and

— a request of approximately $20 million in enforcement infrastructure improvements, including a P–3 FLIR upgrade, aircraft flight safety enhancements, surveillance equipment of helicopters, and an upgrade of the air interdiction center radar.

Together, these initiatives would help Customs improve on record-setting seizure statistics, while allowing it to better respond to the various smuggling routes and methods employed by narcotics traffickers.

Intelligence Architecture Review.—Enforcement represented the Department in the inter-agency intelligence architecture review. The review, which also involved ONDCP, the Justice Department, CIA, and other agencies, led to a report, released

last month, that contained a series of important action items to improve intelligence collection, dissemination, and use.

Narcotics Kingpin Act.—On December 3, the President signed the Intelligence Authorization Act for fiscal year 2000, which contains the Foreign Narcotics Kingpin Designation Act (the Act). The Act establishes a global sanctions program targeting significant foreign narcotics traffickers and their organizations modeled along the lines of the President's IEEPA-based program targeting Colombian narcotics cartels. The Act requires the Office of Foreign Assets Control (OFAC) to identify significant foreign narcotics traffickers and closely associated entities and individuals throughout the world and impose financial and trade prohibitions, as well as asset blocking, against them.

As a result of the significant workload increase driven by OFAC's responsibilities under the Act, the Department has included a request for $2.1 million and 20 FTE in the fiscal year 2000 supplemental request submitted to Congress in February. This would provide resources for OFAC to implement a global sanctions program targeting significant foreign narcotics traffickers and their organizations, as mandated by the Act. In addition, the fiscal year 2001 budget includes a request for $2.9 million and 11 FTE for OFAC to improve information gathering capabilities with respect to terrorist funding and narcotics trafficking and raise the quality of service to the public in the performance of OFAC's licensing function. OFAC currently has on-site staff gathering specialized information in Bogota, Colombia, on drug traffickers. Similar information gathering capability is needed in Dubai, United Arab Emirates to investigate terrorist funding, and in Panama and Bangkok to investigate drug traffickers. Sanctions programs are administered largely by licensing and the licensing function is OFAC's primary contact point with the public.

TRADE ENFORCEMENT AND FACILITATION

The United States is the world's largest exporting and importing country, and the volume of both exports and imports is growing rapidly. Over the 5 year period 1994 to 1999, the dollar value of exports increased by over a third (about 36 percent). During the same period the dollar value of imports increased by more than half (about 51 percent). These increases translate rather directly into increased workload for the Customs Service.

Our trade with other nations is vital to our economic strength and our standard of living, and we want to do everything we can to assure that the movement of trade across our borders is as frictionless as possible. At the same time, however, we recognize our responsibility to assure Congress and the American public that laws enacted to protect public health and safety, as well as other interests, are being effectively enforced at the border.

Current Activities and Priorities for Fiscal Year 2001

Improved Performance Measurement and Targeting of Violations.—The Customs Service has continued to improve the accuracy and specificity of its compliance measurement system. In 1999 Customs submitted its fourth annual report to Congress on the results of compliance measurement. Compliance measurement is not only a tool for targeting Customs' enforcement activities. It also enables us to account to the Congress and the American people on how effectively Customs' trade enforcement resources are being used.

By illuminating where the problems are, compliance measurement also improves Customs' ability to implement a national risk management program that allows more efficient use of resources and more effective detection of violations.

Automation.—Customs' struggle to modernize its automated commercial system is well known to this Subcommittee, and is a problem of a kind that is not unique to Customs. We believe that we have made substantial progress in the last year in responding to problems identified by the General Accounting Office in the development of Customs' new Automated Commercial Environment (ACE).

As we work to develop a new automated commercial system, we are paying close attention to the reliability of the current system, the Automated Commercial System (ACS). The ACS is Customs' current mechanism for allowing importers, carriers, and others to transmit required information electronically, and enabling Customs to process and store the information electronically. ACS greatly accelerates transactions between the trade community and Customs, allows quicker release of goods, reduces the number of instances in which shipments of goods must be held by Customs owing to the absence of required paper documents, reduces filing errors, and improves law enforcement at the border by making possible electronic analysis of information for risk assessment purposes.

However, the ACS was created in the early 1980s, and was developed with programming language that is now obsolete. The program is proprietary to Customs

and not supported by any software vendor. Moreover, at the time ACS was created, the urgency of moving as rapidly as possible from a paper environment to an automated environment resulted in inadequate documentation of ACS programming. Customs is effectively prevented from modernizing its business practices—including changes authorized by the Customs Modernization Act of 1993—because of the difficulty and cost of modifying the obsolete and poorly-documented programming language on which ACS runs. Among the obsolescent features of ACS: (i) it is transaction based, that is, it treats the release of each shipment as a separate, taxable transaction, requiring the filing of an individual entry (tax return); and (ii) it is service-port oriented, requiring that entries be filed at the port at which goods are released from Customs custody.

A little over a year ago, the ACS began to experience periodic failures, or "brownouts". Although these did not last long, they were sufficient to remind us of the absolute necessity of maintaining a reliable automated commercial system for Customs. Consequently, we have given very high priority to upgrading the capacity and reliability of the ACS. We expect to spend up to $79 million in the current fiscal year, and we are requesting $123 million in fiscal year 2001, to assure that the American public can rely on its government for effective and efficient enforcement of our trade laws.

But we recognize that the trade community would like us to do more than simply assure the reliability of the current automated system. Each year the Customs Service must deal with the challenge of assuring that millions of freight containers and carriers entering the U.S. are in compliance with several hundred laws. In order for Customs to be effective at this job without becoming a serious impediment to commerce, it must become a more efficient collector and intelligent user of information.

This is difficult to do with the ACS because, as I noted, it effectively locks Customs into obsolete business practices. Because it is difficult to modify ACS's software, Customs cannot even implement procedural reforms that were authorized in the 1993 Customs Modernization Act, let alone new procedures that have become possible since then.

The Automated Commercial Environment, or ACE, is the proposed new Customs automated commercial system. It would operate on modern software and the programming would be fully documented to facilitate subsequent programming changes. ACE would allow periodic filing of consolidated entries to cover multiple transactions, and it would allow filing from any location, and not only the port at which the goods are entered. ACE also includes equipment enhancements to increase reliability and upgrade connectivity among Customs offices around the country and between Customs and the trade community. For example, ACE would be accessible to the trade through the Internet, while ACS is accessible only over dedicated lines.

In our budget for fiscal year 2001, we are requesting $210 million for ACE development. We estimate the cost of ACE development over the next 4 years to be around $1.25 billion. This is a relatively costly initiative. The recently completed cost-benefit analysis for conversion from ACS to ACE shows that modernizing Customs' trade data processing system will provide significant benefits to both the federal government and the trade community. We continue to believe that the proposed fee appropriately captures some of the benefits private businesses will receive from Customs modernization, and therefore, we have proposed to offset the costs of ACE over the next several years by creating a user fee to be collected from all parties that use Customs' automated systems. The amount collected from each user would be based on its volume of use.

We acknowledge that a similar user fee proposal last year was not well received. We have made some changes to our proposal this year that we believe go at least part of the way to meeting the objections of last year. For example, we are not asking, as we did last year, for the user fee to be collected a year in advance of appropriations for ACE.

The Administration is prepared, indeed eager, to work with Congress and the trade community to enact this proposal and begin work on ACE as soon as possible.

International Trade Data System.—An interagency group working under Treasury leadership has finished the system design of a new international trade data system (ITDS), called for by the Vice President's National Program Re-invention project. The ITDS will offer a single electronic window for collecting all data required in connection with importing and exporting. When implemented, the new system will substantially improve the effectiveness and efficiency of government administration of laws that must be applied at the border, and will greatly reduce red tape imposed on importers, exporters, and carriers. Our budget proposal for fiscal year 2001 continues this program at the current level of $5.4 million.

G7 Data Harmonization.—Completing harmonization of G7 customs data requirements, as outlined by the Lyon, Denver, and Birmingham G7 summit communiques, will continue to be a priority in 2000. Current disparity in reporting requirements among G7 customs administrations imposes heavy reporting and record-keeping burdens on traders, and inhibits cooperation on law enforcement among governments.

Child Labor Enforcement.—Treasury established a private sector advisory committee on child labor to help focus Customs' efforts to enforce laws prohibiting the importation of goods produced by forced labor. Customs' resources for enforcement efforts in the area of forced child labor have been increased. Customs had baseline resources of $3 million and 4 full-time equivalent positions (FTE) in fiscal year 1999, $5 million and 6 FTE in fiscal year 2000.

In fiscal year 2000, we are continuing to work aggressively to assure that goods produced by forced child labor are not allowed to enter the American market. Through the Child Labor Advisory Committee, Treasury and Customs are developing a program of business outreach aimed at fostering voluntary compliance with U.S. import restrictions on products of forced or indentured child labor through adoption of industry codes, best practices, and other methods. Customs will use additional budget resources provided by this Subcommittee to open a field office in South Asia dedicated to child labor enforcement, and will deploy additional investigative staff overseas as needed.

Additionally, Customs investigators have conducted a number of fact-finding missions to countries in Asia and Latin America where child labor is believed to be prevalent in a number of industries. Several visits have been made to South Asia, including India, Pakistan, Nepal, Bangladesh, and Thailand. With the fiscal year 1999 appropriation, additional agents were assigned to Bangkok, Hong Kong, and Montevideo. Additional agents will be assigned to the new South Asia field office that is being established in fiscal year 2000.

The fiscal year 2001 President's Budget requests an additional $5 million and 9 FTE, for a program total of $10 million and 15 FTE, to combat importation of goods made by forced child labor. The requested increase in fiscal year 2001 will enable us to attain even broader investigative coverage of overseas regions where child labor is believed to be endemic. These carefully placed investigative resources will enable Customs to acquire the detailed evidence that is required under U.S. law for Customs to detain merchandise manufactured with forced or indentured child labor.

The use of forced child labor to produce goods imported into the United States is not merely a matter of unfair commercial competition. Use of forced child labor perpetuates poverty and contributes to instability abroad by denying children the opportunity to pursue educational opportunities that could enable them to improve their standards of living. In fiscal year 2001, we shall remain committed to working with other governments, other U.S. government agencies, and with knowledgeable private sector groups, to assure that the U.S. market does not inadvertently become a means for supporting forced child labor.

EXPORT ENFORCEMENT

As events have demonstrated over the last few years, the United States continues to be targeted by those who seek to acquire our most advanced weapons and technology, often for purposes that directly or indirectly threaten the security of the American people. For years, the Customs Service has been an integral part of our response to that threat, by monitoring exports of goods from the U.S. to identify goods that embody sensitive technology.

Current Activities and Priorities for Fiscal Year 2001

Customs' ability to enforce effectively laws enacted by Congress to prevent the export of munitions and sensitive technology has been hampered by the difficulty of getting timely information about shipments leaving the country. Too often information is inadequate, inaccurate, or late. Two years ago the Treasury Department sponsored negotiations among the Customs Service, the Commerce Department, and representatives of exporters and carriers to work out the terms for use of a modern, electronic export reporting system. As a result of the agreement reached, use of the Automated Export System (AES) to file export declarations electronically increased from about 2 percent of export declarations filed in January of last year to around 25–30 percent in January of this year. Because the AES, unlike its predecessor system, is accessible over the Internet, we expect use of electronic export filing to continue to grow. Electronic filing is, of course, convenient for exporters and carriers, but the government also benefits. Having timely export information in an electronic format greatly increases Customs' ability to monitor for export violations. In fiscal

year 2001 we shall continue to promote use of the AES, and to look for other ways to improve the quality and timeliness of export data.

COUNTER-TERRORISM AND PROTECTION

Current Activities and Priorities for Fiscal Year 2001

On May 22, 1998, the President signed Presidential Decision Directive 62. This Directive created a new and more systematic approach to fighting the terrorist threat and created criteria for identifying events of national significance that may be vulnerable to terrorist threats. At several events this year, including the World Energy Conference in Houston, Texas and the highly successful NATO Summit here in Washington, D.C., Treasury bureaus, including the Secret Service and ATF were involved in providing security, and the Customs Service provided air support. We estimate that approximately three or four events of this nature will occur each year.

Additionally, Treasury leads an interagency working group in conjunction with the Customs Service to address issues of weapons of mass destruction (WMD). The focus of the group during 1999 and 2000 has been to find ways to enhance our security and prevent WMD from entering the United States. Recent incidents, such as the arrest of several suspects at the end of 1999 in Washington and Vermont relating to the attempt to smuggle explosives into the United States, highlight the importance of heightened vigilance in this area.

ARSON

National Church Arson Task Force.—Treasury and Justice, along with others, continue to coordinate a nationwide federal, state and local law enforcement effort to identify and prosecute those who burn or damage our houses of worship, to help rebuild those institutions, to prevent additional fires, and to help heal community tensions resulting from attacks on our houses of worship. Due in part to increased vigilance, well-publicized arrests, and ongoing prevention efforts under the President's three-pronged strategy, church arsons continued on a downward trend during the past year.

In this statement I have been able to touch on only some of the important programs of Treasury's enforcement bureaus. Each bureau head will address our programs in greater detail. And, of course, I shall be pleased to respond in writing to any questions you want to direct to me about any of our programs.

In conclusion, Mr. Chairman, I would like to thank you, Senator Dorgan, and the Members of this Subcommittee for your outstanding support of Treasury's law enforcement programs over many years. Our law enforcement bureaus have grown, they are better equipped, and they have become more professional as a result of your oversight and support. The benefits of this for the American public cannot be calculated. I would like also to thank the staff of this Subcommittee for its professionalism and patience over the last several years, as we wrestled with the problems that inevitably accompany growth and a rapidly-changing set of challenges. I do not want to miss this opportunity to express my appreciation and gratitude.

U.S. CUSTOMS SERVICE

STATEMENT OF RAYMOND W. KELLY, COMMISSIONER

SUMMARY STATEMENT

Senator CAMPBELL. We will go ahead with Ray Kelly.

Mr. KELLY. Chairman Campbell, Senator Dorgan, it is a privilege to appear before you today to discuss the Customs Service's fiscal year 2001 budget request. Before I begin, I, too, want to thank the members of the committee for supporting Customs over this past year. Our trade and enforcement successes would not have been possible without your counsel and assistance.

Those successes included the arrest last December 14 of suspected terrorist Ahmed Ressam at Port Angeles in the State of Washington. Ressam attempted to enter the United States from Canada carrying explosive material and timing devices. It was sufficient to trigger bombs not unlike those at Oklahoma City and the World Trade Center in New York City. While all of the ramifications of Ressam's activities have yet to fully surface, it is apparent that the vigilance of the Customs inspectors in this case saved untold lives. America was able to celebrate the close of one millennium and the beginning of the next without incident. I cannot stress enough the commitment of our people in making our last holiday season a safer, more secure one for all Americans, and I do not doubt their readiness to answer the call again.

But the truth is, there is a lot of ground to cover when such an event occurs. We cannot be every place at every time. The simple fact is, we need more manpower to carry out our mission. In the meantime, we are prepared to take additional measures to secure our borders.

After Port Angeles, Customs developed a four-tiered alert plan for future security threats of that nature. We also instituted around-the-clock staffing at all northern border crossings formerly monitored by remote video cameras. The threat of terrorism on America's doorstep has added yet a further strain on resources already stretched thin by a stunning growth in global trade.

To give you some examples, since 1990, trade entries or the number of individual shipments of goods have jumped 132 percent, from 9.4 million to over 21 million entries per year. Likewise, the number of air and sea passengers we process has climbed 62 percent, from 52 million to 84 million people per year. On top of this, we process a steady stream of nearly 400 million land passengers each year. Yet, the Customs Service has increased the number of full-time staffing over the last 10 years by only 4.5 percent.

Despite our limited resources, Customs seized close to 1.5 million pounds of illegal narcotics in fiscal year 1999. That is a 17.5 percent increase over the previous fiscal year. But we are under no delusions. Declining wholesale prices of narcotics tell us we need to

do more to stem the unceasing flow of illegal drugs into America. We also have a major new threat before us in the form of Ecstasy, the synthetic drug that Customs is now seizing in record numbers.

This year's budget request includes funding for the hiring of 214 additional special agents. This increase will help us ratchet up the investigative pressure on the drug cartels. It will also help us counter higher attrition rates in our agent workforce. In fiscal year 1999, we experienced a net loss of 87 agents and we are already down the same number of agents in just the first half of fiscal year 2000. Of course, the drug cartels are quick to adapt to any changes. When frustrated on the ground, they turn to the seas and skies.

Customs' answer to this smuggling blitz is the Air and Marine Interdiction Division, which is our fleet of boats and planes deployed throughout the drug source, transit, and arrival zones. Last year, we combined our air and marine units under one command. Though greatly in need of upgrades, the Air and Marine Division is today a vital asset in the nation's counter-drug arsenal. In fact, the U.S. Customs Service provides in excess of 90 percent of all detection and monitoring flights in the source and transit zones for drugs.

In Colombia, we provide the vast majority of airborne detection and monitoring and are the only agency carrying host country riders. Our P–3 early warning aircraft are responsible for the great majority of these flights. However, the radar systems they carry are in dire need of upgrades. Without these upgrades, we will soon find ourselves unable to service the systems in the event of breakdowns.

New technology has more than proven its worth across the spectrum of Customs' other enforcement activities. Fixed and mobile truck x-ray systems and gamma imaging devices have enabled us to find drugs in place we never could have found them before. We also now have eight state-of-the-art body scan machines installed at major airports around the country. The body scan is offered as an alternative to physical inspections to any traveler detained by Customs. I should add that this technology has been complemented by a thorough revamping of our personal search policies. These changes will help Customs protect the rights of travelers while allowing us to accomplish our mission.

Our automated system for processing freight is yet another vital component in our ability to facilitate and enforce. Last year, we processed a little over $1 trillion in trade. That volume is expected to nearly double in the next 5 years alone. To cope with this scenario, we have developed a comprehensive strategy of risk management. Risk management allows us to zero in on cargo and conveyances more likely to contain corrupted goods and allow speedy processing of the vast majority of shipments that comply with the law.

Risk management, however, depends in large part on the construction of a new automated system, ACE, "ae" as we call it. Customs has made huge strides in developing ACE. We addressed all of the issues that have surfaced in GAO critiques about our ability to build and operate the system and we assembled a talented management team to carry out the job. The remaining issue now is funding. Until ACE funding is obtained, our first priority must be

to seek resources to maintain our current outdated system, or ACS, as we call it.

PREPARED STATEMENT

Mr. Chairman, the Customs Service is at an important crossroads. How we respond now to the challenges I just laid out will impact greatly on our mission for years to come. I appreciate the opportunity to appear before you today. Your support for our fiscal year 2001 budget request will further enhance our ability to safeguard our nation's borders. Thank you.

Senator CAMPBELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF RAYMOND W. KELLY

INTRODUCTION

Good morning, Mr. Chairman and Members of the Subcommittee. It is a privilege to appear before the Subcommittee today to present the Customs fiscal year 2001 budget request, and share with you some of our recent accomplishments and ongoing activities. Before I begin though, I would like to personally thank the Chairman, Ranking Member, and other Committee Members for the strong support you have continued to provide to the U.S. Customs Service.

The Customs Service is an agency with a long and rich history, many proud traditions, and an extraordinary record of achievement. We recognize that our mission is not an easy one—standing as part of the front line of defense at the Nation's borders—but we continue to find ways to rise to the challenges that we face every day.

As you know, the United States faces a continuing threat of domestic terrorism and increasingly sophisticated tactics by narcotics smugglers to move their contraband across our borders. At the same time, the increase in international trade and number of passengers transiting through major ports of entry already strain our capabilities. Our recent successes in intercepting terrorists on our northern border and major drug seizures on the Southern/Southwestern borders indicate how intelligence and technology, together with alert and well-trained inspectors and agents can have a major impact in deterring the threats we face. Our future success depends directly on the continued, skilled deployment of training and technology to meet the challenges we face.

In order to meet its mission, Customs has emphasized the following core operational challenges:

AUTOMATED COMMERCIAL ENVIRONMENT (ACE)

Customs must modernize its commercial processing system in order to meet the import demands of the new millennium. Effective and reliable automated systems are critical to performing both Customs trade and enforcement missions successfully.

Development and implementation of the Automated Commercial Environment (ACE), a major component of our modernization program, will provide significant benefits to Customs field operations personnel, the importing community and, most importantly, the U.S. economy through:

—Uniform and streamlined cargo entry processes and just-in-time reporting capabilities;

—More efficient and accurate revenue collection;

— Enhanced targeting and analytical capabilities aimed at combating violations of U.S. import and export trade laws, drug smuggling, money laundering, and terrorism.

ACE will replace our current 16-year old system, the Automated Commercial System (ACS). However, we have not kept pace with changing technology and its is time to begin the process of modernizing our systems.

While Customs has taken many preliminary steps towards modernization, a significant amount of additional effort and funding is needed to realize our main goals: to support business processes, maximize the use of information technology, and meet the challenges of an ever-changing global trade environment. Without a new automated system, Customs will be placed in the precarious position of continuing to rely on the outdated ACS beyond the year 2004 (when ACS will be 20 years old),

subjecting both Customs and the trade community to risks of degraded service, lost revenue collection, and possible disruptions.

TRAINING AND DEVELOPMENT

Customs mission demands a training regime that is strong, focused, and available to employees throughout their careers. Customs depends on training to develop and maintain high levels of proficiency in its mission-critical skills and to build professionalism and integrity in the workforce. Training must be delivered with consistency across the nation.

Customs has lacked strong, centralized management of training programs in the past. To address this, Customs established a new Office of Training and Development (OTD) and appointed a new Assistant Commissioner of Training and Development to take the first steps to correct our deficiencies and begin to lay the groundwork needed to meet future challenges. OTD has taken a leadership role in setting training priorities and establishing management processes that are aligned with our mission.

As an important first step, OTD is developing a National Training Plan (NTP) and tracking and reporting systems. Customs will have the ability to invest training funds wisely and monitor the use of these funds as well as gauge the return on investment. With the NTP, Customs will make a connection to its strategic objectives, target training areas of greatest need, and find the best and most cost-effective ways to get training to Customs employees. We will establish national priorities, develop training profiles for our mission-critical occupations, and install rigorous training and tracking procedures. Planning at the national level will allow us to explore partnerships with all offices within Customs and other agencies and teaching institutions, and will further serve to leverage scarce resources and eliminate redundancies in Customs training.

Customs has also embarked on a path to strengthen the in-Service Firearms and Tactical Training Program for its 13,000-armed officers. This program is in need of constant improvement in quality and efficiency, particularly as those armed Customs officers deal with dangerous use of force events in the course of their jobs on a daily basis. Improved and enhanced firearms training will not only protect our officers, but also the travelling public we serve.

IMPROVED HUMAN RESOURCES MANAGEMENT

As we continue to build a Customs workforce worthy of the highest public trust, our focus remains on two critical areas: recruitment of the best personnel and our commitment to integrity.

Under our new Quality Recruitment program, Customs is hiring the most capable professionals. We have hired 155 new Inspectors and Canine Enforcement Officers through this system over the last 6 months and more are in the pipeline. Early indicators are that these men and women are among our Nation's best and brightest. Quality Recruitment has been extended beyond those occupations to Pilots and Aviation personnel. In addition, testing and structured evaluation are also being developed for use in choosing Supervisory Agents and Senior Inspectors. This will strengthen our merit-based selection process and serve to ensure consistency of quality in our supervisory ranks.

Given their sensitive law enforcement responsibilities, Customs employees must be held to the highest standards of ethical and professional conduct. "Preserving Our Pride, A Guide to Good Conduct and the Discipline Process," a handbook that reinforces our commitment to integrity, has been distributed to every employee and provides the standards of conduct expected, as well as employees' rights and responsibilities.

Along with clearly communicating our expectations, we have implemented systems to better capture allegations of misconduct, impartially investigate those claims, track their progress, and deal fairly and consistently with the investigative findings. We have also established a system of cross-functional boards, composed of senior managers trained in the review process, to adjudicate cases and recommend action based on the merits of the evidence. Cases involving serious allegations are handled swiftly and appropriately. Improvements to our automated human resource systems continue and based on these enhancements, we are now able to analyze and communicate important information about conduct trends to our workforce. Employees at all levels of the organization understand that they are accountable for their actions and are held to the same standards.

While significant investments in Customs information technology and personnel need to be made to continue to improve on our ability to meet the challenging de-

mands of the future, we are proud of the accomplishments we have made in this area.

CORE MISSION ACTIVITIES

As Customs meets these new challenges, it must also remain vigilant against the ever present threats of narcotics smuggling; money laundering; unwarranted threats against American industry, such as quota, marking, and intellectual property rights violations; and threats against the health and safety of the American people.

On a typical day, Customs officers process 1.3 million passengers and nearly 350,000 vehicles at ports and border crossings around the country. They seize nearly 4,000 pounds of narcotics and about a million dollars in ill-gotten proceeds.

Last year, in fact, Customs set another record for drug seizures, 17.5 percent over fiscal year 1998 seizures. That means nearly 1½ million pounds of illegal narcotics were kept off our Nation's streets. Yet drug smuggling organizations continually modify their means of smuggling in response to our interdiction efforts. We must constantly adapt to their changing methods.

Customs enforcement actions also protect domestic industries from unfair competition. They keep tainted and spoiled products from making their way to consumers. They defend intellectual property rights and deter the corrosive effects of economic fraud.

Narcotics Smuggling

Customs approach to fighting narcotics smuggling is multifaceted, from traditional searches by our Inspectors and Canine Enforcement teams, to partnerships with industry to prevent drugs from being imported in their merchandise or conveyances, to air and marine interdiction, to the work of our Special Agents in tracking the illegal proceeds generated by drug sales.

The use of non-intrusive technology is also key to maintaining the success of our narcotics interdiction efforts. Customs has in place a 5-year technology plan that calls for the deployment of NII technology to blanket the Southern Tier and other high-risk locations.

Twenty-two systems have been deployed to date and more than 15 additional systems will come online in fiscal year 2000. NII technology includes items such as Mobile Truck X-Rays, Rail Systems, Relocatable Gamma Rays, and Higher Energy Fixed Site Truck X-Rays. All of this equipment, as well as systems such as the Automated Targeting System aimed at commercial shipments, act as a force multiplier in the search for well-concealed contraband.

Customs is also proud of its work with participants in our Industry Partnership Programs (IPP). In fiscal year 1999, these participants provided information to Customs that resulted in 42 domestic seizures totaling 8,428 pounds of narcotics. During the same period, Customs efforts overseas, and IPP participants, assisted in 190 foreign intercepts of 35,640 pounds of narcotics destined for the United States from abroad.

Over the last 5 fiscal years (1995–1999) participants in these programs have provided information to Customs which has resulted in domestic seizures totaling over 64,000 pounds of narcotics. During the same period, program participants helped intercept over 151,000 pounds of narcotics destined for the United States from abroad.

Customs is working with the business community in a Business Anti-Smuggling Coalition (BASC) throughout the United States, as well as with local business communities throughout the Republic of Colombia. This led to the creation of a Colombian BASC Program, with individual BASC Chapters throughout the country. Other foreign countries where BASC Chapters have been established by the private sector include Peru, Costa Rica, Ecuador, and Venezuela.

BASC has been promoted to the World Customs Organization and will be included into the "WCO Business Partnership" program, which provides a way in which Customs administrations could work together with trade associations to combat the international trade in illicit drugs.

The mission of the Air and Marine Interdiction Division is to protect the Nation's borders and the American people from the smuggling of narcotics and other contraband with an integrated and coordinated air and marine interdiction force. With a fleet of 114 aircraft and 88 vessels, this mission is carried out from our continental boundaries to the skies over the coca fields in Colombia and Peru.

In cooperation with the U.S. Southern Command, Customs has a full-time presence in the source country area of responsibility. Since 1991, Customs has used its P?3 detection and monitoring and Citation II interceptor/tracker aircraft to conduct air interdiction missions in source zone countries. Customs P–3 aircraft account for 90 percent of U.S. detection and monitoring assets in the source zone. As additional

P–3 aircraft come on line, we are committed to providing more operational P–3 flight hours in support of these missions.

Customs also provides Citation tracker aircraft in the transit and source zones. Two Citations are based in Mexico to support the Government of Mexico drug interdiction program. Significant seizures have resulted from that cooperative effort, particularly in Hermosillo, an area just south of Arizona.

In the remainder of the transit zone, Customs aircraft, based at our 20 air and marine branches and units, operate from the Bahamas to the eastern Pacific. These efforts similarly make an invaluable contribution to our international drug control strategy.

Another critical component of our drug interdiction effort is our marine program. Smugglers are increasingly using both airdrops and high-speed boats to move illegal drugs from South America through the Caribbean and on to the United States. In response, Customs has consolidated its marine assets with aviation operations to provide an integrated strategic and tactical response to this threat.

Customs has a long tradition of interdicting airborne and marine drug smugglers along the borders of the United States. Customs uses similar airborne tactics to provide effective airspace security operations. Specifically, in accordance with Presidential Decision Directive 62, Customs has been instrumental in enhancing the Nation's defense against the potential for unconventional terrorist activity.

Personal Search

Customs currently has 10 body scan x-rays in place at major airports. These low power x-rays, which provide an image of the surface of the body, offer a means to determine if a traveler has contraband concealed under their clothing without physical contact. Travelers are offered the option of a body scan in lieu of a "patdown" search.

We are currently seeking a contractor to provide a mobile x-ray capability at nine major airports. This would allow Customs to x-ray travelers that we suspect of carrying contraband internally much more quickly. We currently have to transport these persons to a medical facility, a process that can take a substantial amount of time.

The mobile x-ray units will be able to respond to our inspection facilities at the airport within 10 minutes of being called. The x-ray will be taken and read in 30 minutes; if the x-ray is negative the traveler will then be free to depart the Customs area. I expect this contract to be awarded before April 1.

Customs will also continue to seek and evaluate other non-intrusive technologies that can assist us.

As the Committee is aware, allegations have been made that Customs was targeting certain minorities for inspections, detention and personal searches at border crossings. Further concerns were raised that personal searches of individuals subject to searches under Customs procedures were being carried out by employees who were not of the same gender as the individuals being searched.

I have stated repeatedly that Customs will not tolerate race-based and gender bias discriminatory treatment of the travelling public. I reinforced this position in May 1999, when I stated to the House of Representatives Committee on Ways and Means, Subcommittee on Oversight that "the complaints we have received about racial prejudice in selecting passengers for searches are very disturbing. It is certainly not Customs Service policy, and it will not be tolerated as Customs Service practice—anywhere."

As a result of your Committee's concerns and travelers' allegations against Customs, the agency has taken a number of steps to address these issues.

We appointed a Personal Search Review Commission (PSRC) in April 1999 to review the policies and procedures used by Customs to process passengers at our major international airports including personal search procedures. The PSRC has completed field visits to our international airports. I expect its report in the next few weeks.

Customs also established the Passenger Data Analysis Team (PDAT) to review and analyze personal search data. In addition, Customs has improved the personal search data collection process by making specific input of data mandatory. Additional data is now collected from travelers subjected to a personal search. This data is reviewed weekly by management to ensure its integrity.

In November 1999, the new Personal Search Handbook was issued and training was provided to all Customs Inspectors. Over 8,000 Customs Officers, including upper level management, supervisors, Canine Enforcement Officers, and Inspectors have received this training. The Personal Search handbook has now been distributed to all appropriate personnel.

Customs is committed to its pursuit of narcotics smugglers while at the same time protecting our employees and treating the traveling public in a courteous and professional manner. I believe these new policy changes will guard individual rights while ensuring Customs can still meet its mission to intercept contraband at our Nation's borders.

Counter-Terrorism

Customs has established an in-house, multi-discipline Counter-Terrorism Working Group to coordinate Counter-Terrorism issues, to include training; task force participation; technology R&D; intelligence dissemination and other Counter-Terrorism related matters.

We have provided training, in the areas of WMD and Antiterrorism/Aviation Security, to Inspectors, Canine Enforcement Officers and Special Agents designated with Counter-Terrorism responsibilities. Additional training in Anti/Counter-Terrorism is being added to the Basic Inspector course in fiscal year 2000 and Counter-Terrorism training is being developed for Special Agents.

Actionable intelligence collection and dissemination continues to be an important function of Customs Counter-Terrorism program. Special Agents actively participate in FBI Joint Terrorism Task Forces throughout the United States and provide expertise in the areas of strategic and financial investigations. Special Agents and Intelligence Research Specialists have been assigned to the FBI and the CIA to coordinate Counter-Terrorism investigative and intelligence activities that have a nexus to Customs violations.

Stolen Vehicles

Customs also works jointly with the National Insurance Crime Bureau (NICB) and other law enforcement entities to detect stolen vehicles. There are five locations where NICB Agents are working on site with Customs Inspectors. Customs processes approximately 600,000 legally exported vehicles annually. NICB claims that over 200,000 stolen vehicles are exported from the United States each year as units or as parts.

Customs uses an electronic system that conducts queries of Vehicle Identification Numbers to the National Crime Information Center (NCIC), NICB and other databases to detect stolen vehicles prior to exportation. In addition, the NICB Vehicle Export Program, a stand-alone online system, is being used by Inspectors to access vehicle history and assist with Vehicle Identification Numbers at 10 ports.

During fiscal year 1999 Customs seized 1,343 outbound stolen vehicles with an estimated value of more than $16.5 million.

Forced Child Labor

The investigation of allegations of goods manufactured or produced with convict, forced or indentured labor, including forced or indentured child labor, is among the most difficult responsibilities of Customs. The investigations require special training, difficult negotiations with Foreign governments, and highly specialized intelligence. Special Agents who are part investigator and part diplomat, supported by highly specialized Intelligence Research Specialists. Special Agents must travel great distances and conduct investigations under trying physical, and political circumstances.

Through Outreach Programs with foreign authorities, public advocacy groups, and other U.S. agencies and organizations, Customs has developed working relationships in an effort to identify products manufactured or produced with some form of proscribed labor that are imported into the United States. As an outcome of the greater scrutiny, Customs has issued five Detention Orders which, to date, have resulted in three detentions. Detention Orders delay the entry of goods into the United States, until the importer provides Customs with proof that the goods were not produced with forced labor. As the result of one of these Detention Orders, Customs discovered the organized smuggling of beedi cigarettes to avoid the Customs Duties and Federal Excise Tax on tobacco products.

Tobacco Smuggling

International cigarette smuggling has grown to a multi-billion dollar a year illegal enterprise linked to transnational organized crime and international terrorism. Profits from cigarette smuggling rival those of narcotic trafficking. The United States plays an important role as a source and transshipment country. Additionally, large sums of money related to cigarette smuggling flow through U.S. financial institutions. Customs has taken steps to disrupt and dismantle some of the smuggling networks in cooperation with foreign law enforcement officials. Customs is studying the dramatic increase of cigarette imports into the United States in the last two quarters of 1999. The increased scrutiny, directed at certain beedi cigarette imports from

India, revealed the previously unknown smuggling of beedi cigarettes into the United States that has resulted in a loss of Customs duties and Federal Excise Tax.

Intellectual Property Rights

The enforcement of our Intellectual Property Rights (IPR) continues to be Customs priority. We recognize that IPR crime is a problem that is global in proportion, adversely affecting domestic and international business. The explosion of IPR crime is, in part, the result of increased technological advances associated with computers and the Internet. Due to our border search authority, Customs has unique authority and qualifications in the fight against IPR crime. During the last 3 fiscal years, Customs enforcement efforts have resulted in record breaking IPR seizures and significant investigative activity.

Customs continues its concerted effort to detect and seize infringing merchandise entering the United States and to investigate those individuals and organizations involved in those illicit schemes. This mission is accomplished through the cooperation of various disciplines within Customs and with other domestic and foreign law enforcement.

Customs, in coordination with the Department of Justice, has developed and begun limited operation of the multi-agency National Intellectual Property Rights Coordination Center. The Center will coordinate U.S. Government law enforcement activities involving IPR issues. The Center will integrate information and intelligence obtained from both domestic and international law enforcement, as well as, private industry pertaining to IPR crime. This information will be disseminated for appropriate investigative and tactical use. The Center will assist in the enhancement and further development of investigative, intelligence and interdiction capabilities.

Textile Smuggling

Customs has increased its efforts in combating the smuggling and illegal transshipment, to avoid quota restrictions, of textiles and wearing apparel. Worldwide, many violators continue to participate in the criminal transportation and importation of textiles and apparel goods into the United States. The textile production verification team is still the primary resource for Customs in identifying illegal textile transshipment.

Many of Customs investigative field offices within the Office of Investigations concentrate on the smuggling of textiles via in-bond diversion. These offices have successfully infiltrated smuggling organizations with the use of undercover operations. These undercover operations have identified transnational criminal organizations that have smuggled hundreds of containers of textiles and other merchandise into the commerce of the United States. This activity has deprived the United States Government of customs duties and has violated the trade restrictions implemented through the quota and visa systems. Customs will continue to attack this problem through the use of undercover operations and other traditional investigative techniques.

Financial Investigations

Customs is a leader in the Federal government's efforts to combat money laundering and it provides key support to the National Money Laundering Strategy. In order to target the money launderers and the systems they employ, Customs has been given a broad grant of authority in the conduct of international financial crime and money laundering investigations. This authority is primarily derived from the Bank Secrecy Act (BSA) and the Money Laundering Control Acts of 1986 and 1988.

Customs has implemented an aggressive strategy to combat money laundering, and now dedicates in excess of 400 agents worldwide to money laundering investigations. Our approach involves interdiction efforts by Customs Inspectors, criminal investigations by Customs Special Agents, and in partnership with Treasury, FinCEN and others, the design and implementation of innovative regulatory interventions, such as the Geographic Targeting Order.

These efforts against money laundering are not limited to drug related money laundering, but to the proceeds of all crime laundered in a variety of ways. During fiscal years 1998 and 1999, money laundering investigations conducted by Customs resulted in the arrest of over 2,100 violators and the seizure of more than $600 million.

In achieving this success, Customs relies on a variety of enforcement tools to attack money launderers and the systems they use to launder their criminal proceeds.

Asset Identification and Removal Groups

In response to the threat and challenge of identifying criminal assets, Customs created Asset Identification and Removal Groups, or AIRGs, to target the assets of

criminal organizations as early as possible. Currently, Customs has trained and equipped 21 AIRGs, composed of Special Agents, Auditors, and Forensic Accountants.

Our AIRG team in South Florida traced the assets of a convicted marijuana smuggler who, for nearly 15 years, hid his assets through a myriad of nominee corporations, business dealings, and offshore bank accounts. Despite his best efforts, the AIRG was able to trace the profits of his drug trade. Last year, this convicted drug smuggler forfeited $50 million to Customs, the largest single Customs and Treasury Department monetary seizure. The Monroe County (Florida) Sheriff's Office provided substantial assistance to the investigation and based upon their contributions last year, Customs shared $25 million of the seized money with that department.

As part of Customs critical role within the Treasury led Black Market Peso Exchange (BMPE) Working Group, these groups will be augmented this year to focus on the BMPE. There will also be a Suspicious Activity Review Unit within each group that will work to disseminate intelligence gathered from Suspicious Activity Reports and distribute the information to our field agents.

Money Laundering Coordination Center

The Customs Money Laundering Coordination Center, or MLCC, is now operational and will soon provide 24-hour deconfliction support to all Customs undercover financial investigations. By doing so, the MLCC acts as a safety mechanism so that all Customs undercover actions are tracked and coordinated in real time, thus ensuring that our numerous money laundering investigations do not conflict with one another and that undercover agents are not unknowingly pursuing the same target. The MLCC also analyzes information provided by these operations in order to more fully develop targets and expand investigations. We have invited all Federal law enforcement agencies that are conducting relevant investigations to participate in the MLCC.

As outlined in the National Money Laundering Strategy, the Money Laundering Coordination Center is also the repository for all U.S. Government information relating to Black Market Peso Exchange. Information is gathered on money brokers, bank accounts, trade data and other targets. The information is analyzed by Customs to identify any targets, systems, and patterns that are then sent to our field offices for further investigation.

"Non-Narcotic" Money Laundering

The money laundering investigations conducted by Customs are not limited to organizations that launder drug proceeds. Customs has primary international jurisdiction involving violations of Title 18 USC 2314 which enables us to address money laundering outside of the context of drug trafficking.

A number of initiatives are underway which are designed to target non-narcotic money laundering. For instance, our Numerically Integrated Profiling System (NIPS) has the ability to manipulate import/export and BSA data to determine anomalies, trends, patterns and suspicious activity.

Customs participates in Project Colt, which is a joint Canadian-U.S. law enforcement initiative that targets telemarketers in Canada who prey upon elderly U.S. citizens in a lottery and advance fee scam. Since last June, Project Colt has seized and returned over $9 million to U.S. and Canadian victims.

Customs also targets Prime Bank Note schemes and other investment schemes. For example, Operation Risky Business, conducted by our Tallahassee office focuses on a worldwide advance fee scheme that targeted U.S. businessmen. The total loss to U.S. victims in this case is in excess of $60 million. In Phoenix, Customs Agents developed an initiative targeting Prime Bank Instrument frauds that utilized foreign banks to launder and conceal funds from investors. Our agents have seized over $24 million from violators in that case.

Bulk Cash Smuggling

Customs continues to seize large amounts of bulk outbound cash at our airports, seaports, and land borders. Over the past 4 years, we have seized in excess of $233 million in cash that violators had attempted to smuggle out of the United States.

International criminal organizations routinely collect sizeable amounts of cash derived from illegal activities and then attempt to smuggle the cash in large shipments out of the United States. Customs has discovered and seized bulk cash shipments in cars, boats, stereo equipment, and in hidden compartments. The amounts of money can be staggering. In Newark, New Jersey, Customs seized over $11 million in truck transmissions. In Miami, we seized $9 million hidden in stereo gear. Our agents, acting in conjunction with our undercover investigations, routinely find money stash houses that have hundreds of thousands of dollars bundled up and ready to be smuggled out of the country.

Technology strengthens outbound inspection efforts, while facilitating normal border traffic flow. Non-intrusive technology and other equipment assist Customs Inspectors and Currency Canine Enforcement Officers in the search of cargo and conveyances at seaports, courier hubs, and on the Southern land border for undeclared currency. In fiscal year 2000, Customs was appropriated $2 million to purchase crucial additional equipment for our outbound interdiction efforts. This funding will provide seven mobile x-ray vans, three tool trucks, and three contraband detection kits. The equipment should in effect pay for itself within the first full year of operation.

Foreign Drug Intelligence Collection

In August 1999, Customs signed a Memorandum of Understanding with the Drug Enforcement Administration (DEA) granting Customs the authority to collect counterdrug intelligence overseas in support of the counterdrug mission of Customs. The requirement for Customs to be given the authority to collect counterdrug intelligence overseas was recognized by ONDCP in the White House Task Force on the Coordination of Counterdrug Intelligence Centers and Activities. This interagency task force carried out an exhaustive review of the national counterdrug intelligence architecture in 1998.

In October 1999, Customs detailed a Special Agent and an Intelligence Analyst to Mexico for 90 days. This initial phase was largely exploratory and consisted of establishing contacts with DEA and appropriate personnel within the Embassy in Mexico City to assess how the Foreign Intelligence Collection (FIC) team could best accomplish the mission of collecting tactical drug intelligence. The FIC team will return to Mexico in mid-March for 30 days to conduct visits to Northern Mexico DEA Offices in Juarez, Monterrey, Hermosillo, and Tijuana to assess the availability of tactical intelligence. Customs is planning to send another FIC team to Ecuador during the April timeframe.

Intelligence Collection and Analysis Teams/BCI

Through the Border Coordination Initiative (BCI), we have continued our efforts to build a strong platform of cooperation with our counterpart agencies, the Immigration and Naturalization Service (INS) and the U.S. Border Patrol (USBP), along the Southwest Border.

We now have full participation in the Intelligence Collection and Analysis Teams (ICATs) which were formed to create a seamless process of gathering tactical intelligence which can be used by all the participant agencies in their quest to interdict drugs, illegal aliens, and other contraband.

International Affairs

Customs develops partnerships with other U.S. government agencies, foreign governments, and private organizations for the purpose of improving trade and enforcement practices worldwide.

Partnerships help to provide the funding that is needed to deliver critical assistance to foreign governments trying to improve the effectiveness of their border management agencies. Our most significant projects are those funded by the Department of State and/or the Agency for International Development. Some partnership arrangements, such as the Americas Counter-Smuggling Initiative (ACSI), involve Customs working jointly with foreign governments and the private sector toward shared goals.

Efforts to improve international trade continue with cooperation from other government agencies and international organizations—specifically the Asia Pacific Economic Cooperation (APEC), World Trade Organization (WTO), World Customs Organization (WCO), and the Caribbean Customs Law Enforcement Council (CCLEC), to name a few. Customs works closely with these organizations to reduce procedural trade barriers and seek greater standardization, transparency, simplification and automation of trade practices.

Additionally, the United States negotiates Customs Mutual Assistance Agreements with foreign customs administrations. These agreements provide a framework for mutual assistance to prevent and investigate any offense against the customs laws of either country.

Customs also pursues its mission of protecting the borders of the Nation through international efforts. In cooperation with the Department of State and others, we attempt to strengthen the infrastructure of foreign customs administrations and police agencies so that there can be more effective barriers against narcotics and other dangerous contraband, which might otherwise reach the United States. More effective border control agencies in the nations with which we trade also lead to better enforcement of the rules of international trade; facilitation of that trade; and more stable and prosperous political and economic situations.

During fiscal year 2000, Customs undertook an extensive program of integrity and anti-corruption awareness training in several regions of the world. This training is largely funded by the Department of State, Bureau for International Narcotics and Law Enforcement Affairs. The programs are being offered in Central America, Colombia, Haiti, South Asia, China, Nigeria, and Bulgaria. We seek to exchange ideas and information related to personnel practices, appropriate laws and regulations, codes of conduct, internal affairs operations, integrity awareness programs, etc., which will lead to more professional customs and police agencies.

It is our hope that these cooperative engagements of foreign border control organizations will result in significant initiatives in the countries involved to increase the level of professionalism among officers required to interdict dangerous contraband, enforce the rules of trade, and increase the collections of customs revenue upon which many of these nations heavily depend.

For almost a decade, Customs has provided technical assistance to other Customs and law enforcement agencies in Eastern Europe and the former Soviet Union to stem the flow of Weapons of Mass Destruction (WMD) and their components. Using home-grown expertise and technical expertise from the Department of Energy, Customs has developed and implemented several programs to familiarize and train foreign law enforcement officers on the knowledge, techniques and skills needed to interdict and investigate the smuggling of chemical, biological, and nuclear components and delivery systems.

Over the past 3 years, Customs implemented, with the Department of Defense, Counterproliferation Training Program throughout Eastern Europe and the newly Independent States of the former Soviet Union. The program has three elements: training, equipment, and short-term technical advisors. Training is mostly done overseas in the host country, in their working environment. Most of the training is accompanied by equipment. The equipment can be categorized as either time tested low-tech items, such as hammers, drills and flashlights, or newer high-tech items, which would include handheld radiation detection systems, fiber optic scopes and density meters. One training course known as RADACAD, short for Radiation Academy, is taught by Customs and experts from the Department of Energy's Pacific Northwest National Lab on the Hanford Nuclear Reservation in Washington State. RADACAD is the only law enforcement training class that allows students to work with special nuclear materials. The third elements of the program are short-term technical advisors. These advisors are most instrumental in implementing the training techniques and equipment delivered under the program. In addition, they try to work with foreign law enforcement agencies to develop better legal, managerial and physical border security infrastructures.

We have already seen successes with this program. One example is a situation where former students of the program seized special nuclear materials. We believe that if we can familiarize foreign law enforcement officials with the threat and how to contain it, we will end up making the United States, and the world, a safer place to live.

RECENT ACCOMPLISHMENTS

Anti/Counter-Terrorism

The prevention of terrorist threats at our borders is a cornerstone of Customs responsibilities. Our mission in combating international terrorism is twofold: protect the American public from Weapons of Mass Destruction (WMD) and other instruments of terror, and prevent international terrorists from obtaining WMD materials and technologies, arms, funds, and other material support from U.S. and foreign sources.

The importance of this mission was illustrated during the period of "Heightened Alert" over the 1999–2000 holiday season. In December 1999, Customs apprehended a suspected terrorist, Ahmed Ressam, in Port Angeles, Washington. Ressam was transporting hazardous materials, including timing devices and other bomb making components.

Customs subsequently articulated a new alert plan for any future threats of this nature. The plan outlines four alert levels, each of which carries a specific set of instructions for field managers to implement once that alert is activated. These actions are designed to ensure an appropriate response to the threat at hand while also facilitating the movement of normal border traffic flows.

Internal Conspiracies

The drug smugglers that we combat continue to adapt to our counter smuggling methods. One of their increasingly common techniques is the use of "internal conspiracies." Internal conspiracies rely on workers within a company, industry, or port

to introduce drugs into otherwise legitimate cargo or conveyances. Customs "Operation Overlord" focused its investigations on just such an internal conspiracy at Miami International Airport in August 1999.

In cooperation with other law enforcement agencies, Customs was able to uncover internal conspiracies at several major airlines and ground service companies. The investigation culminated with the arrest of more than 58 subjects, including three law enforcement officers. During the course of our investigation we seized 691 pounds of cocaine and 17 pounds of heroin. These seizures were in addition to the "sham" drugs that conspirators moved on behalf of undercover agents during the course of the investigation.

In addition to highlighting the relative ease with which smugglers can introduce drugs into the commercial aviation environment, "Operation Overlord" also highlighted serious deficiencies in overall security at U.S. airports. Working with other law enforcement and regulatory agencies, Customs is trying to use the lessons learned from Operation Overlord to improve security at our airports.

Internet Activities

Customs mission also extends to the borderless world of cyberspace. With the evolution of the Information Age and the growth of the Internet, traditional enforcement methods are being bypassed by the more sophisticated criminal elements. The cyberspace environment provides criminals with a means to both coordinate and to conduct criminal activity anonymously.

In addition, consumers increasingly order goods "online" from foreign locations. Most of these items will arrive in the U.S. in small packages and be processed by at least one of the 14 Customs International Mail facilities or several courier hub locations. In fiscal year 1999, the 220 personnel assigned to International Mail locations alone cleared more than 1 billion flat parcels, a figure that is sure to increase. The ease and volume with which people can order Foreign items makes it easier to obtain goods prohibited from import into the United States.

The most recent example of this is in the area of illegal importation of prohibited pharmaceuticals. In 1999 Customs realized a significant increase in pharmaceutical seizures: from 2,139 seizures in 1998 to 9,725 seizures in 1999. Most of these seizures are attributed to the explosion of online pharmacies. An ever-increasing number of these pharmacies are located abroad, outside the jurisdiction of U.S. regulators and law enforcement officers. Many of these sites blatantly advertise the sale of prescription drugs without the need of a prescription. Among the most common drugs seized by Customs are valium, codeine, anabolic steroids, rohypnol (the so-called "date rape" drug) and fenfleuramine (fen-phen). Coping with this problem will require a coordinated effort involving interdiction, investigation by the Customs CyberSmuggling Center and cooperation with foreign governments.

Although foreign online pharmacies can be found on every continent, Thailand has emerged as one of the most prolific source countries. In June 1999, the Customs Attache in Bangkok initiated a special operation with Thai law enforcement agencies to target suspect pharmaceutical shipments to the U.S. During this operation, Thai authorities assisted in the identification of over 4,500 shipments to the U.S. and developed sufficient evidence to take enforcement action against the Thai companies. Customs CyberSmuggling Center agents provided technical assistance to the Thais. Search warrants were executed on 7 online pharmacies. In all, 22 suspects were arrested and more than 2.5 million pharmaceutical dosage units were seized. Records from one company indicate that 80 percent of the orders were destined to the U.S. The immediate impact of these raids was that exports of unlicensed pharmaceuticals to the United States were non-existent a month following the Thai enforcement action.

Child Pornography

Between November 1998 and September 1999, Customs child pornography cases resulted in 436 convictions nationwide.

The amount of child pornography on the Internet, the numerous incidents of enticement of children by adults for sexual purposes and the alarming rise in child sex tourism has prompted Customs agents to step up efforts to combat this menace.

The Customs CyberSmuggling Center works closely with the National Center for Missing and Exploited children to process hundreds of child pornography leads every week. Cooperation with foreign law enforcement is vitally important due to the borderless nature of the Internet. Internet investigations require investigators to move quickly to capture evidence from Internet service providers necessary for successful prosecution. The informal and timely exchange of information between law enforcement officers around the world is a necessity.

This cooperation has led to many successes. For example, as a result of a joint investigation with the German Federal police, the CyberSmuggling Center has referred 24 cases to field offices since October 1, 1999. Customs is currently involved in a joint child pornography/money laundering investigation with several other countries involving the distribution of child pornography. In addition, Customs is working closely with foreign law enforcement in Europe, Central America and Southeast Asia on child sex tourism investigations.

In the first quarter of fiscal year 2000, approximately 100 Internet based investigations developed by Customs CyberSmuggling Center were referred to field offices along with hundreds of Internet leads to our foreign counterparts. We sent 101 leads to Canada alone.

Customs strategic approach to combating cyber crimes also includes outreach and training initiatives. In the area of outreach, we have an aggressive public awareness program and spend a significant amount of time informing the public of potential dangers, especially to children, on the Internet. We are working to build a solid infrastructure to combat the shift to high tech crimes by purchasing and utilizing state of the art equipment and by bringing together the various expertise required for Internet-based investigations. We are developing a comprehensive training program for Customs agents and domestic law enforcement personnel as well as our foreign counterparts to improve these officers' skills in conducting Internet-based investigations.

FISCAL YEAR 2001 BUDGET REQUEST

For fiscal year 2001, Customs proposes a total program level of $2,368,207,000 and 17,544 Full Time Equivalents (FTE). Of this amount, $11 million will be reimbursed from the Treasury Forfeiture Fund.

Excluding Treasury Forfeiture Fund proceeds in both fiscal year 2000 and fiscal year 2001, the fiscal year 2001 budget represents an increase of 14.8 percent above the fiscal year 2000 enacted discretionary level. In addition, the Administration has requested $210 million for ACE development to be offset by a proposed fee.

Drug Investigations Initiative—$25 million, 107 FTE

Over the last several years, the wholesale price of imported illicit drugs, such as cocaine and heroin, have plummeted to record low levels. This is particularly alarming since research has shown that there is a direct correlation between consumption and price. Research has also shown that effective high-level enforcement (that is, enforcement above the "street" level) can raise prices, thereby reducing consumption. In an effort to address this disturbing trend, it is the intent of Customs to mount a comprehensive investigative effort to enhance high level enforcement by identifying and dismantling major drug smuggling organizations (DSOs).

Successful dismantling of DSOs requires that Customs agents target the organization's operational cells (i.e., transportation, distribution and money laundering) and disrupt the interrelationship that exists between them. Customs does this by building an "investigative bridge" between border smuggling activity and the organization's command and control hierarchy located at inland U.S. cities. Special agents employ a variety of techniques to build the investigative bridge, including controlled deliveries, undercover operations, electronic and physical surveillance, and the cultivation of sources of information. However, effective employment of these techniques is labor-intensive and requires many investigative hours.

If funded, 214 additional agents would be hired and strategically placed at both the border and inland command and control cities to conduct long-term, complex cases that would focus on the most significant DSOs. These investigative efforts will increase the return in enforcement results to include increased asset seizures and higher level arrests. If sustained, it is anticipated that these results will eventually translate into an increase in the risk borne by drug traffickers and force them to find alternative methods, raise their prices or curtail their trafficking operations.

Narcotics Illicit Proceeds Strategy Initiative—$10 million, 49 FTE

The majority of undeclared currency leaving the U.S. involves proceeds from narcotics trafficking activities. The ever-increasing volume of cross-border traffic means that Customs should conduct more examinations more effectively in order to keep up with the activities of the Drug Smuggling Organizations. Due to the already extensive demand placed on current personnel, outbound examinations are currently being conducted on a very limited basis. In fiscal year 1999, Customs seized more than $60.5 million in undeclared outbound currency, even with the limited number of human resources conducting outbound examinations. More than 71 percent of that currency was destined to drug trafficking countries. If funding is approved, Customs ability to seize illegal narcotics proceeds would increase substantially.

Forced Child Labor Initiative—$5 million, 9 FTE

Customs is spearheading an initiative to prevent the importation of merchandise, manufactured or produced by Forced Child Labor, into the United States. In furtherance of this initiative, Customs investigates both historical and current allegations of Forced Child Labor through the deployment of investigative teams to suspect foreign manufacturing facilities, along with fostering better working relationships and cooperation with foreign law enforcement agencies. Additionally, Customs conducts intensive Outreach Programs and training for law enforcement agencies, manufacturers, producers and other government agencies in the countries that have been identified as having a significant number of allegations regarding Forced Child Labor.

The funding will be used to: establish and staff two regional offices in countries from which a significant number of allegations of Forced Child Labor have originated; add an additional Special Agent position to the SCR/Hong Kong; add an additional Special Agent position at the Forced Child Labor Command Center and establish eight Special Agent positions in domestic cities where the importation of a high volume of goods, made by Forced Child Labor, has been identified.

The establishment of the additional regional offices and Special Agent positions will result in an increase in pro-active investigations along with the exclusion of goods, identified as having been made with Forced Child Labor, from the United States.

PDD 62 (Major Events Security)—$12.8 million, 5 FTE

There is consensus among the national intelligence community of an increasing airborne or maritime terrorist threat, capable of delivering a conventional or unconventional (nuclear, biological or chemical) attack on specific, high visibility, national events. The United States Secret Service (USSS), which is charged with planning, designing and implementing security at major national events, does not have the aviation or marine resources necessary to defend against threats in these environments.

In order to carry out the direction set forth in Presidential Decision Directive (PDD) 62, the Customs Air and Marine Interdiction Division (AMID) will dedicate air resources in support of the USSS to enhance defenses against conventional and unconventional terrorist attacks at designated national special security events. The proposed concept is to provide dedicated Customs aviation resources in some of the following: enforcement of temporary flight restricted areas (air only), site and route surveys, surveillance, and tactical insertion/extraction of USSS sniper/assault teams.

Customs proposes to establish a dedicated air branch to support the USSS mission as outlined in PDD 62. The branch would consist of two AS–350 helicopters, one King Air aircraft reassigned from a current AMID location; availability of 3 Black Hawk helicopters on 72 hour notice; funds for additional flight hours; facility lease costs; and additional staff for this branch.

Enforcement Infrastructure—$19.8 million, 0 FTE

To operate safely and effectively, Customs air assets require special communication, surveillance, and automated data processing equipment to be installed on board or at ground support centers. Funds will support replacement of deteriorating and obsolete safety equipment, including infrared radar systems and surveillance equipment aboard current aircraft and original mission equipment at Customs Air and Marine Interdiction Coordination Center (AMICC). AMICC is the Nation's only radar command center, responsible for the tactical direction of Government law enforcement efforts aimed at intercepting drug smugglers entering the United States.

Customs aircraft routinely and increasingly operate in airspace without benefit of control tower assistance. Often, this uncontrolled airspace overlies treacherous, mountainous terrain, requiring complex and demanding flight procedures. To dramatically increase the margin of safety for Customs aircraft and flight crews, funds will be provided to install traffic collision avoidance systems, with integrated ground proximity warning systems, into all Customs interdiction aircraft. The installation of these systems on board Customs aircraft will diminish Customs probability of suffering tragic accidents similar to those that occurred in the recent past to DOD and Department of Commerce personnel.

Automation Modernization—$338.4 million, 0 FTE

Customs must modernize its infrastructure and its commercial processing system, the Automated Commercial System (ACS), if we are to keep pace with the rapidly changing global economy and its rapidly growing technological developments. These infrastructure upgrades will also provide the necessary backbone to further our ef-

forts in anti/counter-terrorism, Internet enforcement, child pornography, and narcotics interdiction activities, just to name a few. With a more modern, efficient information technology infrastructure, our systems will be more efficient and respond more quickly, thus enabling our employees to work more effectively in meeting our mission critical demands. Our modernization efforts will transform our technology infrastructure and systems, and the processes by which we develop and deliver technology to our customers.

This $338 million request consists of:

—$123 million for ACS life support—$67 million is in our base and an additional $56 million is requested for hardware, software, and data circuit upgrades required to minimize future ACS system brownouts. ACS is 16 years old and runs on an infrastructure just as old. Over the past year, ACS has experienced numerous 19brown-outs' due to antiquated infrastructure hardware and software. These 19brown-outs' result in delayed trade processing and revenue collection.

—$210 million for ACE—$139 million for ACE software development and $71 million for infrastructure. To prepare for the transition from ACS to ACE, Customs has:

—Developed a blueprint for ACE software development;

—Developed an enterprise architecture;

—Established process to move toward level 2 Capability Maturity Model (CMM) software development;

—Enlisted the support of an independent contractor, MITRE, to partner with us in this effort;

—Established the Customs Modernization Office and Governance Process;

—Developed an investment management process;

—Completed an acquisition strategy; and

—Completed acquisition plan and source selection plan.

—$5.4 million for ITDS—these funds continue the base operations of the International Trade Data System (ITDS) which was transferred to Customs from the Department.

USER FEES

Automation Modernization Fee

The Administration proposes to establish a fee to fund the development of the new trade system, ACE. The appropriated request includes $123 million to support the existing transaction-based system, ACS. A legislative proposal has been transmitted that would allow the Secretary to establish this fee.

The recently completed cost-benefit analysis for conversion from ACS to ACE shows that modernizing Customs trade data processing system will provide significant benefits to both the Federal Government and private industry. The Administration believes the proposed fee appropriately captures some of the benefits that will accrue to private business from modernization, including a streamlined cargo entry process, account-based transactions, and a paperless process. The Administration believes that it is imperative to secure funding for this critical program. The Administration looks forward to working with the Congress on the fee to ensure that funding for this critical project is made available in fiscal year 2001.

CONCLUSION

This concludes my statement for the record. I appreciate the opportunity to appear before you today. I particularly want to express my appreciation to this Subcommittee for its support of Customs in the past and your continued interest and consideration of our fiscal year 2001 request. Your continuing support is essential to Customs ability to accomplish our mission to protect the Nation's borders and to reduce the flow of drugs into the United States.

Again, thank you for your consideration of the U.S. Customs Service. I hope we can continue to count on your support during your deliberations of the fiscal year 2001 budget process.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF BRADLEY A. BUCKLES, DIRECTOR

Senator CAMPBELL.Mr. Buckles.

Mr. BUCKLES. Mr. Chairman, Senator Dorgan, thank you for allowing me this opportunity to testify in support of ATF's fiscal year 2001 budget request. It is a tremendous honor for me to appear before the committee representing the outstanding men and women of ATF and the important work that they perform.

With me today is the new Deputy Director of ATF, Patrick Hynes, who brings to the position 28 years of experience as a law enforcement investigator.

Before I go too far, I would like to thank you and your staff for the opportunity we had earlier this week to participate in the technology exhibition. As you probably gathered, ATF is quite proud of what we have been doing with your support with innovative technologies that have expanded our capability and further enhanced our ability to assist our partners.

JUSTIFICATION OF BUDGET REQUEST

Thanks to the remarkable leadership of John Magaw, my predecessor, and the vital support and guidance from this committee, the ATF you see today is strong, focused, and ready to perform. Our fiscal year 2001 budget seeks $755 million and 4,671 FTE. This is an ambitious budget. But when measured against the devastating cost of violent crime and almost $13 billion in revenue we will collect, we believe it is a sound investment.

The growth we seek in this budget is essential if ATF is to adequately carry out our responsibilities under existing law. The majority of our proposed growth is to expand two previously funded and proven initiatives, the Integrated Violence Reduction Strategy and the Youth Crime Gun Interdiction Initiative. Both of these initiatives rely on concentrated enforcement of existing Federal laws, the application of state-of-the-art technology, and most importantly, teamwork with our State and local partners in working for safer communities.

Operation Cease Fire in Boston and Project EXILE in Richmond are but two examples where ATF along with Federal, State, and local enforcement authorities have worked together and produced tangible results in reducing violent crime. The additional resources we seek will allow us to bring these projects to additional cities around the country and to strengthen projects that are currently ongoing. This work will also be bolstered by another initiative in our budget that seeks funding to upgrade and expand our ballistics technology network.

Much of your focus today and in the coming months will no doubt be in our firearms initiatives, but I would urge that you continue your support for the other vital work we perform as well. For ex-

ample, another important initiative requests additional personnel to collect and protect hundreds of millions of dollars in new revenue from a recently enacted new cigarette tax.

In the past, this committee has insisted that ATF become fiscally sound before you would support growth. With your help and former Director Magaw's leadership, we have corrected our budget imbalances. We are now in a position to grow and achieve the goals we all share towards a sound and safer America.

PREPARED STATEMENT

Thank you for this opportunity to address the committee and I stand ready to answer any questions that you may have.

Senator CAMPBELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF BRADLEY A. BUCKLES

Thank you Mr. Chairman, Senator Dorgan, and members of the Subcommittee. I welcome this opportunity to appear before the Subcommittee and present to you ATF's goals for fiscal year 2001 and to report on the results of your previous investments in ATF.

I am pleased to introduce Mr. Patrick D. Hynes the newly appointed Deputy Director of ATF. Mr. Hynes brings with him 30 years of Federal law enforcement experience, 28 years as a law enforcement officer with ATF.

Also with me today are my other executive staff members:

Mr. William Earle, Assistant Director for Management and Chief Financial Officer; Mr. Andrew Vita, Assistant Director for Field Operations; and Mr. Jimmy Wooten, Assistant Director for Firearms, Explosives and Arson; Mr. Arthur Libertucci, Assistant Director for Alcohol and Tobacco; Mr. John Manfreda, Chief Counsel; Ms. Gale Rossides, Assistant Director for Training and Professional Development; Mr. Patrick Schambach, Assistant Director for Science and Technology and Chief Information Officer; Mr. David Benton, Assistant Director for Liaison and Public Information; Mr. Richard Hankinson, Assistant Director for Inspections; Mr. Lewis Raden, Executive Assistant for Legislative Affairs; Ms. Toby Bishop, Executive Assistant for Equal Opportunity; and Mr. Wayne Miller, Chief, Strategic Planning Office.

While I have the privilege of recently being appointed ATF's fifth Director, I would like to express my appreciation to my predecessor, John Magaw, for working with this committee toward the common goal of strengthening ATF's infrastructure, which was essential for ATF to continue to function as a highly professional and effective law enforcement organization. In my 26 years of service to the Bureau, I have had the opportunity to witness our history, participate in the formulation of our strategic vision and assist in moving the Bureau forward into a new century.

I thank the committee for their continued support for a new headquarters facility to safely house ATF's employees. The all too real threat to their safety was once again uncovered this past year when an individual chose to mail three explosive devices to two ATF facilities and the White House. Fortunately, one of the devices prematurely detonated inside a mail trailer and the remaining devices were safely disarmed upon discovery. The individual responsible for these acts was apprehended by ATF and local authorities, pled guilty, and has been sentenced to life plus 270 years incarceration.

I would also like to thank the committee for the support provided to my predecessor over the last several fiscal years. The foresight of this committee and the strategic investments you have provided have allowed the Bureau to strengthen its infrastructure to adequately support all program activities. Through calculated investments in investigative equipment, training and information technology, this committee sought to revitalize and restore ATF to a balanced and stable position. I am pleased to report to you that your investments have been well and prudently spent. For the fifth consecutive year, the Office of the Inspector General's independent contractor (PricewaterhouseCoopers LLP) has issued ATF its highest audit opinion of "unqualified," with no material weaknesses. A copy of our Accountability Report will be delivered to each of your offices in the next few weeks.

Given the committee's long investments in ATF, there are accompanying expectations. Expectations that a well-equipped, well-trained, and well-disciplined organiza-

tion will be more effective. Expectations that a fundamentally sound organization with proven results is capable of more. Expectations that, having restored the "core" of an organization, you have positioned that same organization to assume more and varied duties. This committee has a right to expect a return. As a result of your investments, ATF is positioned to deliver.

As ATF's Director, I am pleased to present to you a requested level of resources that builds upon the foundation you have firmly established. This level of resources focuses on the personnel and technology needed to address the varied and critically important responsibilities that have increased over the past decade. In keeping with your guidance, we have made our house sound. An integral component of the growth will be recruitment of personnel to accommodate the program expansions you have entrusted to us. The recruitment of additional personnel in fiscal year 2000 and fiscal year 2001 will help ensure the achievement of our shared vision of working for a sound and safe America through innovation and partnership.

FISCAL YEAR 2001 BUDGET REQUEST

ATF's fiscal year 2001 Salary and Expense (S&E) request justifies $755,903,000 in direct budget authority and 4,671 full-time equivalent (FTE). Our request accommodates the realignment of the Violent Crime Reduction Trust Fund (VCRTF) programs into our S&E appropriation base and represents an increase of $151,330,000, or 25 percent over the total fiscal year 2000 enacted level of $604,573,000.

The majority of this increase is for expansion of proven investigative and regulatory strategies designed to maximize effective enforcement of existing laws and regulations. An additional $25,834,000 is required for mandatory payroll costs and other inflation.

ATF has a unique combination of law enforcement and regulatory responsibilities. As Director, I will continue to focus on our core mission and vision of "Working for a Sound and Safer America . . . Through Innovation and Partnership." ATF has developed sound programmatic initiatives, based on existing laws and regulations, to respond to crime and violent acts that threaten public safety and instill fear in all Americans. Our vision helps us chart the course to best serve the public and achieve new levels of effectiveness and teamwork. I would now like to highlight some of the programs that support our efforts on behalf of the American public.

Integrated Violence Reduction Strategy (IVRS)

ATF is requesting $41,322,000 and 193 FTE for expansion of the Integrated Violence Reduction Strategy (IVRS) and will focus on several core components of firearms enforcement aimed at reducing the illegal possession and use of firearms.

IVRS is a national enforcement strategy that integrates several core concepts which are adapted and applied in varying formulas to address the specific law enforcement needs of a community. For example, Project Exile in Richmond, Virginia, and Project Ceasefire in Boston, Massachusetts, are two different, yet equally successful examples of IVRS. The core elements of IVRS include reducing the illegal supply of firearms to criminals; specific enforcement projects directed at criminals who use and possess firearms; and the identification and prosecution of prohibited persons who attempt to acquire firearms. All components of IVRS use state-of-the-art information processing to assist ATF and our State, local and Federal law enforcement partners in identifying those engaged in the criminal misuse and illegal acquisition of firearms. ATF is committed to working with law enforcement agencies and prosecutors to ensure the continued success of IVRS. Our experience in the fight against armed violence has demonstrated that an integrated approach is the right approach. Prevention, intervention and prosecution cannot succeed as segregated strategies. They must be combined to meet the challenge of effectively in reducing the criminal use of firearms in America.

Project EXILE and Project Ceasefire have been effective programs for addressing firearms violence in certain cities. However, the requirements and resources of each locality need to be evaluated individually. One of the purposes of the Integrated Violence Reduction Strategy is to allow U.S. Attorneys and ATF managers to collectively identify their unique crime problems and formulate appropriate actions to address them. Through the Violent Crime Coordinator, Armed Violent Criminal Apprehension (formerly Achilles) Programs, as well as through the Firearms Trafficking Program, ATF investigates and facilitates the prosecution of firearms violators. These programs are components of the Integrated Violence Reduction Strategy.

In fiscal year 2000, the Federal Bureau of Investigation's (FBI) National Instant Criminal Background Check System (NICS) is projecting that over 86,000 firearms purchase denials will be forwarded for ATF to evaluate and act upon. With the fiscal year 2001 budget request, ATF will devote additional field resources to investigate prohibited persons who attempt to purchase firearms, as well as conduct more in-

depth reviews of licensee records to ensure that they are conforming to the requirements of the Brady Act. To date, ATF has made more than 13,000 investigative referrals for field review on potential criminal violations involving domestic violence offenses or those who are subject to a restraining order. Additionally, more than 7,000 potential criminal violations involving violent felons or serious drug offenders have been referred to the field for investigation.

ATF's objective is to maximize voluntary compliance in the firearms industry through education, partnerships, and a compliance inspection program that uses ATF's inspection resources to focus on licensees having multiple crime gun traces and/or other indicators of potential firearms trafficking. The National Licensing Center processes and issues all ATF firearm licenses. Under ATF's current application program, all original applications are sent to the field offices for investigation prior to issuance. Renewal applications are sent to the field offices upon request.

Youth Crime Gun Interdiction Initiative (YCGII)

In fiscal year 2001, we are requesting $19,078,000 and 113 FTE for expansion of the YCGII Program. This very successful program complements IVRS by using a multi-faceted approach to break the chain of illegal gun supply to youths and juveniles and reduce youth violence. ATF will continue to assist comprehensive crime gun tracing in participating cities, provide rapid high volume crime gun tracing and crime gun market analysis through the National Tracing Center (NTC), and train ATF, State, and local law enforcement. ATF is proposing to expand this program to an additional 12 cities in fiscal year 2001, bringing the total of YCGII cities to 50. This reinforces the Administration's commitment to expand to 75 cities within 4 years.

Expanded Crime Gun Tracing

ATF is requesting $9,990,000 and 10 FTE for Comprehensive Crime Gun Tracing that will provide nationwide comprehensive tracing capability as well as faster trace results. The National Tracing Center (NTC) provides State and local agencies with information on crime guns to support its law enforcement efforts. The NTC provides valuable investigative leads to assist in solving crimes committed with firearms, and identifies those persons responsible for supplying crime guns to criminals. The NTC maintains the record of all crime guns traced by ATF, firearms stolen from firearms dealers, and records of multiple sales of handguns. The Firearms Tracing System (FTS) provides data on firearms which is used by ATF investigators to identify illegal firearms trafficking. The funds requested in the fiscal year 2001 budget will assist 250 State and local agencies in building tracing capability, and will allow ATF to complete traces and respond to requests more rapidly, making information available in real time for criminal investigations.

The NTC is also the national repository for Out of Business Records maintained on approximately 400 million frames of microfilm. These records are retrievable by the Federal Firearms Dealer Identification Number. An effort has commenced to index the firearms by serial number to enhance the retrieval process. The NTC plans to digitally image the out of business records and use an automated process to index the serial numbers. Currently 10 percent of traces are successfully completed through out of business records and 25 percent of all traces utilize these records.

Ballistics Identification

ATF is also requesting $23,361,000 and 10 FTE for Expanded Ballistics Identification. This national system will allow crimes committed with the same firearm to be connected through ballistics imaging. This information will be joined nationally through the Department of Justice's Criminal Justice Information System, Wide Area Network. On December 2, 1999, ATF and the FBI executed a memorandum of understanding (MOU) that will take maximum advantage of each agency's strengths and resources. The MOU established a single, jointly-operated, ballistics identification program in which ATF will manage the field deployment of ballistics imaging equipment supported by the FBI's management of interagency networking operations. Under the MOU, FBI's DRUGFIRE units will be replaced with ATF's IBIS or next generation "unified systems" developed from the best features of both IBIS and DRUGFIRE.

Tobacco Compliance

ATF is also seeking $5,521,000 and 44 FTE to implement the second phase of the Taxpayer Relief Act of 1997, (Tobacco Compliance law). Increased revenue will be derived from the additional taxes imposed on tobacco products at the higher tax rates. As enacted, this law requires two floor stocks tax increases; one that took effect January 1, 2000, and the second, which is effective January 1, 2002. The en-

acted legislation also requires a new permit system for importers of tobacco products. The funding requested in fiscal year 2001 would provide the necessary resources to implement the legislation as enacted.

National Laboratory

ATF is also seeking $6,026,000 for above standard costs vital to the completion, move in, operation, and maintenance of our new National Laboratory facility. The new facility will include a replacement laboratory building for the existing National Laboratory. The new National Laboratory's Alcohol and Tobacco Laboratory will support ATF's industry regulation and product taxation functions. The Forensic Science Laboratory will provide evidentiary analysis for ATF criminal investigations as well as for other State, local and Federal law enforcement agencies. The new Fire Research Laboratory is the only fire research and forensic laboratory in the world dedicated to criminal investigations. The Fire Research Laboratory will dramatically expand ATF's ability to support fire investigators on specific cases as well as improve fire science knowledge as it relates to fire investigations.

Clearly, a budget request that seeks to add 488 FTE and a 25 percent increase in funding in a single year is ambitious, and perhaps to some, even presumptuous. It is however, I believe, the logical and expected outcome of this committee's investments in ATF, and this committee's efforts to position ATF to grow to meet the mandates put before us.

Before I ask this committee to make this additional investment in ATF, it is my duty and responsibility to demonstrate to you that your prior investments have in fact yielded the expected outcomes.

FISCAL YEAR 1999 ATF ACCOMPLISHMENTS

Year after year, ATF works to make America a safer place for its citizens by fighting violent crime. ATF has been entrusted with the enforcement of the Federal firearms and explosives laws, as well as the regulation of legal commerce in the commodities produced by these industries. This dual duty places ATF at the forefront of efforts to reduce violent crime through both regulatory and enforcement initiatives.

As a result of the activities listed below, ATF referred 5,131 criminal cases recommending 6,804 defendants for prosecution in fiscal year 1999. This level of activity represents an increase of 1,041 additional criminal cases having been referred for prosecution over fiscal year 1998 levels. Fiscal year 1999 is the second consecutive year that the number of cases ATF has referred for prosecution has increased. In fiscal year 1999, the increase was 25 percent over the preceding year. Over this same time period, ATF special agent staffing only increased by 6 percent.

FIREARMS ENFORCEMENT

Over the past 5 years, ATF has expanded its illegal market disruption activity, particularly as it relates to guns being funneled to juveniles and youths, while remaining focused on serious violent offenders wherever State laws or policies are not as effective as the Federal alternative. By deterring and incarcerating recidivists and active shooters while also reducing the illegal supply of firearms, the Bureau can have the greatest impact on reducing violent crime.

Brady Law

Between November 30, 1998, (the effective date of the National Instant Criminal Background Check System) and February 2, 2000, ATF has received over 104,000 reports of denied firearms purchase applications from the FBI's NICS unit regarding persons identified as prohibited from firearms possession. Nearly 25,000 of those denials have resulted in referrals to ATF field offices for further investigation. As a result of NICS referrals, ATF has made 100 arrests and submitted 437 case reports charging 465 defendants with violations of the Federal firearms laws. Over 14,000 referrals are under evaluation for possible investigation.

In an additional 4,976 instances, firearms were delivered to persons identified by the FBI after the 3-day waiting period as prohibited from possession. In each of these 4,976 cases, ATF conducted an immediate investigation to determine if, in fact, the individual receiving the firearm was legally prohibited from such receipt and possession. Where it has been determined that an individual is legally prohibited from possession, immediate actions have been undertaken to secure the firearm from the individual and initiate prosecution where warranted.

ATF published regulations implementing the permanent provisions of the Brady Handgun Violence Prevention Act by requiring entities licensed as Federal firearms importers, manufacturers, and dealers, with some exceptions, to contact the NICS before transferring any firearm to an unlicensed individual.

To date, ATF has made more than 13,000 investigative referrals to our field offices on potential violations of domestic violence offenses or of persons who are subject to a restraining order. Additionally, more than 7,000 potential criminal violations involving either violent felons or serious drug offenders have been referred to the field.

Regulation of the Commerce in Firearms

ATF's objective is to maximize voluntary compliance in the firearms industry through education, partnerships, and a compliance inspection program that focuses on licensees with trace indicators of potential firearms trafficking. The National Licensing Center processes and issues all ATF firearm licenses. Under ATF's current application program, all original applications are sent to the field offices prior to issuance.

As of February 1, 2000, there are 104,070 Federal firearms licensees in this Nation, a substantial reduction from the nearly 288,000 licensees authorized to conduct commerce in firearms prior to the passage of the Brady Law. In an effort to ensure that firearms industry members fully understand the regulatory requirements of maintaining their license, we conducted 155 seminars for licensees in fiscal year 1999. ATF also inspected 11,053 licensees, resulting in the detection of 3,860 violations of regulations, and 2,426 referrals to ATF Special Agents and other Federal, State, and local law enforcement agencies for the investigation of possible criminal conduct.

ATF's National Firearms Act Branch maintains the National Firearms Registration and Transfer Record (NFRTR), which is the central registry of NFA firearms, such as machineguns, short-barreled rifles, shotguns, silencers, and destructive devices. In fiscal year 1999, the NFA Branch processed 306,515 registrations of NFA firearms. ATF searches the NFRTR in support of criminal investigations and regulatory enforcement inspections. The NFA Branch is in the process of imaging and indexing all NFA records back to 1934 to afford ATF the highest possible accuracy of the NFRTR.

Our Firearms and Explosives Imports Branch (FEIB) is responsible for processing all applications for permits to import firearms, ammunition, and other defense articles into the United States, and for maintaining the registry of commercial importers of such articles. In fiscal year 1999, FEIB received 12,776 import permit applications, and 300 registration applications.

With the licensee population over 100,000, it is not currently practical to perform a regular cycle of inspections of the entire licensee population. Fortunately, the majority of dealers rarely have their guns end up at a crime scene, and only a small percentage of the population is involved in criminal activity. It is therefore logical to select for inspection those dealers most likely to be a source of crime guns—intentionally or not.

In October 1998, ATF implemented a "focused" inspection policy, which requires field division personnel to select Federal firearms licensees (FFLs) for inspection based on information developed by the Crime Gun Analysis Branch of the NTC. This valuable information provides indicators of potential firearms trafficking associated with particular FFLs. These include such things as the number of crime guns traced to an FFL in a 1-year timeframe, time to crime, number of firearms reported stolen, and number of unsuccessful traces associated with a particular FFL. ATF then selects FFLs for inspection who have a high rate of the indicators associated with their businesses. In order to achieve our goal of reducing violent crime by denying criminals access to firearms, ATF needs to focus its limited inspector resources toward inspecting these FFLs.

ATF published a final rule in the Federal Register to amend regulations relating to the Federal excise tax imposed on manufacturers of firearms and ammunition to clarify which parts and accessories are to be included in the sale price when calculating the tax on firearms.

ATF published in the Federal Register a notice proposing to amend the regulations to prescribe minimum height and depth requirements for identifying marks placed on firearms by licensed importers and licensed manufacturers. If adopted, the regulations will facilitate ATF's ability to trace the origins of firearms used in crime.

National Ballistics Identification

In fiscal year 1999, nearly 168,000 projectiles and casings were entered into the IBIS data bases nationwide (an 81 percent increase over 1998) resulting in 1,150 matches of ballistic evidence between multiple crime scenes (a 56 percent increase over 1998.) This technology has cut the process of comparing and evaluating ballistic evidence from days to minutes and has provided criminal investigative leads which were previously unavailable to the law enforcement community. ATF and the

FBI entered into an agreement in May 1997 that created the National Integrated Ballistics Information Network (NIBIN) Board. The Board's goal is to unify Federal efforts to deploy ballistics technology. The NIBIN Board determined that the best path to creating a unified national ballistics network would be to use a single ballistics imaging system. The NIBIN Board facilitated the execution of a memorandum of understanding (MOU) between ATF and the FBI regarding the NIBIN Program. Under the terms of the MOU, ATF will assume responsibility for crime gun operations. These include hardware and software development, installation, and maintenance; image database management; training; quality assurance; and user protocols. The FBI will assume responsibility for networking operations and the development and deployment of ancillary databases for firearms examiners.

In an effort to merge the programs and allow for the seamless exchange of information, a decision was made to adopt the single IBIS technology; therefore, ATF and the FBI executed the MOU spelling out each agency's responsibilities under the NIBIN Program. This agreement ensures sharing of information and increases the potential to identify armed violent criminals.

Firearms Tracing

This past year was significant in many ways to the National Tracing Center. The number of crime gun traces topped the 200,000 mark. Additional cities became partners in the YCGII, which has the use of crime gun information as its cornerstone. Some of these enhancements to further improve upon the quality of this unique ATF service included: improvements in response time through the new Firearms Tracing System (FTS) platform; development of the "Web Query" for access to the FTS by our agents and inspectors which provides our partners in law enforcement the tools to improve their capabilities through the Electronic Tracing Submission System (ETSS); working with the firearms industry to improve firearms tracing through Access 2000; and lastly, ATF's "OnLine LEAD." This investigative tool uses all the information in the NTC databases to assist our special agents in discerning and investigating those who traffic illegally in firearms.

International Firearms Matters

In addition, ATF and its technology have been called upon to once again support the United Nations' War Crimes Tribunals investigating alleged death squads in Bosnia-Herzegovina. In December 1999, ATF sent a team of experts to Bosnia to test-fire and recover ballistic evidence from over 1,500 firearms seized from the Bosnian-Serb Army. These weapons are suspected of being used in the 1995 atrocities in Srebrenica and other areas of eastern Bosnia. ATF laboratories are currently comparing the test fire evidence with over 3,000 pieces of ballistic evidence recovered from primary and secondary gravesites. At the request of the Tribunal, over 4,500 pieces of ballistic evidence recovered from Bosnia are currently being compared and evaluated at the ATF laboratories.

Elsewhere, ATF participation is essential in a variety of international forums examining methods of combating illegal transnational firearms trafficking. ATF provides expert technical advice relating to the Federal firearms laws and the benefit of practical experience associated with our criminal enforcement responsibilities. U.S. foreign policy decision-makers rely on ATF's involvement and input in formulating sound decisions, which ensure that U.S. equities and concerns in this arena are protected.

ARSON AND EXPLOSIVES ENFORCEMENT

I would like to point out to the Committee that while ATF has had very significant accomplishments in fighting firearms violence, ATF has also had equally significant successes in addressing violent crime in the areas of arson and explosives. For example, in fiscal year 1999, ATF certified fire investigators responded to an estimated 2,200 fires across the country. These highly trained special agents respond to incidents at all times of the day and night to make the initial determination of potential criminal acts warranting further investigation. ATF inspectors carried a considerable workload in helping to ensure the lawful use of explosives materials. They completed more than 7,294 inspections of the 10,662 explosives licensees. These inspections disclosed and resulted in correction of more than 2,831 violations, 1,431 of which presented unsafe conditions. There were also 182 criminal referrals made as a result of these inspections.

Arson at Houses of Worship

In fiscal year 1999, ATF responded to all known fires and explosions at houses of worship nationwide, 322 responses in all. Of those incidents, 132 fires and 12 bombings were determined through investigation to be caused by deliberate criminal

conduct. I am proud to report to the committee that ATF's efforts in the investigation of fires at houses of worship have resulted in 35 percent of these cases being solved, a solution rate more than double the national average for the crime of arson.

National Response Teams

Our National Response Teams were activated a record 42 times in fiscal year 1999 to investigate major fire and explosives incidents. In 55 percent of these activations, criminal conduct was determined to be the cause of the incident. Our National Response Teams cleared 46 percent of these incidents within the fiscal year, a solution rate that is 2½ times higher than the national average for the crime of arson. Of the incidents that occurred in fiscal year 1999, 57 percent have been cleared by arrest to date and we expect this percentage to increase as investigations continue. Due to the complexity of arson investigations, it often takes several years to complete the investigation from the time of incident.

State and Local Support and Partnerships

ATF and the U.S. Fire Administration (USFA) are teaming together to redesign and deploy a web-based system managed by the USFA, entitled "Fire and Explosion Investigation Management System," that will include information on fires and fire-related explosives incidents that occur nationwide for use by the fire/explosion investigation community.

ATF partnered with the National Association of State Fire Marshals and developed a discussion website for use strictly by individuals at the Federal, State, and local levels who have the statutory authority to investigate and prosecute fire and arson incidents. This website facilitates communication between the investigators.

ATF finalized the development of InterFIRE, a virtual reality, CD–ROM-based training tool that is intended to establish "best practices" in fire investigation and bring fire investigators to a "base level" of knowledge. Distribution has begun.

Through its explosives and accelerant detection canine training program ATF provides an investigative tool for use in explosives, firearms, and fire investigations, National Response Team investigations, public security, and the investigative needs of outside agencies. ATF's canine training facility in Front Royal, Virginia, is now open, and the kennels are in the final stages of construction. Under a training arrangement with the U.S. Department of State, ATF also trains explosives detection canines for foreign countries to be used overseas in the war against terrorism, and to protect American travelers abroad against terrorism. Through fiscal year 1999, ATF has trained and certified 68 accelerant-detecting canines for State and local agencies, and has trained and certified 190 explosives detection canine teams for deployment in 10 countries worldwide. Additionally, since 1998, ATF has trained 10 explosives detection canine teams for other Federal, State, and local agencies including the FBI, the Central Intelligence Agency, and the Internal Revenue Service.

In fiscal year 1999, ATF became aware of a need to develop an explosives destruction and disposal training program for State and local bomb technicians. This training program will be designed and implemented to cover areas not currently addressed by any other agency on a national scale. The first scheduled school is slated for March 2000.

In pursuit of the prevention of criminal misuse of explosives, ATF is strengthening its cadre of explosives technologists, who possess unique capabilities in explosives and bomb disposal. There are 18 technologists currently on board.

In fiscal year 1999, ATF produced a special video entitled "A Mother's Tears" in response to demand from State and local police departments and school systems for an explosives safety program for juveniles. This video was given the "Videographer's Award of Distinction" for instructional programming.

Counter Terrorism

I would like to point out that ATF's resources are at the core of this country's response to terrorism. ATF's firearms, explosives, and arson expertise directly addresses the principal tools of the "would be" terrorist. ATF plays an important role in the Federal Government's fight against terrorism and contributes to this fight through our day-to-day investigative work. ATF's employees hone their investigative skills in these areas on a daily basis and are uniquely qualified and equipped to immediately respond to arson and explosives crimes which may later be deemed acts of terrorism.

Explosives Study Group

"ATF's Explosives Study Group (ESG) is examining the tagging of explosive materials for purposes of detection and identification; the feasibility and practicability of rendering common chemicals used to manufacture explosive materials inert; the feasibility and practicability of imposing controls on certain precursor chemicals used

to manufacture explosives; State licensing requirements for the purchase and use of commercial high explosives; and the possible use of prevention (explosives detection) technologies", as stated in Section 732 of the Antiterrorism and Effective Death Penalty Act of 1996, as amended by the Omnibus Consolidated Appropriations Act for Fiscal Year 1997.

The ESG issued its first report on the Study (1997 Progress Report) to Congress in March 1998. In November 1999, ATF's second Progress Report on the Study of Marking, Rendering Inert, and Licensing of Explosive Materials, was submitted to Congress.

In February 1998, the ESG completed its research into, and analysis of, the Swiss identification tagging program, and reported in its second Progress Report that the program does not provide an adequate model for implementation in the U.S.

In early 1999, the ESG completed its analysis of the results of the ATF-commissioned study entitled "Study of Imposing Controls on, or Rendering Inert, Fertilizer Chemicals Used to Manufacture Explosive Materials," completed by the International Fertilizer Development Center (IFDC) in March 1997. The ESG concurs with the IFDC's conclusions concerning the current unfeasibility and potentially devastating economic and agronomic effects of rendering ammonium nitrate (AN) fertilizer inert.

The ESG has continued to communicate and work with other Federal agencies such as the Federal Aviation Administration, the U.S. Customs Service, the Department of Justice, and the Department of Energy. These efforts are aimed at facilitating a coordinated effort to identify and direct resources toward the most promising technologies, for both the detection of additives and the detection of explosives and explosive materials themselves, which may be used in a broad range of environments.

REVENUE COLLECTION

ATF continues to honor its obligation to fairly and efficiently collect over $12 billion in revenue in accordance with current laws. Our efforts have achieved an extraordinarily high level of voluntary compliance within the industries we regulate. In fiscal year 1999, ATF collected the following revenue: $11,900,000,000 in alcohol and tobacco excise taxes; $167 million in firearms excise taxes; and $105 million in special occupational taxes; and $6 million in licensing and transfer fees for a total exceeding $12,100 million.

Government Partnerships

ATF works with Federal, State, local and Foreign Governments in an effort to effectively collect revenue and regulate the industries subject to the Bureau's authority.

ATF redirected its approach to revenue collection through a program to identify taxpayers that pose high risk to the revenue due using a factoring system to rate taxpayers. In addition, a statistical sampling process was established to identify taxpayers in order to validate the criteria used. For these programs, new internal control documents were developed to pinpoint high-risk activities and weaknesses for inspection.

These evaluations were developed for the distilled spirits, wine, malt beverage, tobacco products, and firearms manufacturing industries.

In fiscal year 1999, ATF opened 106 alcohol and tobacco diversion investigations. Seizures of alcohol and tobacco monies and real property totaled over $1,400,000. ATF was also one of the lead agencies in a Federal investigation that resulted in a payment of $10 million to the Treasury Asset Forfeiture Fund from a company wholly-owned by a major U.S. cigarette manufacturer for its involvement in illegally diverting cigarettes to Canada. Diversion investigations in fiscal year 1999 also resulted in 49 defendants being recommended for prosecution, and several members of organized crime groups successfully prosecuted for alcohol and tobacco related criminal activity.

ATF implemented the provisions of the Balanced Budget Act of 1997, including issuing regulations restricting the importation of previously exported tobacco products and cigarette papers and tubes.

ATF received nearly 68,000 alcohol beverage label applications in fiscal year 1999 of which 15 percent were denied approval due to non-compliance. On average, the turnaround time for an application from time of receipt to completion of processing was 8 days.

Cooperative Efforts With Industry

In fiscal year 1999 representatives from the Treasury Department and ATF met with industry members concerned about direct shipment issues. Discussion focused

on the accessibility of youth alcohol purchases on the Internet, issues surrounding State law implications, small winery market access, and interstate beverage alcohol shipments.

We also met with representatives from the alcohol beverage industry to initiate dialogues about regulatory practices for alcohol and youth. Other meetings were scheduled with State authorities, other Federal agencies, public advocacy groups, and public health agencies.

ATF processed petitions and issued notices of proposed rulemaking resulting in the establishment of five new viticultural areas: Applegate Valley in Oregon, and Diamond Mountain, San Francisco Bay, Chiles Valley District, and Yountville, in California.

Information Technology

As we enter the new millennium, ATF has worked diligently to keep pace with an extraordinary amount of technological change. In December 1999, ATF broke ground for its new National Laboratory Center in Beltsville, Maryland. The new National Laboratory Center will give ATF the kind of facility it needs to support firearms, explosives, and fire investigations, as well as conduct testing that insures the integrity of regulated alcohol and tobacco products.

Also at the new facility is a one-of-a-kind fire research center located along side the Forensic Science Laboratory and the Alcohol & Tobacco Laboratory. The Fire Research Laboratory is a new addition to ATF's technical expertise that will directly support fire investigations and complement ATF's on-going fire investigation initiatives such as the Interfire Fire Investigation Training CD–ROM, the Certified Fire Investigation Programs, and the Accelerant Detection Canine Programs. It is the first laboratory in the world solely dedicated to supporting fire investigations and the resolution of fire related crimes, and advancing the science of fire evidence analysis. For the first time, investigators will have a resource that can help them unravel the difficult problems associated with fire ignition and spread. ATF has established a memorandum of understanding with the National Institute of Standards and Technology (NIST) to join forces on research into the measurement and prediction of fire and its effects, to share training and technology, and to conduct joint research and technical assistance tasks on matters of fire science.

ATF initiated a National Firearm Examiner Academy to help develop a national cadre of forensic examiners to conduct firearms examinations. Historically, this expertise has been developed through apprenticeship; often taking over 2 years to develop the skills needed to do the job. As a result, there is a significant shortage of skilled firearm examiners in most State and local forensic laboratories. The pilot course will be completed in April. The 13-week program fully trains the students in the skills needed to productively begin case examinations. The profession's Association of Firearms and Toolmark Examiners (AFTE) endorses the training program and the Nation's crime laboratory directors have expressed overwhelming support for the program.

The National Field Office Case Information System (N–FOCIS), comprised of N-Force and N-Spect, developed specifically for the ATF special agents and inspectors, respectively, assists ATF employees in gathering, reporting, and accessing investigative and inspection data. One major goal of N–FOCIS is to reduce the time special agents and inspectors spend on administrative functions.

A simple, intuitive user interface, N–FOCIS employs a familiar file structure to organize data into logical categories (e.g., events, property, persons), and the ability to share case information in a secure environment.

Training Activities

ATF provides our employees with high quality and innovative training programs by assisting in their professional development, thus improving organization performance and supporting our Strategic Plan. In almost all technical training provided, there are either pre-tests for admission or academic requirements for graduation. In addition, "golden threads" are now part of many programs. These are lessons on ethics and integrity, customer service, teamwork, and accountability to the American public. Training initiatives which enhance employee development and performance include our New Professional Training Program; Advanced Firearms Trafficking; Alcohol and Tobacco Diversion; Advanced Explosives for Inspectors and Certified Explosives Specialists; and other technical programs. Each of these training programs seek to expand the base of employee knowledge and understanding regarding ATF's roles, missions, and capabilities, and to capitalize on the ever-increasing collaboration between agents and inspectors in the field. ATF also provides training to thousands of other Federal, State, local, and foreign law enforcement officers. Training

areas include arson investigation, explosive identification and regulation, firearms trafficking, and post blast investigations.

On average, we conduct 12,728 training instances each year for ATF personnel. In addition, ATF provides training to an average of over 42,000 State, local, and international law enforcement officers and industry personnel annually.

In fiscal year 1999, ATF provided basic training to a record number of 168 agents and 72 inspectors through the New Professional Training program, which was updated to include comprehensive basic training to all new agents and inspectors.

Last year ATF developed training protocols and organizational development plans for ATF's Critical Incident Command System. We have conducted field exercises and exposed all ATF field divisions to the theory and principle of a standardized Critical Incident Management System for ATF.

In fiscal year 1999, ATF has focused on leadership development programs for all ATF supervisors and managers with an emphasis on core competencies, ethics, integrity, and teamwork.

Management and Administrative Efforts

Over the past year, ATF implemented and administered a comprehensive ethics program to ensure compliance with the Standards of Conduct for Employees of the Executive Branch and supplemental regulations. This program was put into place to raise ATF employees' awareness of the Standards and to ensure consistency throughout the organization. The Ethics Program administers the Bureau-wide financial disclosure program, provides legal advice in various areas, and provides extensive training to all ATF employees. In providing ethics training, we are ensuring that all new employees are trained and that ethics presentations are provided at mid- and senior level conferences, and at various retirement seminars around the country. ATF has also taken the initiative in setting up an Ethics website and providing updated information weekly to ensure that the ATF workforce has current changes to the rules of conduct. With our approach, ATF employees recognize that ethics is a real and integral part of all that we do and critical to carrying out our mission successfully.

In fiscal year 1999 ATF hired over 500 employees with a net staffing increase of over 400. This accomplishment demonstrates that while ATF's fiscal year 2001 Congressional request is ambitious, it is also realistic. The past several years have enabled ATF to strengthen its infrastructure to allow it to hire all of the personnel requested in this request.

CONCLUSION

As you can see, ATF continues to contribute to making America sounder and safer though its efforts in very diverse jurisdictions in Reducing Violent Crime, Collecting Revenue, and Protecting the Public. Along with the men and women at ATF, I am prepared to rise to the challenge of meeting all of our responsibilities under the laws that we enforce. I would be pleased to answer any questions you may have and I would like to express my sincere appreciation for the support that the Committee has provided us. I look forward to working with the Committee to further our mutual goals of safeguarding the public and reducing violent crime.

U.S. SECRET SERVICE

STATEMENT OF BRIAN L. STAFFORD, DIRECTOR

Senator CAMPBELL. We will finish with Director Stafford.

Mr. STAFFORD. Mr. Chairman, Senator Dorgan, I am also pleased to be here today to be afforded the opportunity to testify on the Secret Service's fiscal year 2001 budget request. Seated behind me are the Deputy Director, Assistant Directors, and Chief Counsel of the Secret Service. Today, I will briefly outline our continuing commitment to Congress and the American people to maintain the highest level of physical protection possible for the President and others and our commitment to protect the integrity of the nation's financial infrastructure.

WORKFORCE RETENTION AND WORKLOAD BALANCE

The Secret Service's 2001 budget request continues to build upon the efforts this committee has supported to address a critical personnel shortage within the Secret Service in order to satisfy mandatory workload increases. As you know, during 1999, the Department of the Treasury established the Interagency Group on Secret Service Workforce Retention and Workload Balancing. It recommended that, among other actions, the size of the special agent workforce be increased.

PROTECTIVE PROGRAM

Accomplishing our mandated dual protective and investigative missions is labor intensive and the workload continues to grow. In the area of national special security events, the Secret Service is currently involved as the lead agency in the planning, coordination, and implementation of security measures for significant major events—the 2002 Winter Olympics in Salt Lake City, OpSail 2000 in New York, and the Republican and Democratic National Conventions. The amount of work associated with preparing for these events cannot be overstated.

The protective workload continues to expand this fiscal year for the Secret Service with 17 full-time protectees, an anticipated record number of visiting foreign heads of state, and the Presidential campaign. The variety and destructive magnitude of terrorist acts are on the rise and the nature of terrorist activity has become more technologically sophisticated.

INVESTIGATIVE PROGRAM

In addition to our protective mission, the Secret Service is meeting the responsibilities of a very demanding criminal investigation program. This country's banking and financial infrastructure is under attack. Transnational criminal elements have dramatically increased use of technological schemes to counterfeit U.S. currency.

If this activity goes unchecked, it will have a harmful effect on the confidence in United States currency, which is the currency of choice worldwide with more than $450 billion in circulation.

Advancing technology has enabled an expanding criminal element to conduct a variety of financial crimes. These criminal schemes are challenging the Service's investigative resources as never before. In the not-too-distant past, e-commerce, online banking and securities trading, ATMs, debit cards, and smart cards were considered "future world" concepts. Today, they are reality. By having electronic crime special agents trained in every field office, the Secret Service is taking a proactive position in identifying fraud as it occurs throughout the Internet.

NATIONAL THREAT ASSESSMENT CENTER

Mr. Chairman, we are all very well aware of the recent tragic events that have unfolded in our nation's schools and workplaces. I believe the appropriate response to these tragedies is working together and combining the resources of local, State, and Federal governments. The work of the Secret Service's National Threat Assessment Center, which has grown from our exceptional case study project, highlights our efforts at preventing assassinations, and now this same methodology can be useful to others in education and in local law enforcement. Through the National Threat Assessment Center, we will continue our partnership approach and share what we are learning. We believe the ideas and approaches contained in the study can be useful in investigating, assessing, and preventing cases of targeted violence, to include school violence.

PREPARED STATEMENT

In conclusion, on behalf of the men and women of the Secret Service, I want to thank the committee for their long history of support and I am also ready to answer any questions you may have.

Senator CAMPBELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF BRIAN L. STAFFORD

Mr. Chairman and members of the Subcommittee, I am pleased to be here today, and to be afforded the opportunity to testify on the Secret Service's fiscal year 2001 Budget Request.

With me today, Mr. Chairman, are Kevin T. Foley, Deputy Director; Dana A. Brown, Assistant Director for Administration; C. Danny Spriggs, Assistant Director for Protective Operations; Barbara S. Riggs, Assistant Director for Protective Research; James E. Bauer, Assistant Director for Investigations; Gordon S. Heddell, Assistant Director for Inspection; Larry L. Cockell, Assistant Director for Training; H. Terrence Samway, Assistant Director for Government Liaison and Public Affairs; and John J. Kelleher, Chief Counsel.

FISCAL YEAR 2001 APPROPRIATION REQUEST

The Service's fiscal year 2001 funding request totals $830.5 million and 5,543 FTE positions, and includes funding from three sources: the Salaries and Expenses appropriation; the Acquisition, Construction, Improvements and Related Expenses appropriation; and reimbursements from the Departmental Super Surplus Forfeiture Fund. The total budget request for fiscal year 2001 is $70.1 million above the level of funding that the Service is receiving this fiscal year.

With this funding, the Service expects to further advance the attainment of its two mission goals: to maintain the highest level of physical protection possible

through the most effective use of human resources, protective intelligence, risk assessment, and technology; and to protect the integrity of the nation's financial systems through aggressive criminal investigations and assessing trends and patterns to identify preventive measures to counter systemic weaknesses.

SALARIES AND EXPENSES (S&E)

The Service's Salaries and Expenses appropriation request for fiscal year 2001 totals $821,596,000 and 5,543 full-time equivalents (FTE). This is an increase of $123,284,000 and 193 FTE over the fiscal year 2000 appropriated level of $698,312,000 and 5,350 FTE, which includes $21 million to be transferred from other accounts within the Department of the Treasury. This request includes: $28,610,000 in upward adjustments necessary to maintain current program performance levels, $30,750,000 and 256 FTE to annualize the funding for fiscal year 2000 program changes (including the $21 million transferred in fiscal year 2000), $55,158,000 and 154 FTE to cover the cost of mandatory workload increases, $36,266,000 in base funding that previously came from other funding sources, and $3,500,000 and 10 FTE for a program increase. These increases are offset by a reduction of $10 million in non-recurring costs.

Salaries & Expenses Program Changes

The single program increase contained in the Service's fiscal year 2001 Budget is $3.5 million and 10 FTE for development and implementation of an Air Security program. This program is mandated by Presidential Decision Directive 62 (PDD–62). PDD–62 mandates the Secret Service to create additional capabilities that "achieve airspace security" for designated "National Special Security Events (NSSE)." This air security program utilizes air interdiction teams to detect, identify, and assess any aircraft that violates, or attempts to violate, an established Temporary Flight Restricted Area (TFR) airspace above an NSSE.

The fiscal year 2001 Budget Request also continues, and builds upon, the efforts already being made this fiscal year to address mandatory workload increases. The Service is requesting an additional $41.3 million and 125 FTE to further its Workforce Retention and Workload Balancing efforts.

In 1999, the Department of the Treasury, Office of Enforcement, established the Interagency Working Group on U.S. Secret Service Workforce Retention and Workload Balancing. This working group, which included representatives from Treasury Management and the Office of Management and Budget, analyzed the underlying causes for the decreased ability of the Secret Service to retain younger special agents, and the degradation of quality-of-life brought about by increased mission demands placed on the special agent workforce. The working group found that the current workload is causing significant morale and retention problems, and recommended that, among other actions, the size of the special agent workforce be increased.

Accomplishing the Service's mandated dual protective/investigative mission is a very labor-intensive effort, and the workload relative to this mission is growing. The Service's protective mission continues to expand and become exceedingly more difficult. The variety and destructive magnitude of possible terrorist acts continue to expand, and the nature of terrorist activity has become more technologically sophisticated. Likewise, this country's banking and financial infrastructure must be protected from a growing list of criminal attacks. Transnational criminal activity has dramatically increased utilization of sophisticated technological schemes to counterfeit U.S. currency. If this activity continues unchecked, it will have a deleterious effect on the worldwide confidence in U.S. currency.

For the Secret Service to effectively continue to meet this increased workload, additional staffing will be required. With the supplemental funding provided in fiscal year 2000 the Service is already in the process of adding 227 FTE positions to its workforce. This represents about one-third of the additional staffing identified as required by the Interagency Working Group.

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

The Service's fiscal year 2001 request for its Acquisition, Construction, Improvements, and Related Expenses (ACIRE) account is $5,021,000; an increase of $98,000, which is needed to maintain current program performance levels. There are no program initiatives budgeted for this account. In addition, the Service's budget proposes that $3,920,000 required to effect security changes at the Vice President's official residence be reimbursed from the Departmental Super Surplus Forfeiture Fund.

RESULTS ACT

Fiscal year 1999 was an extremely demanding, but highly productive year for the U.S. Secret Service.

Our protective effort was unprecedented, with 5,723 protectee travel stops by our 16 permanent protective details, and over 400 visiting foreign dignitaries. The total number of travel stops for all protectees was 16.8 percent higher than previously estimated. Permanent protectee travel was 13.9 percent higher, and travel for visiting foreign dignitaries was 24 percent higher than estimated.

The level of recovered counterfeit money passed was held to $78 per million dollars of genuine currency. This was significantly below the $90 per million dollars of genuine currency in the performance plan, and meant substantial savings for the American public.

The Service continues to focus its efforts to curb the counterfeiting of U.S. currency in foreign countries. Last fiscal year, a total of $1.4 million in recovered counterfeit currency was passed overseas. This was significantly below the total of $5.0 million in the performance plan.

PROTECTIVE PROGRAM

The Secret Service provides security for the President, the Vice President, and their families, as well as former Presidents, Presidential and Vice Presidential candidates, visiting heads of state and heads of government. This program also includes security for the White House Complex, the Vice President's residence, the Treasury Department, and 462 foreign missions within the Washington, D.C., area.

The Secret Service continues to meet past and present challenges of identifying and neutralizing potential threats by individuals and groups in a highly individualistic, mobile, and gun-prevalent society.

During fiscal year 1999, the President, Mrs. Clinton, and Vice President Gore continued their extensive travel schedules. The President made 33 foreign stops, the First Lady made 31 foreign stops, and the Vice President made 7 foreign stops.

Also during fiscal year 1999, the Secret Service successfully designed, planned, and implemented overall security for the visit of Pope John Paul II, the 50th North Atlantic Treaty Organization Summit, and the 54th United Nations General Assembly. The 50th North Atlantic Treaty Organization Summit was designated as a National Special Security Event.

In fiscal year 2000 the Secret Service will again face many protective challenges. The mission requirements include the design, planning, and implementation of overall security for three upcoming National Special Security Events; the Operation Sail 2000/International Naval Review to be held in July in New York City; the Democratic National Convention in Los Angeles; and the Republican National Convention in Philadelphia.

In preparation for the 2000 presidential campaign the Service staffed and trained 8 candidate/nominee protective details during fiscal year 1999, as well as trained over 2,300 Treasury Special Agents in 27 cities to assist us during the campaign. These Treasury Special Agents will serve as an integral part of each candidate's/nominee's site security.

The Service continues to provide the highest level of protection possible for all persons and facilities it is charged with protecting. This protection is accomplished by integrating highly trained personnel with state-of-the-art weapons and technology to react quickly and decisively to eliminate, or minimize, attacks. However, the primary goal of the Service is to prevent acts of violence. A key factor in preventing attacks is to have prior knowledge or "intelligence" of potential attackers, their motives, intentions, and capabilities.

Protective intelligence serves a critical role in the Secret Service's protective mission. The Service's Intelligence Division develops threat assessments in support of protectee visits to domestic and foreign settings; provides warning indicators for specific and generalized threat environments; maintains liaison with the mental health, law enforcement, and intelligence communities; and conducts investigative and operational studies necessary to evaluate potentially dangerous groups or individuals that pose a threat to our protectees.

The Secret Service is represented on 23 Joint Terrorism Task Forces throughout the United States. The Task Forces provide immediate access to intelligence gathering and information sharing on individuals or groups that may be planning or engaging in adverse activities directed toward our protectees or other public officials. Recently, the Service also initiated a Washington, D.C.-based Protective Detail Intelligence Network that concentrates on sharing intelligence information with other agencies with protective responsibilities.

With support from the National Institute of Justice and the Federal Bureau of Prisons, the Secret Service recently completed a behavioral research study that has caused us to refine and improve our approach to threat assessment, protective intelligence, and the prevention of assassination. As the Secret Service has shared these ideas with members of the nation's criminal justice, law enforcement, mental health, and behavioral sciences communities, we have received numerous comments indicating that the findings of our study may be useful for identifying and assessing other kinds of targeted violence, such as that seen in recent school shootings, relationship violence ("stalking"), and workplace violence.

As a product of our research, its acceptance, and the significant number of requests for assistance that we have received, we established the National Threat Assessment Center (NTAC) in the fall of 1998. NTAC's mission is to provide leadership and assistance to law enforcement in the area of threat assessment, and it will be the subject of a more in-depth briefing toward the conclusion of my statement.

Our technical security program continues to work with others on measures to better ensure the safety of the President, and other protectees, against weapons of mass destruction. The Service is aggressively pursuing a comprehensive chemical/biological program in order to detect, protect, and mitigate the effects of chemical or biological toxins at fixed sites as well as at temporary locations visited by our protectees.

Presently, the Secret Service is enhancing its chemical and biological detection capabilities at the White House, conducting awareness and training programs for field office personnel, and actively monitoring the research and development activities of a promising biological hazard detection system that is under development.

Additionally, we have developed highly trained teams to travel with the President and Vice President in specially designed vehicles. Team members receive emergency medical training and are capable of administering medical assistance and performing decontamination while transporting the victim to a hospital. This level of protection is unique to the Secret Service, although several protective agencies throughout the world are now evaluating our program for their use. The Secret Service is staying abreast of this rapidly developing technology to ensure that its protectees are afforded the most advanced protection systems possible.

INVESTIGATIVE PROGRAM

In addition to our protective mission, the Secret Service is meeting the responsibilities of a very demanding criminal investigation program. The Service is responsible for domestic and international investigations involving financial systems crimes to include bank fraud; access device crimes; telemarketing crimes; telecommunications crimes (cellular and hard wire); cyber crimes (attacks on critical infrastructures; desktop publishing and network intrusions); automated payment system and teller machine crimes; crimes involving government entitlements; crimes involving identity takeovers; crimes involving counterfeit and fictitious financial instruments, obligations and securities; crimes involving counterfeit currency; criminal activity in the area of money laundering as it relates to certain specified unlawful activities; and the seizure and subsequent forfeiture of assets used to facilitate certain criminal activities, as well as the proceeds of those criminal activities.

As society rides the wave of advancing technology into the new millennium, the challenges facing the law enforcement community grow significantly. This advancing technology has enabled an expanding criminal element to conduct a variety of financial crimes, which are oftentimes extremely sophisticated in nature. These criminal schemes are challenging the Service's investigative resources as never before. Our organization is continually evolving to meet these challenges, with an investigative strategy that incorporates successful methodologies of the past with the new technologies of the present and future.

The Secret Service has been the law enforcement agency called upon time and again to maintain the integrity of this country's financial infrastructure. During the past 135 years we have observed an evolution of financial instruments from paper currency and coins to today's instruments of choice: credit and debit cards, checks, bonds, and commercial securities and other financial obligations. As expected, we have also witnessed the technological evolution of counterfeit crimes from hand-drawn Federal Reserve Notes to today's common use of advanced reprographics to counterfeit these financial instruments. In response to these changes, the Secret Service has focused its expertise on investigations of counterfeit and fictitious financial instruments. As a result, we are internationally recognized as the foremost experts in this field.

With each advance in technology, the Secret Service has been prepared to answer the challenge. At no time in our history have the challenges been greater than in

the past 20 years. In the not too distant past, E-Commerce, on-line banking and securities trading, automated teller machines, debit cards, and smartcards were considered "future world" concepts. Today, these advancements are a reality. These new customer friendly technologies facilitate commerce on an international scale and have merged our financial infrastructure into a seamless global financial system. The ability to conduct financial transactions internationally is as easy as dialing a telephone or connecting to the Internet. These technological advances, while providing great benefits to the public at large, are also prime economic targets for the criminal community.

Traditionally, society has considered "white collar crime" as a non-violent, victimless crime. The reality is, white collar crime, financial crime, or economic crime, whichever term you choose to use, is perpetrated by the entire criminal element, from single individuals, to loosely knit groups, to highly sophisticated and transnational criminal enterprises. These financial crimes are oftentimes conducted in conjunction with, or for the purpose of funding, more inherently violent crimes such as drug trafficking, weapons trafficking, extortion or, in some cases, terrorism.

Technological enhancements to wireless communications and the improvements in transportation systems have created an environment in which state and international borders become greater obstacles for law enforcement agencies than for criminals. This, in conjunction with the ease with which one can either counterfeit or fraudulently obtain false identification and travel documents, further magnifies the challenges posed to the entire law enforcement community.

Another area the Secret Service is addressing involves money laundering through the use of advanced technology. As technology continues to evolve, organized groups are using more sophisticated means to hide the proceeds from their criminal activities. We have seen an increase in the use of transaction cards such as debit, credit, and more recently smartcards, to transfer illicit funds to disguise their source and origin. Money laundering through the use of smartcards is a concern to law enforcement. Smartcards provide the capability to make anonymous peer-to-peer or card-to-card transfers of monetary value. Further, the ability to move money across international borders via chips containing value will also create a challenge for law enforcement.

With smart cards, an individual has the ability to move hundreds of thousands of dollars across borders with a device that is extremely concealable. It is conceivable to visualize a major money launderer taking advantage of such a payment system and carrying large sums of money in or out of the United States via a smartcard. Once the border is crossed with this smartcard, the money can be transferred to other cards; thus creating a money-laundering scenario that is virtually paperless.

For electronic commerce, the Secret Service has taken a proactive approach with regard to the security of financial transactions. With the investigative expertise gained through our interaction with the financial industry, we have a clear understanding of the overall infrastructure of the financial system. The Internet and the telecommunications industry are among the fastest growing technologies in the world, and they provide the backbone for the emerging technologies in electronic commerce, financial transactions, and banking.

The growth and evolution of the Internet has provided numerous commercial and financial opportunities, specifically in the area of electronic commerce. There is also growth occurring, on a global basis, in the area of high-technology crime. As a primary investigative agency of the Treasury Department tasked with the investigation of financial crimes, we take our role seriously as the lead agency for ensuring the safety of the banking and financial sector of the critical infrastructures. The Secret Service has taken a dynamic approach to training its agents and our counterparts from all levels of domestic and international law enforcement on how to prevent and respond to attacks against evolving electronic payment systems. Currently we are responding to the need for training in network intrusion and telecommunications compromise activity for Federal, State, and local law enforcement, as well as private industry. Through state-of-the-art computer-based training initiatives, high-technology investigative training is being prepared with the goal of keeping law enforcement current with effective investigative techniques that can be updated as quickly as technology advances.

Title 18, United States Code, Section 1029, *Fraud and related activity in connection with access devices,* was amended twice in 1994 and 1998 to include significant revisions related to compromises of the telecommunications system. The Secret Service has taken a proactive role in the investigation of telecommunications fraud and intrusion activity and the education of industry representatives as to their vulnerabilities. As such, the Secret Service is recognized as the leader in the investigation of this specific type of access device fraud, and it routinely provides training

to law enforcement and private industry personnel at all levels. In many instances, telecommunications fraud is a part of other criminal enterprises such as financial crimes, counterfeiting, money laundering, and narcotics trafficking.

Pursuant to Title 18, United States Code, Section 1030, the Secret Service is empowered to investigate fraud and related criminal activities involving computers. The Service is focusing its investigative efforts on the telecommunications and banking and financial sectors of computer fraud investigations. This focus has provided us with the ability to train and equip our field offices to address specific high-technology investigations.

Financial crime investigations have become more dynamic and international in scope. In response, the Secret Service created a counterfeit financial documents database that is used to make forensic connections between known and questioned counterfeit documents. This database is used to determine common origins through link analysis conducted by research specialists. The Secret Service provides permanent representatives to INTERPOL in Lyon, France, and Washington, D.C., and has the lead role in terms of expanding this database on a global level using INTERPOL mainframe computers. Police agencies all over the world are now able to track the source and proliferation of counterfeit documents such as driver licenses, credit cards, and checks.

As greater numbers of individuals use computers, and as the use of the Internet continues to grow over 100 percent per annum, it is anticipated that the criminal element will increasingly utilize these tools. For this reason the Secret Service is emphasizing the expansion of its Electronic Crimes Special Agent Program (ECSAP). This program is an essential component for meeting the mandates of both the investigative and protective missions of the Secret Service. The ECSAP program consists of highly trained Special Agents qualified as experts in the forensic examination of electronic evidence. These agents are assigned to nearly all Secret Service field offices. The program has expanded to include operational aspects such as technical guidance in search warrant preparation and execution, and educational presentations and technical advice to public and private sector organizations. Special Agents assigned to this program are also trained to examine the wide variety of electronic evidence seized in today's criminal investigations, including telecommunications devices, electronic organizers, scanners, and any other devices manufactured to intercept or duplicate telecommunications services.

The Secret Service has set as its highest priority the identification and suppression of counterfeit currency production and distribution networks. Advances in reprographic technology mean large quantities of counterfeit currency or other obligations can be produced quickly and efficiently. Today's criminal needs relatively little knowledge or specialized training to print counterfeit currency or other obligations in a self-contained print shop. Utilizing equipment ranging from inexpensive color copiers, scanners, computers and inkjet printers, to small offset duplicators and/or large commercial presses, a counterfeiter or criminal organization can flood a region with counterfeit currency and be gone before law enforcement can react.

Last fiscal year foreign arrests for counterfeiting increased significantly—from 421 in fiscal year 1998, to 593 in fiscal year 1999. Foreign seizures of counterfeit currency rose from $66 million in fiscal year 1998, to $84 million in fiscal year 1999. Overseas counterfeit printing plant suppressions also increased—from 29 in fiscal year 1998, to 38 in fiscal year 1999.

To overcome the problems created with the reduction of barriers between societies, the Secret Service continues to enhance its overseas presence and liaison with foreign law enforcement. We are establishing task forces and providing technical assistance to foreign counterparts in cases of strategic importance.

Our investigative history has proven that the effective suppression of counterfeiting operations requires an immediate response by the law enforcement community in order to develop investigative leads generated when a new counterfeit note is detected, or an arrest is made. The Secret Service has long believed that the strategic placement of overseas personnel promotes more aggressive law enforcement operations, as agents are able to respond in a timely and consistent manner. The Secret Service currently maintains 15 offices around the world, staffed by 54 special agents and support staff. These strategically located offices allow the Secret Service to extend its investigative reach and present a coordinated response to transnational crime. If we are to keep foreign-based crime away from our shores, our first line of defense must be abroad. Given that reality, we must place our personnel overseas to target foreign-based criminals and their activities before they can reach the United States.

Based on the success of our counterfeit model, the Secret Service has embarked on an ambitious overseas expansion to address our unique dual mission of investigation and protection. Our experience has shown that these two missions are not di-

vergent—and are often complementary in nature. With the globalization of economics, and world events, our protectees are traveling abroad at unprecedented levels. The relationships we have developed with foreign law enforcement, fostered in the investigative arena, prove invaluable when soliciting their assistance in providing a secure environment for our protectees abroad.

In geographical regions where Secret Service personnel are not permanently assigned, the Task Force philosophy is employed to address specific concerns. Personnel are temporarily assigned to immediately address the problem and provide sufficient information to help assess whether the problem is short or long term in nature; and if the permanent placement of personnel is needed.

In 1999, the Secret Service undertook a project to publish information about known counterfeit U.S. currency on the World Wide Web. The Counterfeit Note Search Site that we established allows us to track the reporting of counterfeit U.S. currency as it happens. By collecting real-time data, we can make better-informed, timely decisions on the allocation of resources and manpower. The immediacy of the information provided allows our overseas offices to respond to leads from foreign financial and law enforcement entities within their districts in time to take advantage of investigative leads. It further allows them to identify problem areas with information necessary to assess more accurately the nature and scope of the problem.

Establishment of this site has also allowed us to expand and develop our liaison activities with foreign financial and law enforcement entities where such activities had not previously existed.

Also, in an effort to stay ahead of counterfeiters, the Secret Service, in concert with others, continues to work to decrease the vulnerability of the U.S. dollar to unauthorized reproduction. As a member of the Advanced Counterfeit Deterrence Committee (ACD) and the Currency Redesign Committee, we have had an active role in the research, design, and introduction of the new currency.

In the search for technological solutions to the rise in computer-generated counterfeiting and inkjet notes, the Secret Service has joined forces with the Department of the Treasury, the Federal Reserve System, and the Bureau of Engraving and Printing. Further, industries associated with inkjet and other color printers, color copiers, digital output cameras, imaging software, and Internet software are being asked to participate in this effort, as are members of the foreign law enforcement community.

When counterfeit notes first appear, they must be classified. The Service has identified over 21,630 different counterfeit circulars, with over 20,000 variations. To develop these circulars now requires making manual comparisons to classify a new note. Through a contract with an innovative computer engineering company, the Secret Service has developed a system to classify and identify counterfeit notes using pixels that are present in the Treasury seal. The system has been tested, delivered, and is in the process of being implemented. This automated system will enhance the accuracy and timeliness of classification and circularization of counterfeit currency, which is essential to successful investigation, suppression, and prosecution.

The Secret Service remains actively involved in developing technology to support many of its forensic, investigative, and counter-terrorism efforts. We are staying on the leading edge of forensic technology with our robust research section that engages in exchanges of information with laboratories in the United States and in several foreign countries. Through close contacts with these other labs, our scientists are able to share research and data in pursuit of advancements in forensic technology. Current major efforts include exploring advanced methods for the visualization of latent fingerprints on difficult surfaces; creating covert tagging for identifying, locating, and tracking marked targets; developing technology for the standoff detection of explosives; and finding better methods for determining how long writing inks have been on written documents.

The Service is also continuing to use its unique capabilities to assist with investigations outside its core jurisdictions. In this regard, we remain dedicated to investigations concerning missing and exploited children, by providing forensic technology to Federal, State, and local law enforcement. This past year, forensic assistance for the National Center for Missing and Exploited Children (NCMEC) included polygraph examinations, ink analysis, voiceprint comparisons, audio and video enhancements, and fingerprint research and identification.

INFORMATION TECHNOLOGY

Like many federal agencies, the Secret Service has other information technology priorities such as hiring and retaining a skilled professional staff, protecting our critical cyber systems, and developing the proper governance to effectively manage our information technology systems. However, because of our protective and inves-

tigative missions, the Secret Service is a target for hackers, terrorists, and other disgruntled groups. Therefore, we are particularly concerned with the ability to protect our critical infrastructure and to maintain a secure information environment.

The Secret Service has one of the most mobile workforces in the Federal Government. Our protective and investigative assignments mandate that our employees are accessible at any hour of the day, and available to travel worldwide. The Secret Service is in the process of providing its entire special agent population with a durable laptop platform to achieve this accessibility. We must provide our employees with the tools to securely access our databases in this mobile environment. Thus, information security is one of our top priorities.

WORKFORCE RECRUITMENT

The Secret Service continues with its aggressive recruitment campaign to hire, in compliance with Presidential Decision Directive 63 and the International Crime Control Strategy, a diversified workforce. These mandates require the Secret Service to vigorously recruit undergraduate and graduate students with relevant computer-related skills, qualified personnel for technical analysis, and to identify applicants and employees with various language capabilities to compliment our expanding role overseas.

To fulfill our mission requirements in the 21st century, the Secret Service has raised its recruitment profile by advertising in major publications and periodicals directed towards graduates with technical and computer science experience. Recruitment posters have been specifically designed for and mailed to over 15,000 colleges, universities, and technical institutions. Advertisements for employment have been placed in newspapers throughout the United States to include USA Today, the Los Angeles Times, the Houston Chronicle, the Kansas City Star, the Chicago Tribune, and the New York Times. The same advertisements were placed in over 200 community and neighborhood newspapers and in the National Associations of Colleges and Employers publication. Recruitment inquiries also continue to increase by way of the Service's and other Federal Government web sites. We have also established a toll free telephone line to more efficiently recruit for all positions.

TRAINING

The Secret Service's Office of Training continues to train at unprecedented levels. We plan to train over 600 Special Agent trainees, Uniformed Division recruits, and Special Officer trainees this fiscal year. In addition, with the reorganization of the James J. Rowley Training Center, the Secret Service plans to enhance its in-service training program in the areas of protection, investigation, leadership, and professionalism. This will be accomplished in concert with our academic partners at Johns Hopkins University and Lawrence Livermore National Laboratories.

Our partnership with Johns Hopkins will provide academic oversight of our course contents and methodology. In addition, it will also enhance our teaching skills and ensure that all of our training instructors employ cutting-edge teaching methods.

Lawrence Livermore National Laboratories continues to provide support and guidance to the Service's Security and Incident Modeling Lab (SIMLAB). This technology, originally developed for military commanders, allows the Secret Service to use an interactive computer program to model protective event sites, and with this model to train more efficiently, and analyze our protective procedures. We intend for the Secret Service to become a focal point for this technology and to offer its capabilities to other law enforcement agencies and departments.

The Service recognizes that the appropriate utilization of technology is essential to the success of its mission, especially as it relates to technical security and information technology. In an effort to train and retain its skilled technical professionals, the Service has established technical training as a high priority. This commitment has resulted in a high rate of retention of our technical staff during the past year. However, the high cost of technical training that is provided by outside contractors and vendors is a challenge to our budget. The strong competition by the private sector requires federal agencies to continue to invest in the training of its employees as a means of retention.

Construction work on the new administration and classroom buildings at the James J. Rowley Training Center has been completed. These state-of-the-art buildings, which feature 14 classrooms, 2 computer laboratories, a library, and the Security and Incident Modeling Laboratory, will enhance the training experience for the Service, as well as for Federal, State, and local law enforcement.

Also, our Offices of Training, Protective Operations, and Protective Research recently initiated a proposal to establish an institute at the James J. Rowley Training Center for the standardization of protective detail training among all Federal, State,

and local agencies having protective responsibilities. This institute will also serve as a threat assessment center and clearinghouse for intelligence data being used by the national law enforcement community.

The National Threat Assessment Center and Multipurpose Building continues to be the highest priority project for expansion of the James J. Rowley Training Center. Such a facility will enable us to realize our vision for the creation of a law enforcement university. The auditorium/lecture hall will provide a setting for the National Threat Assessment Center and allow us to host various federal, state and local law enforcement agencies for the dissemination of threat information. After years of exhaustive research on violence, the Secret Service is positioned to share the methodology of threat assessment principles with other law enforcement agencies and educators. This facility will allow us to expand our knowledge beyond internal use for the purpose of understanding domestic and school violence and increasing police officer safety. A planned cafeteria will afford on-site food service for a more efficient use of training time by the growing student, instructor and outside agency population. Also, this structure will offer additional capabilities and a relocation site that will comply with the requirements of the Presidential Decision Directives for Continuity of Operations.

The National Threat Assessment Center and Multipurpose Building is also critical to the support of a student dormitory complex that will allow us to train more effectively and efficiently and at a greatly reduced cost. We will significantly reduce expenditures associated with commercial food and board, not only with students and instructors but also with employees on temporary assignment.

NATIONAL THREAT ASSESSMENT CENTER

Traditionally, law enforcement has been reactive to violent incidents. In the past, police were asked to respond after violence occurred, and to catch the perpetrator and gather evidence for the prosecutor. With the incidence of crimes involving targeted violence on the rise, police agencies are being asked to be more pro-active, i.e., to investigate and intervene before violence occurs.

The Secret Service has been protecting our nation's leaders for more than 90 years. An essential ingredient to protection is the art of threat assessment, or protective intelligence. Threat assessment is the process of gathering and assessing information about persons who have the interest, motive, intention, and capability of mounting attacks against a person or group of people. Gauging the potential threat to, and vulnerability of, a targeted individual is a key to preventing violence. Currently, there is little information or guidance available for law enforcement about how to conduct these "threat assessment" investigations.

In 1992, the Secret Service began the Exceptional Case Study Project. Since that time, we have examined the thinking and behavior of all 83 persons known to have attacked, or come close to attacking, a prominent public official or public figure in the U.S. in the last 50 years. We have reviewed all available records about each person and have conducted interviews with more than 20 attackers and near-attackers. The ECSP has been an operational study. We have tried to examine assassination from the perspective of the attacker and from the perspective of a law enforcement agency with protective responsibilities. We have submitted a series of reports to the National Institute of Justice and have written a guidebook about protective intelligence and threat assessment for federal, state, and local law enforcement officials with protective responsibilities.

The ECSP is the only recent major operational law enforcement study of targeted violence (assassination and attempted assassination of public officials and figures). The ideas and approaches contained in the study have been noted as potentially useful in investigating and assessing cases of targeted violence, to include domestic stalking, workplace and school violence.

The New York Times reported on April 22, 1999: "Specialists are increasingly arguing that the developing field of threat assessment, used by the Secret Service to track potential assassins, can be applied to potentially violent students. As outlined in a Secret Service handbook, such assessments involve looking for common patterns of behavior and experience, including feelings of rejection."

The Secret Service believes, and other law enforcement agencies agree, that we should build on ECSP findings. Through NTAC, with dedicated resources and time, the Secret Service will develop the capacity to make a significant contribution to law enforcement's efforts to investigate and prevent certain cases of targeted violence.

SECRET SERVICE HEADQUARTERS CONSOLIDATION

Finally, I am very pleased to note that after many years of hard work, we relocated this past summer into our new headquarters building—the United States Se-

cret Service Memorial Building. This Committee was very instrumental in this effort and we thank you.

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

Senator CAMPBELL. We have several questions, and by the way, if there are some questions we ask that you may not believe is appropriate to answer in public for some security reason or other, feel free to take the Fifth if you have to.

SPECIAL EVENT SECURITY

Let me start with the question about some dedicated airplanes. Maybe Commissioner Kelly or Under Secretary Johnson can deal with this a little bit. But a total of $16.3 million has been requested for both the Secret Service and the Customs Service for a protective air security program. The bulk of that is for a separate air branch for the Customs Service. Could you explain that a little bit and tell me what that is going to entail, because it obviously is not going to buy many airplanes.

Mr. KELLY. Mr. Chairman, this is based on a directive from the President, PDD–62, which gives the planning function to Treasury and the Secret Service. It directs Treasury to provide an air cap capability, if you will, which Customs is providing it to Secret Service personnel. There are estimated to be six to maybe eight major events a year that would require some sort of air cover. We provided that in the 1996 Olympics, working closely with the Secret Service. We provided it at the two recent State of the Union events. We also (provided that service), at the NATO conference that recently took place here.

Essentially; what this initiative would do is to fund the location of a facility in the Washington, D.C. area so we can more easily provide that cooperative arrangement and service to the Secret Service to respond quickly to events where they are needed and also to provide what I would call an air cap or air cover.

Senator CAMPBELL. Well, it is going to be dedicated aircraft and crews, is that correct?

Mr. KELLY. It will be dedicated for a period of time. When they are not doing this sort of work, they would be involved in anti-drug work.

Senator CAMPBELL. When there are no events, will their normal job be other anti-drug work?

Mr. KELLY. Yes, sir.

Senator CAMPBELL. The events themselves, do you know where they are located very long ahead of time, a few months, perhaps?

Mr. KELLY. No, we do not, but four out of the six major events that we have used this capability for were in the Washington, D.C. area.

FISCAL YEAR 2001 BUDGET

Senator CAMPBELL. I see. Since I have your attention, Commissioner Kelly, a February 2000 Washington Post article stated that, according to your office, a Customs official said the fiscal year 2001 budget pending before Congress boosts agency spending by 3.9 percent, enough to cover only the rising costs of agency operations, salaries, rents, and fuels. Yet the official justification for Customs that

was sent to Congress contains a 22.4 percent increase if you include the $210 million for the ACE program that you mentioned. That is roughly a 14.8 percent increase without it. How do you arrive at the 3.9 percent as was publicized in the Post and not the 14.8?

Mr. KELLY. I think there were questions of interpretation. There was an issue as to what was included in our base, whether or not forfeiture funds were included in the 2000 base, and that is where some of the difference came about. And then there was also an inclusion of the $210 million in the administration estimate and that is funded by user fees. I think the difference in those numbers really comes about as a result of the type of question asked by the reporter who wrote that article.

Senator CAMPBELL. I see.

Mr. KELLY. I do not think there is a disagreement.

Senator CAMPBELL. The forfeiture fund, the total amount of money that is expected from the forfeiture fund, do you have a ballpark figure?

Mr. KELLY. For this year?

Senator CAMPBELL. Yes.

Mr. KELLY. I believe it is $64 million, but I do not have it in front of me.

GANG RESISTANCE EDUCATION AND TRAINING PROGRAM

Senator CAMPBELL. Mr. Buckles, the fiscal year 2000 wrap-up appropriations bill contained a provision which required all Federal agencies to take a 0.38 percent reduction in appropriated funds. Agencies were given pretty wide latitude to decide which programs to cut and the ATF decided to take almost $1.2 million from the grants to State and local law enforcement agencies provided under the Gang Resistance Education and Training program, called the GREAT program.

I have to tell you, there is a very strong interest in that program and I know I have gotten feedback from our own cities. Denver is an example, where some money went to that city. They were very, very supportive of that program. Why did the ATF decide to reduce the available money to those grants?

Mr. BUCKLES. Mr. Chairman, when we were faced with those cuts, we had to look through all of our programs to find where we could take some of that money without affecting our overall operations. We also suffered cuts in, for example, buying new vehicles. So we tried to sustain as much as we could within our own budget without affecting operations that were required by law.

When we went to the GREAT program, as you know, that is a program we feel very strongly about, too, and have been very supportive. We looked at that program and saw that with some of the rescission, we would be able to get money from last year to cover that rescission. So the ultimate loss to the program was not that much. I believe we felt we had $600,000 or $700,000 that could be brought forward that was not expended from the prior year.

Also, I worked with the GREAT national policy board on this issue. We met in January and I explained to them what we were doing and why we were doing it. It was the consensus of that board

that it should not have a major impact on any of the GREAT operations.

Senator CAMPBELL. Thanks for your answer. I just might tell you that as one member of this committee, I am very interested in that program because I think it has done a lot of good in the communities, so hopefully you will keep that in mind when you go through this year.

WORKFORCE RETENTION AND WORKLOAD BALANCING

Director Stafford, the fiscal year 2000 wrap-up appropriations bills provided an additional $10 million directly to the Secret Service and directly to the Department of the Treasury to transfer an additional $21 million to the Service for workforce retention and workload balancing, which translates into, as I understand it, about 500 new employees. That is a lot of people to hire in one year on top of the replacement of normal attrition. What is the status of that hiring initiative now?

Mr. STAFFORD. Mr. Chairman, as you are aware, when I became Director, one of my first priorities was to address the quality of life issue that we had in the Secret Service and to put some balance back in our employees' lives. With your assistance, we are going to be successful with that.

It is a pretty aggressive hiring program. We streamlined our process. We reduced the amount of time it takes for us to hire an employee by 40 percent.

Senator CAMPBELL. Do you have a recruitment team?

Mr. STAFFORD. We do.

Senator CAMPBELL. Do young people out of college go directly into the Secret Service or something of that nature, or do most of these folks come with prior police training, such as from the police departments or something?

Mr. STAFFORD. We do have geographic recruitment teams. We also are recruiting nationally. For the first time, we have put advertisements in USA Today, which was quite expensive but it got a lot of play, a lot more than we thought. We currently have about 1,000 applicants in the pipeline and we feel very confident that we will meet our hiring goals this year.

Senator CAMPBELL. Well, given the diversity in America and also the job of the Secret Service in traveling to a lot of foreign countries, do you give any emphasis to bilingual people, as an example?

Mr. STAFFORD. We do.

Senator CAMPBELL. You do?

Mr. STAFFORD. We do seek recent college graduates with extensive computer skills and with language capabilities which are extremely important to us.

Senator CAMPBELL. I thank you.

Senator Dorgan, did you have some questions for the panel?

NORTHERN BORDER SECURITY

Senator DORGAN. Mr. Chairman, thank you very much.

Let me ask Commissioner Kelly, you indicated that following the attempt to come across the border in Washington by the alleged terrorist you boosted substantial resources at the northern border stations. We have 22 ports of entry in North Dakota. Fifteen of

them are closed at night, and for those 15, as I indicated, here is what they put in the middle of the road at those stations. Now, you put additional resources for a period of time up at those border stations. What did you learn from that? What are your long-term thoughts about increased security and vigilance at those northern borders?

Mr. KELLY. I think we need more people and more resources, both on the northern and southern borders. We have asked Pricewaterhouse to develop a resource allocation model for us. They have done that. I think it is a vehicle that will let Treasury, and Congress, and OMB know what Customs needs to adequately accomplish its mission. That model is now at Treasury and OMB being examined.

But I think, clearly, we need additional resources on both of our borders. What we did in response to the arrest is that we redeployed people. 700 inspector equivalents were redeployed from other locations to the northern border. But you are right, it was on a temporary basis and we have now gone back to operations as they were before December 14, with the exception of remote video inspection ports. There are seven of them. We are now manning those remote video ports 24 hours a day. We are undergoing a study with INS on remote video to see if the program can be strengthened. We want people who participate in the program to be registered, and that is an issue that we are discussing with INS. But other than that, we are back to staffing the way we were prior to December 14.

Senator DORGAN. Can you provide for the subcommittee a specific evaluation of the additional resources you think you need to respond to these issues, specifically the northern border issues?

Mr. KELLY. As I stated, I think the resource allocation model will give us that information. It is port-specific, it addresses all 301 of our ports of entry, and it has an overlay attached to it. It is in essence driven by workload, workload generators. I think it is the vehicle that we need to use to move forward in this regard.

ENFORCEMENT OF EXISTING GUN LAWS

Senator DORGAN. Director Buckles, we have this raging debate, in fact, I was listening to it on the car radio this morning coming in, by the NRA and others about the need to enforce gun laws in this country. The point is, they say no additional laws are needed, we just need to enforce current laws. Can you give us a description of what has happened to funding in your agency in the last 20 years?

Mr. BUCKLES. Well, if we go back 20 years, I do not know about the exact funding levels, but I know I joined ATF in 1974 and the agency was roughly 4,000 employees at that time. At the present time, we are, excluding temporaries and part-time people, somewhere around 4,300. So over the course of those 25, 26 years, there has not been any net growth, or very little net growth in the size of the Bureau.

Senator DORGAN. If one in a range of areas, both the Federal and State and local governments, called for substantial increased enforcement of existing laws, for example, prosecution of those who

are former convicted felons who attempted to purchase guns and so on, I assume the entire system needs substantial new resources.

Mr. BUCKLES. We certainly do, and this budget reflects a step in that direction. I cannot travel around the country or meet with the United States Attorneys who the first thing out of their mouth will be, "We need more ATF agents here in Denver" or wherever it might be. Everywhere I go, that is the first thing I hear.

Senator DORGAN. I make the point that this is kind of a test of will here. If, in fact, this is part of the debate, we need better enforcement of existing laws, then we are going to have to be willing to provide the resources to do that. I mean, we cannot say, let us better enforce laws but we will not provide the resources to allow that to happen.

COOPERATION WITH CUBA

Commissioner Kelly, I was in Havana, Cuba, last August on an official trip and discussed with both our interest section in Cuba as well as the Cuban government, the issues of enforcement and cooperation with respect to the interdiction of drugs. Can you give me a description of what your agency is discovering vis-a-vis cooperation and communication with the Cubans on this issue?

Mr. KELLY. There is some communication. Primarily that communication as far as drug interdiction is concerned comes through the Coast Guard, and the Coast Guard will relay information to us. So we are communicating, but not directly.

HIRING ENFORCEMENT PERSONNEL

Senator DORGAN. Mr. Johnson, can you give us kind of a broad description of the challenges you face in hiring law enforcement folks across the board here? I think Director Stafford has described a bit of that, but what is your impression? Are we in a circumstance where we have retention capability and recruitment capability to provide the resources we need?

Mr. JOHNSON. This budget does provide for a significant increase in the number of law enforcement personnel for our bureaus. This poses great challenges for us. As all of us know, due to the surging economy, that the job market is tight. There is tremendous competition for very qualified people even within our own bureaus. We are in a position right now where our bureaus are hiring and there is potential competition which we hope would not redound to a net deficit for our bureaus.

That said, we have worked to deal with the issues of bringing people on as quickly as possible. Obtaining schedule B authority has been crucial to that effort. The absence of Schedule B for the ATF and the Customs Service, I think, can make their hiring process much more cumbersome at a time when we need it to be as flexible and as efficient as possible. The absence of an ongoing effort within the ATF for hiring—there was a long period of time when they did not even have the ability to bring people on board—meant that their administrative function for bringing folks on board simply was not at the level of effectiveness that we need right now.

So it is a challenge. We are trying to address that, one, through Schedule B. We are holding a conference within the next couple of

weeks—it will be on April 6 and 7—to address the issues of recruiting generally, then more specifically, diversity within the recruiting process to make sure that we do bring the sorts of skills and backgrounds on board that the chairman referenced in his question to the Secret Service.

PERSONNEL RETENTION

Retention is a problem and this budget attempts to address that. It is a problem in the Secret Service and Director Stafford's priorities have been to bring on more people so we can deal with the quality of life issues that can drive personnel from the Secret Service to sometimes elsewhere in the Treasury family, but also to outside of law enforcement.

We have also worked within the Office of Enforcement, working particularly closely with ATF and also with management, to develop essentially a pilot program, a demonstration pay project, the authority for which came from this committee, so that we can do a better job at retaining the very high quality personnel, particularly in our laboratory areas, that we have developed over time and that we stand the risk of losing.

So it is a problem. We are taking steps to address it and we appreciate the committee's continued support as we move forward in these areas.

TREASURY LAW ENFORCEMENT OVERTIME

Senator DORGAN. Let me just ask briefly your use of overtime in the agencies that are represented here. Overtime, of course, is expensive, but the use of overtime in some Federal agencies is very substantial. Can you give me a description of the use of overtime in these agencies, the level of overtime compensation?

Mr. JOHNSON. I believe there is a fairly high range. I know within the Secret Service, as I recall, the number was around 80 hours of overtime per month, which is quite extraordinary.

Senator DORGAN. Eighty hours per month per agent?

Senator CAMPBELL. Overtime?

Mr. STAFFORD. Overtime. In our protective divisions, it is higher. It is 84 to 85 hours a month, on average. In our field offices, it is a tad lower. It is about 78 hours. As you can see, that is huge. It is too much. We need to reduce it. Our goal was to reduce it to 1994 levels, which was in the mid-60s, at least we could deal with that. Increased staffing is a step in that direction, to try to reduce that.

Mr. JOHNSON. But overtime is also a significant issue for the Customs Service, particularly when there was this heightened state of alert on the northern border in connection with the Y2K events. One of the ways that Commissioner Kelly had to address this problem was by increasing staffing at the locations and increasing the amount of overtime that people were required to work. I do not know, Commissioner, if you want to address that.

OVERTIME

Mr. KELLY. We have a substantial overtime budget, no question about it. Our investigators get law enforcement availability pay,

but our inspectors, of which there are approximately 8,000, probably average about $15,000 to $18,000 a year in overtime. So it is a significant expenditure for the agency, but I think it is a reflection, also, of the fact that we are, in my judgment, understaffed.

ADDITIONAL FTES VS OVERTIME

Senator DORGAN. Would it not be far less expensive to simply provide for the additional FTEs and pay a regular rate rather than overtime rates for, in your case in the Secret Service, the equivalent of 2 extra weeks' of work in a month, I assume at time-and-a-half, is that right?

Mr. STAFFORD. That is correct.

Senator DORGAN. Is that not an incredible waste of resources, as opposed to simply increasing the FTEs to pay regular salaries to folks working regular time?

Mr. STAFFORD. No, I agree. It is not only not efficient but our people are tired and it is not safe.

Senator CAMPBELL. I would think in many cases, you do not have that option. When the President decides to go on a trip for ten days, it is pretty hard to work an 8-hour day. When you are on the plane with him, your hours are pretty much what he determines and I would think that that is overtime, there is just no option on a lot of it.

Senator DORGAN. I understand that, but in more routine circumstances, my expectation is this overtime is not occurring just with respect to travel. In Customs, perhaps, if you do not have the resources and you are paying overtime instead to extend the hours worked, it seems to me that is a pretty inefficient way to cover the needs. I mean, I understand you are not in a situation right now where any of you can describe your increased FTE needs. That is given to you and you are going to have to make do with what you have. But I am just asking the question in terms of efficiency here, in terms of how we spend our money. It seems to me that we are probably looking at ways that could be much more effective.

Mr. JOHNSON. Senator Dorgan, I believe if you went to the ATF as well, you would find similar circumstances. As the Director's testimony has pointed out, their budget has not gone up. Their staffing levels have not gone up tremendously in over 25 years. Yet, if you looked at the number of new pieces of legislation and new responsibilities that have been added, you are looking at an organization that has a very valuable mission, a critical mission in dealing with the issues of violence in our society. You will, time and time again when you go out to the field, as I have, and speak to our personnel on the ground, find that they are running from pillar to post to cover it all. I think when we talk about lack of enforcement, I think given their responsibilities and given their resources, they are doing a very creditable job, but that comes at a cost, and Director, perhaps you would like to describe that cost.

Mr. BUCKLES. In our case, we do not have the efficiency issue because, for the most part, our agents are not being paid additional scheduled overtime at time-and-a-half. As you know, they receive a 25 percent basically straight time for additional overtime that they are required to work.

The situation that our agents face when we are understaffed is that they simply work as much as they have to work to get the job done, and we face very difficult situations in offices where agents are—where we fear burnout with agents because they do not stop because the clock stops when they have a job to do. So the additional personnel is not so much an efficiency in our case as it is a situation for saving our people from burnout.

Senator DORGAN. Let me just ask, I understand Senator Kyl has a need to be at a hearing at 10:00 and I will not prolong the questioning, but let me ask if we could perhaps get from the Under Secretary a memorandum describing overtime in the agencies that you are involved with and the cost of that overtime and maybe some evaluation about what might be a smarter and more effective way of using our resources, if you feel that exists.

Mr. JOHNSON. We would definitely undertake to deliver that to the committee. The only thing that I might add, just as we listened to Director Buckles' testimony, is that even when there are not monetary concerns there, I think we ought to be providing an assessment of the toll on our personnel as a result of the staffing issues, and we will endeavor to do that.

Senator DORGAN. That is a fair point and an important one, and let me go back to this, especially ATF today. We keep talking about the need to enforce gun laws. Well, if we are going to do that, and I support that, let us provide the resources. Let us provide the agents and the resources to do this. I mean, let us do more than talk about it. Thank you all very much.

Senator CAMPBELL. In that assessment, you might also include if you have any employee's comments, the ones that like the overtime. You hear a lot about burnout, but I have talked to employees that enjoy the extra income for the family.

Let me turn to Senator Kyl, who is on a short time frame. He has more problems, I think, in his State with illegal immigration and drug passage and so on than anybody in the Senate.

Senator KYL. Thank you, Mr. Chairman. Well, being on the southwest border, we obviously have our share. With respect to Customs, I would ask Director Kelly to convey to his personnel on the front lines how much we all appreciate the effort and the hard work that they do in a very difficult job. I am sure that they do appreciate a little bit of the overtime, but on the whole, they would probably rather have a pay raise, less overtime, and more time with their families, I am sure.

I am going to get to a couple of questions relating to that, but I also wanted to thank Director Stafford for the Secret Service's willingness to detail people to the U.S. Senate. My office has had the benefit of wonderful employees from the Secret Service who have been a tremendous benefit to me and I thank you for that.

ALLOCATION OF FUNDS AND PERSONNEL FOR SOUTHWEST BORDER

My questions primarily go right to the point that the chairman alluded to and that is the lack of resources on the Southwest border. I am concerned about the refusal of the Treasury Department, Mr. Johnson, to disburse money that we obligated from Treasury's asset forfeiture fund—the Kyl amendment from last year, $25 million, the purpose of which was to alleviate this very personnel prob-

lem that we are talking about for new agents and inspectors and some equipment. It could have gone a long way toward beginning to ease some of the problems that we have on the Southwest border.

My first question is, why was the money not disbursed? Secondly, when will it be disbursed? Then we will go from there.

Mr. JOHNSON. Senator, I hope I have good news. Answering the second question first, last night, I was able to sign off on the authorization for the expenditure of the $25 million that had been allocated in the asset forfeiture fund.

The reason for the length of time is that considerable care had to be taken in putting together the package that was consistent with the President's budget as well as consistent with certain priorities that had been identified in the Customs budget, particularly with respect to the counter-narcotics initiative that is set forth in that budget. There are substantial numbers of personnel that have been added in that counter-narcotics proposal and I believe that Commissioner Kelly can describe that in greater detail. So we tried to maintain that program, but we also wanted to address the very critical need that you identified in your allocation. So we believe that has been taken care of.

ALLOCATION OF FUNDS ASSOCIATION WITH THE KYL AMENDMENT

Senator KYL. Well, it has been taken care of to the extent that, I guess in the fourth quarter of this year, you will finally begin to expend money that was intended to be expended totally in this year. Was there any doubt in the way that we put this amendment together about what our intentions were?

Mr. JOHNSON. No, sir. The language of the amendment was clear, as were a number of other allocations for the asset forfeiture fund. One of the challenges that we faced in putting together the allocation and finally releasing the funds was that there had been an allocation of some $178 million for a fund that had $142 million in funds to meet that overall allocation. There was far more will than wallet, sir, and what we tried to do is to match those critical needs, and there are certain things that still have not been funded. There has been a request for automobiles for our agents which is important to all of our bureaus and we have still had to defer those expenditures. Hopefully, we will be able to meet those, as well.

Senator KYL. How much of the money, of the $25 million, will be spent in fiscal year 2000, do you know?

Mr. JOHNSON. The expenditures are split over fiscal year 2000 and 2001, and I can give you the precise figures in just a second.

Senator KYL. Is it roughly $13.7 million this year and $11.3 million next year?

Mr. JOHNSON. That is correct, sir.

Senator KYL. Thanks. It is my understanding that the recommendation was not from Customs but from you, and you just indicated there were two reasons, to be consistent with the President's budget, which, of course, reflects his priorities, and secondly, some needs for counter-narcotics. But the recommendation that the money be deferred over a 2-year period was your recommendation, was it not?

Mr. JOHNSON. Sir, this was a process that involved a fair amount of discussion between Treasury and Customs and a discussion ultimately of a variety of proposals, some of which came forward from Customs, and at the end of the day, I was the one that chopped on the proposal that goes forward. So at the end of the day, I was the decision maker, yes, but it was a process that we were engaged in with the Customs Service.

Senator KYL. I understand, but just so the record is clear, did Customs recommend or did you recommend that the money be spent over a 2-year period?

Mr. JOHNSON. I would say, sir, that I decided that the money would be spent over 2 years. There were a number of proposals that were entertained during this process, and at the end of the day, I was the decision maker on that.

RESOURCE ALLOCATION MODEL

Senator KYL. The resource allocation study, Commissioner Kelly, is that the study that Pricewaterhouse—was it Pricewaterhouse that did the basic work on that?

Mr. KELLY. Yes, sir.

Senator KYL. Is that study complete now, ready to go?

Mr. KELLY. Yes, it is.

Senator KYL. So we can all see what kind of needs are illustrated in there?

Mr. KELLY. We have sent it forward to Treasury and OMB is also examining it.

Senator KYL. And I presume the committee can get a copy of that?

Mr. KELLY. Yes, sir.

Senator KYL. I would just ask this question. Would that study, in your opinion, provide us with the template of needs for Customs in terms of both personnel and facilities and equipment over the next few years?

Mr. KELLY. Well, it focused on personnel for the most part. There is, under the auspices of this committee, an infrastructure study that is going forward that looks at the infrastructure needs on both of our borders and that should be finalized in June. But we have some preliminary findings in that regard which we are certainly able to share.

Senator KYL. So if the committee were to understand exactly what you think you need, that study would provide, at least with respect to personnel, a very good guide as to what we should try to fund, if we agree with the study, obviously, to reflect the needs of Customs, is that right?

Mr. KELLY. Yes, sir.

Senator KYL. I just recommend, Mr. Chairman, that we immediately obtain the study. Senator Dorgan referred to it. He made some excellent points with respect to overtime and so on, the need for more personnel. I understand the study does call for more personnel. We are going to have to understand what additional expenditures that may require us to ask for as a subcommittee and that is not going to be easy to obtain, but better to know now, right at the beginning of our process this year, and make as large a request as we can to comply with the resource study. I am certain

we are not going to get everything we ask for, but at least we can put in motion a process so that over time we can begin to satisfy the needs of the Customs Service.

And then, secondly, a question relating to the recurring costs that relate to the hiring of new people. Maybe, Mr. Johnson, this is for you. What will be the request for handling the recurring costs next year and the year after?

Mr. JOHNSON. In connection with?

Senator KYL. With the new hires.

Mr. JOHNSON. As a result of the study, sir?

Senator KYL. No, as a result of the $25 million over the 2000–2001.

Mr. JOHNSON. I do not have those precise figures. We can provide that.

Senator KYL. You will need to get those to us because we will need to fold those into our figures for the future——

Mr. JOHNSON. Absolutely.

Senator KYL [continuing]. So that we know more than just one year out what we are going to have to budget for.

Mr. JOHNSON. We will do that.

Senator KYL. There will be recurring costs in the year 2001 for the expenditures we make in 2000, right?

Mr. JOHNSON. Right, but we believe that the way we have laid out the expenditures, that should cover the——

Senator KYL. In 2001?

Mr. JOHNSON [continuing]. The costs in 2001.

CUSTOMS' INFRASTRUCTURE STUDY

Senator KYL. All right. In any event, Mr. Chairman, I think looking at that resource allocation study should provide us a real road map of where we need to go. I also understand that with respect to the Southwest border specifically, you have another study coming out in June that will be more precise as to that, or is that the——

Mr. KELLY. That is the infrastructure study that I referred to, yes, sir.

Senator KYL. Suffice to say, we have—in fact, I was kidding my friend, Spencer Abraham, who tears out his hair whenever there gets to be a 2-minute delay in crossing the border from Canada into Michigan. You know, they are busy up there and 2-minutes is a long time to wait. And I have told him that if we could get our delay on the southwest border down to 20 minutes, we would be doing dances, and I am sure your folks would consider it a great success.

We have a huge amount of trade coming up from Mexico, and the bottom line is, if you do not get in queue by about 2:00 in the afternoon, you are going to spend the night at the big truck facility on the south side of the border waiting to get in, and we are supposed to be for free trade and facilitating trade and supporting agriculture, Senator Dorgan. We need to understand that one of the choke points is the inspection, the border crossing stations that we have, simply because we do not have enough lanes and enough personnel to handle all of that traffic. We have got to do better. Thank you very much.

Senator CAMPBELL. I have been in your State a number of times and I noted with interest there are a lot of places where there is no wait. They just come across.

Senator KYL. That is the other issue.

Senator CAMPBELL. That is the other issue, right.

With that, I have no further questions. I appreciate you being here and thank you for attending.

Our next panel also has the Under Secretary on it. Did you have anything further to say on that panel, Mr. Under Secretary?

Mr. JOHNSON. No, sir.

Senator CAMPBELL. We will go on with Mr. Ralph Basham, the Director of FLETC, and Mr. William Baity, the Deputy Director of the FinCEN.

If we could have our seats, gentlemen, we will start in that order, the Under Secretary does not have a statement.

Mr. JOHNSON. That is correct, sir.

FEDERAL LAW ENFORCEMENT TRAINING CENTER

STATEMENT OF W. RALPH BASHAM, DIRECTOR

Senator CAMPBELL. We will just go ahead and start with Ralph Basham and go to Mr. Baity right after that.

Mr. BASHAM. Mr. Chairman and members of the subcommittee, I am pleased to be here today to report on the current operations and performance of the Federal Law Enforcement Training Center and to support our appropriations request for 2001.

Under the leadership of the Secretary of the Treasury, Lawrence H. Summers, Under Secretary for Enforcement James E. Johnson and his staff, the FLETC has received strong support and active assistance for carrying out its responsibilities. We are indeed fortunate to have these two individuals playing a leadership role as the FLETC enters into the 21st century.

I also want to thank this committee for the support it has provided the Center. The committee has been extremely supportive and most generous in its funding of consolidated training.

The Center provides two essential levels of training for Federal law enforcement organizations from all three branches of government. Entry-level training to the Federal service is conducted for police officers and criminal investigators and a full range of advanced training programs are conducted for journey-level personnel in areas such as marine, law enforcement, anti-terrorism, financial and computer crimes, and weapons of mass destruction.

Additionally, the Center provides facilities and services to participating organizations to permit them to conduct agency-specific basic training and advanced training programs. Over the years, the Center has also been called upon to conduct training for State, local, and international law enforcement officers. Today, more than 200 separate programs are available at our sites at Glynco, Georgia, and Artesia, New Mexico, as well as a temporary training site in Charleston, South Carolina.

Our fiscal year 2001 request contains three important initiatives. With regard to our salaries and expense account, we are seeking an increase of approximately $7 million and 26 FTE in our mandatory workload. This funding will be used to address entry-level training for additional agents and inspectors for the Bureau of Alcohol, Tobacco and Firearms and additional agents for the United States Secret Service.

Our other two principal initiatives relate to our construction account request. One initiative is for major renovation of existing structures at Glynco. The Center acquired the Glynco site in 1975 and many of the structures were built in the 1950s and 1960s and reflect serious infrastructure problems that cannot be sustained further through regular cyclical maintenance only. These renovations involve asbestos abatement, leaking roofs, safety code measures, and major mechanical systems work. We believe this funding

request for renovations proposed over the next several years must be undertaken in order to protect the government's investment of nearly a quarter of a billion dollars in the Glynco physical plant.

The second construction account initiative of immediate importance is the new facility construction. The approximately $11 million requested in the Treasury Asset Forfeiture funding will permit the Center to construct a new dormitory in Glynco and a firearms range and office structure in Artesia. This proposal is part of our 5-year plan to expand capacity at both sites to accommodate the U.S. Border Patrol training now conducted in part at Charleston and other participating agency training requirements. This request is for the second year of the plan, and if approved, will keep the Center on track for closing the temporary site in Charleston by 2004.

In that connection, I would like to mention that the Center is exploring all options available within our resource capabilities in Artesia, as well as Glynco, to determine how projected Border Patrol and other agency training can best be undertaken in a manner consistent with the purposes for which this Congress created the consolidated training concept. We will keep this committee apprised of the results of our review.

PREPARED STATEMENT

In closing, Mr. Chairman and members of the committee, I want to thank you for your support of the Federal Law Enforcement Training Center's important mission. Thank you very much.

Senator CAMPBELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF W. RALPH BASHAM

Mr. Chairman, Senator Dorgan, and Members of the Subcommittee, I am pleased to be here today to report on the current operations and performance of the Federal Law Enforcement Training Center (FLETC) and to support our appropriations request for fiscal year 2001. Before starting with my testimony, I would like to take this opportunity to introduce the members of my staff who have accompanied me today.

The Center has experienced tremendous growth since its establishment in 1970, when a handful of agencies partnered together and established the Consolidated Federal Law Enforcement Training Center. With the addition of the CIA's OIG this year there are now 73 participating agencies training at the Center. We expect further growth as more agencies recognize the many benefits of consolidated training.

The Department of the Treasury has been the lead agency for the United States Government in providing the administrative oversight and day-to-day direction for the FLETC since its creation. Under the leadership of Secretary of the Treasury, Lawrence H. Summers, and Under Secretary for Enforcement, James E. Johnson, the FLETC has received strong support and active assistance for carrying out its responsibilities. We are indeed fortunate to have these two individuals serving in key leadership roles as the FLETC enters into the 21st century. I also want to thank this Committee for the support it has provided to the FLETC. Throughout the Center's 30 years of service to Federal law enforcement, this Committee has been extremely supportive and most generous in its funding of consolidated training. We extend our appreciation and look forward to working with you in the coming years.

The Administration and Congress can be proud of the quality of training being provided at the FLETC and the savings realized through consolidation. The consolidated concept for law enforcement training at the FLETC is 30 years old and continues to be the most efficient and economical means for delivering this essential service to the law enforcement community and the nation.

Today, I am prepared to discuss several initiatives in the President's fiscal year 2001 budget. The Center's fiscal year 2001 request is for a Salaries & Expenses

(S&E) appropriation of $93,483,000 and 607 FTE, an increase of $9,456,000 and 35 FTE above the fiscal year 2000 level. Our request for the Acquisition, Construction, Improvements & Related Expense (ACI&RE) appropriation is for $17,331,000, a decrease of $3,844,000 below the fiscal year 2000 appropriation. Further, the FLETC is requesting that $14,267,000 be provided from the Treasury's Asset Forfeiture Fund to support the expansion of facilities at the Glynco, Georgia and Artesia, New Mexico centers. The funding and FTE requested will support three important initiatives, New Training Building Support ($1,606,000 and 2 FTE); New construction ($11,767,000 from the Treasury's Asset Forfeiture Fund to construct a dormitory at Glynco and an outdoor firearms range with steel targeting system and a firearms office building at Artesia); and Major facility renovations ($4,436,000—includes $2,500,000 from the Asset Forfeiture Fund and $1,936,000 from the FLETC's ACI&RE account).

Together, the total S&E and ACI&RE requests, including monies from the Treasury's Asset Forfeiture Fund, represent an increase of $19,879,000 over fiscal year 2000's enacted appropriation. Coupled with an estimated $35,890,000 in funds to be reimbursed to the Center for training related services by our participating agencies, the total budget for fiscal year 2001 is $160,971,000.

Before providing this Committee with an overview of Center operations and discussing each of the initiatives in more detail, I would like to take a moment to address progress being made in complying with the requirements of the Government Performance and Results Act (GPRA). As you know, the GPRA requires agencies to publish annual performance plans that are tied to their strategic plans. Performance plans are to include measurable goals which agencies are required to report on after the year is completed. These performance plans are now an integral part of the budget documents sent to you each year.

There are a total of six performance measures to report on in our budget request for this year. The performance measures used for the Law Enforcement Training activity in fiscal year 1999 included: (1) results of the student quality of training survey, (2) student-weeks trained: Federal Basic, (3) variable unit cost per basic student-week of training funded, and (4) number of personnel input forums conducted. The performance measures for the Plant Operations activity included: (1) student quality of services survey and (2) initiation of a comprehensive development plan.

The student quality of services survey and student quality of training survey performance measures are outcome measures. The student quality of training survey and the student quality of services survey are based on a percentage of students who answer satisfactory or better to the questions presented in the survey. Both were computed using evaluations completed by students attending Center programs. The student-weeks trained outcome is based on whether the Center conducts 100 percent of the basic training requested by its participating agencies. The variable unit cost per basic student-week of training funded is also an efficiency measure and is based on training dollars divided by funded student-weeks of training. Finally, the plan called for the FLETC to conduct four personnel input forums per year.

I am pleased to report that the Center's overall performance against established target goals was very good. The most critical performance measure in our plan, the student quality of training survey measure, was 99 percent. This exceeded the Center's performance plan target goal of 80 percent. The Center conducted 100 percent of the student-weeks of basic training requested. The FLETC's training costs were above the cost figure established for the variable unit cost per basic student-week of training. This was due to a failure of projected training levels to materialize, primarily with the Border Patrol. The plan projected a per week cost of $146 and the actual was $165, an additional cost of $19 per week or 13 percent increase. The cost per student-week of training measure should come back in line in fiscal year 2000. In the Plant Operations activity, performance measures were either met or exceeded.

As stated in the Center's testimony last year, the FLETC is currently revising its strategic plan and performance measures in an effort to more accurately reflect our performance indicators and to better align them with the Center's mission. The draft will be provided to this Committee and our other stakeholders for review and comment when it is completed.

OVERVIEW OF OPERATIONS

Now Mr. Chairman, if I may, I would like to provide the Committee with a brief overview of the operations of the Federal Law Enforcement Training Center.

The Center has experienced tremendous growth over the last 30 years. With few exceptions, the FLETC conducts basic and advanced training for the vast majority of the Federal government's law enforcement personnel. We also provide training for

state, local and international law enforcement personnel in specialized areas and support the training provided by our participating agencies that is specific to their needs. Currently, 73 Federal agencies participate in more than 200 different training programs at the Center.

There are entry level programs in basic law enforcement for police officers and criminal investigators along with advanced training programs in areas such as marine law enforcement, anti-terrorism, financial and computer fraud, and white-collar crime. Training is conducted at the headquarters training center in Glynco, Georgia, our satellite training center in Artesia, New Mexico, or a temporary training facility in Charleston, South Carolina.

The temporary training site in Charleston was established in fiscal year 1996 to accommodate an unprecedented increase in the demand for basic training by our participating agencies, particularly, Immigration and Naturalization Service (INS) and United States Border Patrol (USBP). The workload increase is the direct result of Administration and Congressional initiatives to control illegal immigration along the United States borders.

In addition to the training conducted on-site at one of the FLETC's residential facilities, some advanced training, particularly that for state, local and international law enforcement, is exported to regional sites to make it more convenient and/or affordable for our customers. At a time when the FLETC residential sites have been stretched to capacity limits to meet increased Federal training requirements, the use of export sites for other types of training has proved highly successful.

Over the years, the FLETC has acquired a reputation as an organization with a "can do" attitude that provides high quality, cost efficient training and state-of-the-art programs and facilities. I have come to realize and have seen first-hand the many advantages of consolidated training for Federal law enforcement personnel, not the least of which is an enormous cost savings to the Government. Consolidated training avoids the duplication of overhead costs that would be incurred by the operation of multiple agencies training sites. Consolidation also ensures consistent high quality training and fosters interagency cooperation and camaraderie in Federal law enforcement.

Quality, standardized, cost-effective training in state-of-the-art facilities, interagency cooperation, and networking are indisputable positive results of consolidation. However, the concept of consolidated training is fragile and must be constantly nourished and supported, if it is to remain viable.

WORKLOAD

In fiscal year 1998, the FLETC workload reached a new historical high. In fiscal year 1999, the workload decreased over the previous year due in large part to the INS and Border Patrol's training projections falling below original estimates. With new pay incentives and hiring procedures now being employed by Border Patrol, they anticipate their projections will be more accurate in the near future. Overall, the FLETC expects the participating agencies to continue to have high training workload requirements both at the entry and advanced training level.

During fiscal year 1999, the Center graduated 25,168 students, representing 97,855 student-weeks of training. This total included 16,297 students who were trained at Glynco, GA; 3,776 students trained at Artesia, NM; 611 students trained at the temporary training site in Charleston, SC; and 4,484 students trained in export programs. There were 9,005 basic students; 11,708 advanced students; 3,860 state and local students, and 595 international students trained providing for an average resident student population (ARSP) of 1,882.

The April 1999 participating agency workload projections, upon which our fiscal year 2001 budget requests are based, indicate that during fiscal year 2000, the Center will train 34,168 students representing 168,847 student-weeks of training. This total includes 23,095 students to be trained at Glynco; 3,662 students at Artesia; 1,870 students at the temporary site in Charleston; and 5,541 students in export programs. A total of 14,473 basic students; 13,739 advanced students; 4,130 state and local students; and 1,826 international students are projected for a total ARSP of 3,247. Again due to reductions in projected Border Patrol and INS training, the likelihood exists that anticipated training levels will not be entirely reached in fiscal year 2000.

The agency projections indicate that during fiscal year 2001 the FLETC will train a total of 35,444 students representing 180,871 student-weeks of training. This total includes 24,524 students at Glynco; 3,896 students at Artesia; 1,200 students at Charleston; and 5,824 students in export programs. A total of 17,082 basic students; 12,111 advanced students; 4,419 state and local students; and 1,832 international students are projected for a total ARSP of 3,478. The fiscal year 2001 request will

provide funding for 79 percent of the projected basic training workload requirements. We believe this will be sufficient to pay for the training that will actually materialize.

The Center has experienced sustained growth in the training demanded by its participating agencies over the past 30 years. We have been able to accommodate many of these increased training demands by being innovative and undertaking extraordinary measures.

To accommodate training during fiscal year 1985 and again in fiscal year 1989, the Center had to temporarily expand its capacity for housing, dining, classroom, office space, storage, and special training facilities by using temporary buildings and contracted or licensed temporary facilities. Further, the Center has not always had sufficient dormitories to accommodate all of our students in on-Center housing and has used contractual arrangements with local motels. While necessary, many of the temporary measures taken to meet these training demands were costly, and they were disruptive to the Center's operations and efficiencies.

Beginning in 1996, the Center again had to resort to using a temporary accommodation to meet the extraordinary training needs of one of our participating agencies, the Border Patrol. As I mentioned earlier, a temporary training site was established in Charleston, South Carolina during 1996 because our existing FLETC facilities did not have sufficient sustained capacity to accommodate all of the training being requested. This site is an FLETC-Border Patrol collaborative effort, but facility operations are being funded through the Border Patrol's appropriations. Plans now call for Charleston to be closed by the fiscal year 2004 time frame, once the training requirements for the new Border Patrol hires are completed and/or new facilities become available to accommodate the training at FLETC's permanent locations.

This is the third time since fiscal year 1985 that FLETC has taken extraordinary measures to positively respond to the projected training demands of the participating agencies. More importantly, it is the second time in the last decade that a temporary training facility has been established for a lengthy period of time.

Opening temporary training sites is a time-consuming and expensive process. Capital improvements often must be made to bring a site up to minimum specifications for law enforcement training purposes and, unlike capital improvements made at Glynco or Artesia, there is no permanent return to the government on that investment. Temporary site utilization affects cost efficiencies in the training provided and creates quality of life and overall training experience issues for trainees.

The FLETC currently is exploring all of its resource options to determine how all Border Patrol training, as well as other participating organizations training, can be conducted in an efficient manner consistent with the purpose for which Congress created the consolidated training concept. We will keep this Committee apprised of our activities.

In addition to relying on a temporary training site to accommodate increased workload, the fiscal year 1999 projections made it necessary to implement a dual-shift experimental schedule at Glynco. Two overlapping shifts were established. One that ran from 7:00 a.m. to 4:00 p.m. and the other ran from 9:00 a.m. to 6:00 p.m. The overlap in the dual-shift schedule provided some additional facility capacity because the extended workday allowed for expanded use of the special training facilities, such as firearms and drivers training.

Implementation of the dual-shift schedule required numerous adjustments in the FLETC's food, janitorial, transportation services, and role player contracts resulting in unprogrammed increases in operating expenses. Since January 2000, the dual shift schedule has been suspended due to workload reductions, primarily in Border Patrol training. However, the experience gained in this scheduling experiment established that the FLETC could undertake shift scheduling if warranted within certain cost parameters.

FACILITIES MASTER PLAN/CONSTRUCTION

Now, Mr. Chairman, I would like to brief you and the Committee members on progress being made in expanding the FLETC's facilities. The Master Plan, presented to Congress in June 1989, provided a basis for the efficient and orderly development of the Center's land and facilities resources to meet projected needs through year 1998. It was a comprehensive blueprint and orderly guide for expansion of the Center's capacities to meet the projected training workload.

Over the years, the original Master Plan was updated to refine earlier estimates and incorporate changes necessary to meet the evolving training needs of our customers.

In fiscal year 1999, due to the Border Patrol and INS extended buildup plan, the Master Plan was changed to a 5 year plan that would increase capacity sufficiently

at the permanent FLETC facilities to allow for the closure of the Charleston site. As priorities change, the FLETC continuously reviews and updates this plan. This fiscal year is the second year for funding requested under the 5 year plan. Other adjustments may be made as circumstances warrant in future reviews.

Since 1989, Congress has appropriated $126,585,000 for new construction. Of this amount $86,579,000 was for Glynco projects; $39,456,000 was for Artesia projects; and $550,000 for satellite locations previously in the FLETC physical plant inventory. In addition, funds also have been allocated from other sources such as the Treasury Asset Forfeiture Fund, for new construction activities. I am pleased to report that we have obligated approximately $116 million through September 30, 1999. By the end of this fiscal year we expect nearly all remaining funds to be fully obligated. Since the beginning of fiscal year 1999 we have been partnering with the General Services Administration (GSA) on the assignment of construction projects and that is proving to work exceedingly well thus far.

At Artesia, major projects that have been completed include: a 73 bed dormitory; rehabilitation of the cafeteria/student center complex and main classroom building; construction of a physical training complex; interim driver/firearms ranges; a road and sidewalk network; permanent firearms ranges; and a driver/firearms administrative support/classroom building. At Glynco, completed projects include: two dormitories; an administrative office building; a redesigned main entrance that includes a security and registration facility for students and visitors; an expansion of the indoor firearms range complex; consolidation/expansion of the physical techniques facility; an expansion of the cafeteria; construction of two 25 point outdoor firearms ranges; an addition to the Steed classroom building (two state-of-the-art classroom wings); and an expansion of our driver training complex (the addition of a control tower, defensive driving and highway response ranges).

In addition to those projects already completed, construction is underway on a new dormitory, a classroom building, and additional firearms ranges at Glynco and a new dormitory and a physical training expansion at Artesia. These projects are expected to be completed in 2000 and 2001. Construction funding for two permanent firearms ranges in Artesia for which we received funding in fiscal year 2000 already have been designed and competitively awarded. A chilled water system expansion at Glynco provided for in the fiscal year 2000 appropriation should be awarded early this spring.

The Center's fiscal year 2001 ACI&RE request is in the amount of $17,331,000, a $3,844,000 decrease from the fiscal year 2000 enacted level. Primarily this decrease reflect the different in construction between fiscal year 2000 and 2001. Additionally, the Center request $14,267,000 be provided from the Treasury's Asset Forfeiture Fund. This includes $11,767,000 for new construction and $2,500,000 for renovations of existing facilities. Projects that would be funded include: $7,590,000 for a new dormitory at Glynco and $1,784,000 for a outdoor firearms range with a steel targeting system and $2,393,000 for a firearm office building in Artesia.

The construction initiatives outlined support goal two in FLETC's strategic plan that is to develop, operate, and maintain state-of-the-art facilities and systems responsive to interagency training needs. Funding is required if the Center is to meet the training needs of our customers and to protect the government's investment in facilities. Failure to fund these initiatives will result in the continued reliance on the more costly method of establishing and maintaining temporary training facilities to meet on-going training requirements. Also, an inadequate capacity in FLETC's sites endangers the concept of consolidated training and can lead agencies-particularly larger organizations-to consider alternative locations to meeting their training requirements.

The Center continues to coordinate closely with its participating agencies so that the design features of each training construction project will meet current and future needs. This close consultation sometimes prolongs the period it takes to design and construct facilities; however, the time and effort are well spent because this ensures that the funds are more efficiently and wisely used.

Mr. Chairman, I want to thank you and members of the Subcommittee particularly for the solid support given the Center in its facility expansion plans. We are pleased and grateful that Congress has seen fit to appropriate the funds necessary to expand our facilities to better equip the Center to perform its mission responsibilities.

Now, if I may Mr. Chairman, I would like to take this opportunity to briefly discuss our funding request for the mandatory basic training workload increase and the remaining initiatives in the FLETC's fiscal year 2001 budget request that I referred to earlier in my testimony.

MANDATORY BASIC TRAINING WORKLOAD INCREASE

In our fiscal year 2001 request the Center is seeking an increase of $6,969,000 and 26 FTE to support the direct costs of basic training. This funding will provide mandatory training to support new initiatives for additional agents and inspectors for the Bureau of Alcohol, Tobacco and Firearms (ATF) and additional agents for the U.S. Secret Service (USSS). Together with funding already included in our base and what is expected to be available in the Congressionally authorized 3-year carry over fund, the FLETC expects to meet all of the requirements for basic training in fiscal year 2001.

This budget request is in accordance with the OMB/Treasury/FLETC policy established in fiscal year 1987 that requires funding of the direct costs of new Federal hire training other than room, board and travel. The participating agencies do not request funding for these costs in their budget submissions and solely rely upon the FLETC to provide this funding in our appropriation.

NEW TRAINING BUILDING SUPPORT

As I mentioned earlier in my testimony, the Center is requesting $1,606,000 and 2 FTE for new training building support. The requested funding and FTE are necessary to support the operation and maintenance of new facilities that will be online or will be coming online at both Glynco and Artesia by fiscal year 2001. At Glynco, these include a classroom building, a chilled water system expansion and firearms ranges. In Artesia this includes a dormitory, a laundry expansion, a security building, and expansion of the physical training building. The FLETC's request provides the necessary resources and personnel to support operation of the new facilities including utilities, service contracts (janitorial/grounds maintenance), and minor construction and maintenance. This funding is essential to protect the Government's investment in these facilities and this initiative supports both Goals 1 and 2 in the FLETC's strategic plan.

RENOVATIONS

Finally, I note that we are requesting funds this year for the first time for major renovation work at the Glynco center. As you may recall, the FLETC acquired the Glynco site in 1975 from the Navy. Many of the structures built by the Navy in the 1950s and 1960s were adapted for use in law enforcement training. Additionally, we built several facilities in the late 1970s. Buildings that are now 30 plus years old are beginning to reflect serious infrastructure problems that cannot be upgraded in the normal maintenance cycle for which Congress annually has provided appropriations. The problems that must be addressed include asbestos abatement, flat, leaking roofs that must be completely replaced, upgrading of safety code measures and the over hauling of mechanical and air handling features in buildings exposed to long periods of tropical like weather conditions. The renovations will correct deficiencies, provide for energy efficiencies and return these structures to an acceptable standard of use.

The Glynco Center now has over 250 structures to maintain and a nearly quarter billion dollar physical plant. We believe these renovations and future out-year renovation work should be undertaken to protect the government's substantial investment at Glynco. Toward that end our request in fiscal year 2001 is for $4,436,000 ($1,936,000 from direct appropriations and $2,500,000 from Treasury's Asset Forfeiture.

CLOSING

Mr. Chairman, I am committed to the mission of the Center to provide high quality law enforcement training at the lowest possible cost. Substantial savings are being realized through the operation of the Center as a consolidated training facility. I look forward to your continued support as the FLETC strives to remain a partnership committed to excellence.

I am available to answer any questions you may have concerning this appropriation request.

FINANCIAL CRIMES ENFORCEMENT NETWORK

STATEMENT OF WILLIAM F. BAITY, DEPUTY DIRECTOR

Senator CAMPBELL. Mr. Baity.

Mr. BAITY. Good morning, Mr. Chairman, Senator Dorgan. Thank you for the opportunity to discuss FinCEN's 2001 budget request. I have a brief statement and, of course, would ask that the written remarks of Director Sloan be included in the record.

Senator CAMPBELL. It will be included.

Mr. BAITY. As mentioned, I am testifying in place of our Director, Jim Sloan, who is unable to be here today due to a family emergency. Mr. Sloan asked that I convey his regrets to the committee, but also convey from our Director as well as all the men and women of FinCEN how grateful we are for the support and counsel we have received from this committee during the first 10 years of our development.

Today, there is an even greater focus on money laundering than there was when we were created in 1990. Just 2 weeks ago, the Treasury and Justice Departments released the Second National Money Laundering Strategy. This heightened focus is why our request of approximately $34.6 million is necessary to enable FinCEN to meet the expectations of law enforcement, regulators, the financial community, and the American public in our fight against financial crimes.

To carry out our mission, FinCEN uses various methods of analysis and delivery of information to law enforcement. Our main objective is to add value to the information we receive from financial institutions and deliver it in the most effective way possible to Federal, State, and local law enforcement. Currently, we support about 150 Federal agencies as well as State and local law enforcement in all 50 States.

STABILIZE EXISTING PROGRAMS

To continue this support, we must maintain programs such as Gateway, our Secure Outreach, data mining, and our study of the magnitude of money laundering. Indeed, these programs have become key to FinCEN's goal of leveraging resources to more efficiently and effectively analyze and deliver information to our customers. Therefore, our budget asks that these programs be incorporated into our base.

MAINTAIN CORE PROGRAMS

FinCEN must also continue to strengthen its core missions and activities. Direct case support is at the very heart of the FinCEN mission. Through the use of advanced technology and numerous data sources, FinCEN links information to assist law enforcement in forming a more complete picture of a financial investigation. The

analysis of such information has become much more complex and more time consuming over the last few years. In light of these challenges, we are asking that the analyst positions approved in our fiscal year 2000 budget be annualized in fiscal year 2001 in order to improve both the quality and timeliness of FinCEN's case support.

In addition, the ability to identify trends and patterns associated with money laundering adds an important strategic dimension. The positions for strategic analysis initially funded in the 2000 budget allow FinCEN to provide proactive analytical support to many multi-agency task forces.

But before we can deliver meaningful data and analysis to law enforcement, we have to collect useful information from the financial institutions. Currently, more than 220,000 financial service providers from the largest money center banks to currency exchange businesses scattered throughout this nation are subject to some particular aspects of the rules of the Bank Secrecy Act. The information reported by these businesses preserve a financial trail for investigators to follow as they track criminals and their assets. It, too, is a foundation in FinCEN's work.

MONEY SERVICES BUSINESSES

This year, FinCEN embarks on a new regulatory agenda, registration of financial service providers known as money service businesses, or MSBs, as we call them. We are working to implement an extensive public awareness campaign and develop the necessary forms and data systems. Treasury's Public Education Office, along with the IRS Detroit Computing Center and its Examination Division are working in conjunction with us to carry out this process.

The outreach associated with the MSB registration will ultimately provide the framework for these industries to report suspicious activity. In moving toward this goal, FinCEN in conjunction with the Department recently announced the final rule requiring MSBs to begin reporting suspicious activity in January of 2002. The funding we are requesting for 2001 will allow us to continue the implementation of this critical aspect of our regulatory program.

FinCEN is also working to extend suspicious activity reporting beyond banks and MSBs to other financial institutions vulnerable to money laundering, such as casinos and the securities industry.

Another important role of FinCEN and its regulatory process is to ensure that financial institutions adhere to the reporting requirements that provide this critical information. This work is carried out with the assistance of the Federal financial regulators and the IRS Examination Division. To accomplish this goal, again, we seek to annualize staffing initially approved in fiscal year 2000.

All of these areas I discussed have an even greater importance given the recent release of the Second National Money Laundering Strategy. The $2.9 million requested in the Department's budget request will give FinCEN the resources it needs to carry out its responsibilities under the strategy, requirements which dovetail with our ongoing activities.

To meet these increased obligations, FinCEN under Director Sloan's leadership has undergone a restructuring designed to better integrate our law enforcement and our regulatory support programs. It has been a well-timed effort. FinCEN's management structure and the integration of the activities that I have described today are, in fact, coming together at a time when our nation's anti-money laundering efforts have coalesced into a comprehensive money laundering strategy.

PREPARED STATEMENT

In closing, I would point out it is clear in this strategy and in the increasing demands of our law enforcement partners that FinCEN is being looked to as one of the nation's key centers of money laundering expertise. Again, thank you for your support, and we would be happy to answer any questions.

Senator CAMPBELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF JAMES F. SLOAN, DIRECTOR

Mr. Chairman, Senator Dorgan, and members of the Subcommittee, I welcome this opportunity to discuss with you the fiscal year 2001 appropriation request of $34.694 million for the Financial Crimes Enforcement Network—FinCEN.

I have been Director of FinCEN for almost a year now, and while my many years with the Secret Service gave me a great deal of knowledge and insight into financial analysis and investigation, this past year has given me an even greater appreciation for the complexity of the issues surrounding financial crime. Most important, I am very proud to be the Director of this organization—a small cadre of less than 200 men and women—whose diverse range of talents and skills support hundreds of law enforcement and regulatory agencies. I have learned just how broadly these talents and skills must stretch to support FinCEN's many customers.

As you know, the primary functions of FinCEN are to provide support to law enforcement efforts that counter money laundering and other financial crimes, and to maintain an effective regulatory program for that purpose. Our request includes funding to continue our efforts to provide investigative analysis to our law enforcement customers, as well as the continuation of our regulatory and international functions. This request also includes $2.275 million for the implementation of a regulatory program never undertaken before—the registration of financial service providers called Money Services Businesses or MSBs. The outreach associated with the registration process will ultimately lead to implementation of a requirement for this industry to report suspicious activity. I'll address this new initiative in more detail later.

Since its inception 10 years ago, FinCEN has been comprised of several components that have served many varied constituencies very well. The management challenge for FinCEN is to blend all of our resources into a unified system for effectively collecting and delivering information to law enforcement. Today, I will describe how we are positioning FinCEN to meet these increasing demands to collect and deliver information to our partners—even as our country's anti-money laundering efforts expand.

EFFICIENT DELIVERY OF "VALUE ADDED" INFORMATION

FinCEN uses various methods for analyzing and delivering information to law enforcement. Our main objective is to add value to the information we collect from financial institutions under the Bank Secrecy Act (BSA) and deliver it in the most effective way possible to investigators. The systems we use involve sophisticated technology, and all are tailored to meet the needs of our customers. We service about 150 federal agencies and state and local law enforcement investigators in all 50 states.

Stabilize Existing Programs

In order to maintain these systems which have become central to our law enforcement customers, we are reiterating our request from last year to stabilize programs by transferring them from the Violent Crime Reduction Trust Fund to our salaries

and expenses appropriation. Each program that is described below is critical to ensuring that the information—with value added—reaches its users in the most efficient way. This transfer involves $1.75 million and FTE. The programs are outlined below:

Data Mining Program.—As the Committee is aware, one of the principal ways in which FinCEN is able to add value to law enforcement's investigative efforts is through the application of advanced analytical tools. Data mining is quickly proving to be perhaps the most useful of these tools. By applying highly sophisticated, customized software, FinCEN will eventually be able to "mine" literally billions of data segments on subjects, property, bank accounts, and financial transactions to uncover potential criminal relationships that would otherwise be virtually impossible to detect with standard link analysis. Once these suspect relationships have been established, FinCEN's analysts can then help unravel the complex labyrinth a criminal group has constructed to disguise their illegal activities.

To further our efforts in this area, FinCEN has been working with data mining experts to design software that is tailored to meet the specialized needs of law enforcement. Data mining is not a static, off-the-shelf technique but instead requires the testing of complex sets of algorithms to determine which will most creatively search and combine random pieces of data to reveal hidden links to criminals and their money laundering schemes.

FinCEN's efforts, to date, have focused on the evaluation of several data mining techniques by applying them to a specific database, such as the one that holds Suspicious Activity Reports, in a given regional area. These pilot endeavors have already provided law enforcement with valuable investigative information.

The next step will require the development of a BSA data warehouse. A data warehouse is a construct of information systems that provides users with historical and current information that is hard to access or present in traditional operational data stores. Data warehousing is critical to our organization's ability to perform effective information processing such as data mining. The data warehouse FinCEN will be building this year will store various kinds of BSA information—in a specially formatted manner to enable the application of large scale, more complex data mining to occur while ensuring that privacy concerns about appropriate use of the data receive maximum consideration. Funding is critical to ensuring that this cutting edge integration of the various data sets can be developed and that our data mining program can progress towards the promising potential it has already demonstrated.

Gateway Program.—In addition to developing new state-of-the-art techniques such as data mining, FinCEN has continued to build upon its important mission to efficiently deliver information through programs such as the Gateway System. Through this system, state and local law enforcement agencies, working with designated state coordinators who are trained on FinCEN-designed software, have direct electronic access to over 100 million reports filed under the BSA. Delivered through a secure and carefully monitored system, this information provides invaluable assistance for investigators since it is not readily available from any other source. The system is audited by FinCEN's managers, both with record reviews and on-site visits, to ensure that all inquiries are connected to actual or potential criminal violations. (A record is kept every time access is made to the BSA data through Gateway. The record identifies who queried a particular record and when it occurred. This record is the part of the audit trail that enables FinCEN to trace every query back to written justification for use of the system.) In fiscal year 1999, Gateway processed 84,727 queries, from our state and local law enforcement partners around the country. This is an increase of 18 percent over the past year.

The Gateway System has a unique feature—an "alert" mechanism that automatically signals FinCEN that two agencies have an interest in the same subject. In this way, FinCEN can not only assist state and local law enforcement in coordinating their investigations among themselves, but also with federal agencies. The number of "alerts" issued in fiscal year 1999 rose to 1,580, a 10 percent increase over fiscal year 1998.

Secure Outreach Program.—While ensuring our state and local law enforcement partners are provided with effective tools to assist in their work, FinCEN also has been working, over the past 2 years, to develop a secure communications system, which reduces the time it takes to package and deliver its analytical products to Treasury law enforcement bureaus. Through the application of sophisticated encryption and the Internet, the Secure Outreach Web System has the potential to provide real time means of sharing information quickly and securely. At present, all Treasury bureaus have the capability of communicating securely among themselves through a secure e-mail system and, in the very near future, the system will provide them with the capability of exchanging sensitive case information.

In addition, the Secure Outreach System provides the capability to access the Money Laundering Coordination Center (MLCC), a FinCEN-designed database developed for the U.S. Customs Service. The funding requested in fiscal year 2001 will provide FinCEN with the ability to expand the Secure Outreach System to include: direct access to the databases at the Internal Revenue Services' Detroit Computing Center (DCC) which houses the BSA data (currently this information is downloaded from DCC); direct access to the Gateway system; and expanded access to other FinCEN databases.

Magnitude of Money Laundering.—The programs that I have just described are key to FinCEN's goal of leveraging its resources to more efficiently and effectively deliver information to its customers. But, as we have stressed in our previous budgets and strategic plans, it is difficult to truly gauge the effectiveness of our nation's battle against financial crime until we find a way to estimate the magnitude of money laundering. This effort, over the past 2 years, has not been an easy one. FinCEN began looking at the problem on both a national and international level. We are moving forward with our own national study.

The funding FinCEN received in fiscal year 2000 is supporting the exploration and development of the methodology. We are working with law enforcement, regulatory and financial professionals and intend to draw upon the expertise of national research organizations and academic institutions. The fiscal year 2001 request will provide FinCEN with the resources to continue funding the primary research contract to be awarded by June of this year.

Maintain Core Programs

In order to meet the growing demand by law enforcement for the value-added information that FinCEN provides, we also see a need to increase funding in core delivery programs. These programs are outlined below:

Traditional Case Support.—FinCEN provides the law enforcement community with direct case support, formulating reports based on the data collected under the Bank Secrecy Act (BSA), along with law enforcement and public record information. The reports link together associates, bank accounts, property records and other information to assist law enforcement in forming a more complete financial investigation. FinCEN has provided this analysis since its creation 10 years ago and is at the very core of our support to law enforcement.

The analysis of the information—FinCEN's ability to add value—has grown more complex and time consuming over the last few years. The structure of criminal organizations is more intricate and their financial transactions more difficult to follow. In light of these challenges, we are asking that the analysts positions approved in fiscal year 2000 be annualized into fiscal year 2001 in order to improve the timeliness of FinCEN's case support. In addition, the resources will improve responsiveness to grand jury investigations, provide a full-time emergency response team, and increase the number of personnel available to provide in-depth analysis on more complex cases.

Enhance SARS and other BSA Database Analysis.—While providing value-added case support to law enforcement lies at the heart of our efforts, FinCEN also provides strategic information in support of law enforcement initiatives. Our focus in this regard is to identify trends, patterns, and issues associated with money laundering and other financial crimes. This requires the framing of macro level money laundering issues while serving as a catalyst for research, analysis, and dissemination of information on money laundering trends and systems. Examples of the products generated through our strategic analysis include in-depth assessments of particular areas or issues based on indicators extracted from BSA data and other sources. Segments analyzed could include: (1) geographic; (2) threat vulnerability; (3) industry analysis such as electronic funds transfer systems; and (4) analysis of particular money laundering methods.

The positions funded for this area in the fiscal year 2000 budget are allowing FinCEN to meet the expanding requirements for strategic analysis to support multi-agency task forces, providing feedback to the regulatory and banking communities, and expanding proactive research.

EFFECTIVE COLLECTION OF INFORMATION

I began my testimony by discussing how FinCEN *delivers* information because I wanted to focus on our primary goal—supporting law enforcement's investigative efforts. But obviously before we can deliver the best information possible, we have to collect the most useful data we can from the financial institutions—that is at the heart of FinCEN's regulatory mission. And unifying the collection and delivery of information, as I said before, is critical to our success.

As the subcommittee is aware, FinCEN administers the BSA, which requires financial institutions to keep records and file reports on certain transactions. Under the BSA, financial institutions must report to the Treasury all currency transactions above $10,000. In addition, depository institutions are required to report suspicious transactions on a Suspicious Activity Report (SAR).

More than 220,000 financial service providers—from the largest money center banks to the scattered currency exchange businesses along the Southwest border, with hundreds of variations in between—are subject to the BSA rules. This information collection preserves a financial trail for investigators to follow as they track criminals and their assets. The BSA reports are the foundation of FinCEN's analysis and information delivery systems.

Expanding the Collection of BSA Information

Suspicious activity reporting, mentioned above, is central to anti-money laundering policy, both in the United States and abroad. Officials at financial institutions are in the best position to determine what transactions appear to lack commercial justification or otherwise cannot be explained as falling within the usual methods of legitimate commerce. Under those circumstances, only relying on currency transaction reporting, although very valuable, is neither adequate nor cost effective for either the institutions involved or the government.

For these reasons, much of FinCEN's regulatory effort has been focused on this issue in recent years. Depository institutions have reported suspicious activity to FinCEN since 1996 with more than 375,000 reports filed since the inception of the system. Specifically, these institutions must report financial activity which they know, suspect or have reason to suspect involve funds derived from serious criminal activity or for which there is no apparent lawful purpose. This information has proven to be vital to money laundering investigations and other financial crimes.

While banks have been the first group of financial institutions subject to SAR reporting, FinCEN is in the process of extending similar regulatory requirements to other institutions vulnerable to money laundering, including money services businesses; casinos; and brokers and dealers of securities.

As stated in the National Money Laundering Strategy issued last year, money launderers will move their operations to institutions where they believe they will more easily be able to successfully evade enforcement and regulatory efforts. For example, casinos are vulnerable to manipulation by money launderers and tax evaders due to the fast-paced and cash intensive nature of the games and because casinos provide their customers with a wide array of financial services.

In fact, financial services available at casinos are similar and, in some cases, identical to those generally provided by banks and other depository institutions. These services can include customer deposit or credit accounts, facilities for transmitting and receiving funds transfers directly from other institutions, and check cashing and currency exchange services. And if banks are mandated certain requirements under the BSA, then it can only make sense to impose similar requirements on other industries which offer the same kinds of services—not only "leveling the playing field" within the financial services arena, but most important, making it equally as difficult for launderers to hide their money using these industries.

This program will result in a mandatory workload increase requiring additional resources ($.226 million and 1 FTE). This expansion of SAR filings will require FinCEN to coordinate outreach efforts with these industries on a national level, provide guidance to them, and coordinate with the regulatory oversight agencies.

Increase in Existing Requirements

An important part of FinCEN's information collection mission is to ensure that financial institutions are adhering to the reporting requirements that provide the information that is critical to law enforcement investigations. With the assistance of the federal financial regulators and the IRS Examination Division, FinCEN investigates violations of the recordkeeping and reporting requirements of the BSA. These agencies refer to FinCEN specific cases involving potential violations of the BSA by financial institutions subject to their supervision. FinCEN determines if the violations warrant monetary penalties after a very complex review process.

In order to meet these expanding requirements, increased staffing was approved in fiscal year 2000, and we are asking that it be annualized in fiscal year 2001. These positions will not only allow FinCEN to maintain case processing time at reasonable and manageable levels but also provide greater guidance and training to regulators on BSA requirements.

A New Requirement—MSB Registration

In addition to ensuring that we continue to meet the existing BSA requirements, FinCEN also began a new process under the BSA, in August 1999: the requirement

to register Money Services Businesses which includes money transmitters, issuers, redeemers and sellers of money orders and traveler's checks, check cashers and currency retail exchanges.

The requirement to register MSBs was part of the Money Laundering Suppression Act of 1994. In setting the requirement, Congress found that such businesses are largely unregulated at the federal level. Also, evidence gathered from several enforcement actions revealed that some of these businesses are susceptible to money laundering on a very large scale.

Extensive discussions were held with the MSB industry, as well as with the law enforcement community to craft a final rule that strikes an appropriate balance between law enforcement needs for accurate information about the owners and locations of MSBs, and the concern that small businesses be spared unnecessary and intrusive regulation.

The final rule provides a significant period for implementation of registration to permit government outreach through an on-going working relationship with the industry. During the spring of 1999, Treasury established the MSB working group to review the resource requirements necessary to implement the national MSB registration program. Using funding provided in fiscal year 1999 and carried forward into fiscal year 2000 from the Treasury Forfeiture Super Surplus Fund, FinCEN will implement an extensive public awareness campaign, develop necessary forms, other public information documentation, and develop data system requirements. These activities will be accomplished in conjunction with Treasury's Public Education Office, and IRS's Detroit Computer Center and Examination Division, among others.

The fiscal year 2001 request of $2.275 million will provide funding to contract with the IRS or other regulatory partners to ensure that sufficient and continuing resources are available to conduct regulatory oversight associated with this program, including activities such as forms distribution, customer interface to respond to public inquiries, compliance examination and reviews, and data processing support. This request also allows our service provider to hire approximately 81 additional personnel, which equates to 10 FTE in fiscal year 2001 since these positions will be hired late in the fourth quarter. As part of this process, we also will begin the outreach and education requirements associated with suspicious activity reporting for this industry. These regulatory oversight activities are essential to ensuring compliance with national registration and other BSA requirements.

Information Collection From FIUs

Not only is FinCEN viewed as an invaluable resource on money laundering in this country, but we have also been an active player in encouraging other governments around the world to develop and implement effective anti-money laundering controls. The promotion of international cooperation remains an essential part of our networking efforts.

Foremost among these efforts is the continued development of an international network of Financial Intelligence Units (FIUs). FinCEN is working to derive increasing benefit in support of domestic law enforcement investigations from the growth of FIUs. These now number 48—an impressive increase from the handful which existed just 6 years ago.

FinCEN is relying on its counterparts in the broader global network of FIUs to provide information in support of federal investigations. This is information that might only be obtained with difficulty, or not at all, through other channels. FinCEN reciprocally provides its counterparts with anti-money laundering information they need to conduct their own national investigations.

FinCEN also works on an interagency basis to help implement national money laundering initiatives and policies. These include: participating in multilateral organizations such as the Financial Action Task Force (FATF) and its regional spin-offs in the Caribbean and Asia; working with Interpol, the United Nations and the various international financial institutions to reinforce the need for international cooperation; providing training and technical assistance to countries our government has determined can best benefit from such assistance.

THE NATIONAL MONEY LAUNDERING STRATEGY

As you know, the Treasury and Justice Departments released the first National Money Laundering Strategy in September 1999. This strategy, mandated by the Money Laundering and Financial Crimes Strategy Act of 1998, sets forth an ambitious agenda of actions designed to advance four broad goals: strengthening domestic law enforcement; enhancing steps taken by financial institutions to prevent and detect money laundering; partnering with state and local authorities; and bolstering this country's efforts to have strong money laundering standards adopted, and ad-

hered to worldwide. Thus, FinCEN's responsibilities will significantly increase over the next year in order to achieve these goals outlined.

The $2.9 million requested in the Department of the Treasury's appropriation will afford FinCEN with the resources needed to begin to provide the level of effort for strategic analysis for targeted high risk areas; specialized investigative support to the High Intensity Financial Crime Areas (HIFCAs) and to numerous multi-agency investigative efforts; a comprehensive regulatory effort for non-bank financial institutions such MSBs; and an accelerated technological effort to enhance our analytical capabilities and, at the same time, expand our ability to efficiently and effectively deliver information to law enforcement.

This strategy reflects a national commitment to a coordinated, effective fight against money laundering. FinCEN's role is a critical component in the implementation of the strategy's multiple goals.

RESTRUCTURING FINCEN

When I opened this discussion, I mentioned that for many years FinCEN has been comprised of several components that have served many varied constituencies very well. However, when I came to FinCEN last year, it was evident to me that the existing structure was not adequately coordinating the efforts of each element of FinCEN into the integrated collection and delivery system I've been discussing today.

FinCEN needed to be better focused on how each program area contributed to those missions in conjunction with the entire organization. Not only was this necessary in order to achieve a more harmonized goal, it was also obvious that the allocation of very limited resources could not sustain an organization that was often going in several important, but sometimes different directions.

After consulting with Treasury, law enforcement organizations, regulators, the regulated industries, and our employees, I undertook a restructuring of FinCEN, which I believe, will better coordinate, integrate, and deliver our products to the law enforcement community, while at the same time enabling us to be more responsive to the regulated community. We began the initial phase of that effort last fall with the implementation of a new senior management structure intended to integrate all FinCEN activities and have just completed additional steps last month. We are already seeing the benefits of these changes in improved analysis and support to our customers.

CONCLUSION

In closing, the new management structure and the integration process of FinCEN's activities which I have been describing today, are coming together at a time when our nation's anti-money laundering efforts have coalesced into the comprehensive money laundering strategy mentioned earlier in this testimony. It is clear in the Strategy and in the increasing demands of our law enforcement customers that FinCEN is being looked to as one of our nation's key centers of money laundering expertise.

I am confident that the FinCEN organization has reached a level of sophistication that will enable it to meet the expectations of law enforcement, the financial community and the Congress in fulfilling the responsibilities assigned to us. The programs outlined in our budget request are designed to achieve this objective by using the unique strengths of our programs in cost effective and innovative ways. We look forward to the continued support of this subcommittee, which has been one of our most valued partners since our inception.

Senator CAMPBELL. Do you have some questions you would like to start out with?

MONEY LAUNDERING

Senator DORGAN. I apologize. I had to take a phone call, so I am sorry I missed part of your presentation, but let me ask on the issue of money laundering, it was interesting the other day at the demonstration here in this building to see some of the very sophisticated counterfeiting approaches that are being used. I guess counterfeiting is a different issue, but money laundering on the one side, counterfeiting on the other, are we seeing increased problems in these areas and are the increases substantial increases?

Mr. BAITY. If I could speak to the money laundering problem, first of all, I think we need to keep in mind that the classic definition of money laundering is the movement of illegally gotten proceeds, and while we recognize the dilemma and the expansiveness of narcotics and the money associated with that, we have to keep in mind that illegal gains are generated from all sorts of criminal activity.

What we attempt to focus on in terms of the anti-money laundering programs that we seek to put in place is to address all of those concerns, whether they be money laundering derived from fraud, bribery or from corruption. We are seeking to have the financial institutions put in place the kind of mechanisms that make it difficult to place these illegal gains into the financial system.

Senator DORGAN. Let me just talk about counterfeiting just for a moment. I was looking at the bills the other day and I was quite struck by them.

Mr. JOHNSON. I am happy to address that. In the counterfeiting area, one of the things that we have seen in the last couple of years is an increase in the amount of counterfeiting that is actually being done by computer, by inkjet. Technology is a wonderful thing, but it is often value-neutral and many criminals are using the greater technology that is available and increasingly sophisticated reprographic technology to generate what we refer to as P-notes, inkjet notes. There has been an increase in that area.

But because of the protections that have been embedded into the new notes, the new 100s, 50s, 20s, and we are going to be rolling out the 5s and the 10s soon, we are able to identify without too much difficulty the counterfeit currency that is produced.

FLETC'S INTERACTIVE VIDEO TRAINING

Senator DORGAN. Mr. Johnson, I think you were in the room the other day when I stopped by and looked at the interactive video training device that FLETC has, were you not?

Mr. JOHNSON. That is right.

Senator DORGAN. It is really remarkable what you are doing in integrating new technology in training and I commend you for that. It was an interesting demonstration.

Mr. BASHAM. Thank you.

EXPORT TRAINING PROGRAMS

Senator DORGAN. I note that the number of students trained in export programs is increasing. Can you describe what accounts for the need to have so many students trained away from the existing facilities that you have?

Mr. BASHAM. Yes, sir. Part of the problem is we have a great demand to provide and deliver training to State and local agencies. We do not have the capacity at neither our Glynco nor Artesia sites to bring those individuals to training at those sites. We found it to be much more efficient if we can deliver the training in the local areas, which keeps them from having to travel outside the area and take them away from operational needs.

But you may be aware of the STAR program, the rural training program that we conduct every year for State and local training, but we just do not have the capacity at our current sites to be able

to bring officers to those sites. What we have found, again, to be successful is train-the-trainer programs, where we actually go out to the local community, train individuals, and then they go beyond that and train their personnel. It is a much more effective way of delivering training.

REGULARITY

Senator DORGAN. Just one additional question. We have a legal framework within which especially financial institutions must report and work with FinCEN. Let me ask, outside of that legal framework, do you find that the financial institutions in this country are generally cooperative, easy to work with, interested in helping you complete your task?

Mr. BAITY. I think the short answer, Senator, is that they have been very helpful. In fact, in terms of our regulatory agenda, as we go forward, they have been active partners. Of course, our goal is to have the reporting and recordkeeping provide the most useful information to law enforcement while balancing that against the burden on the financial institutions. The institutions have historically been and continue to be very helpful.

As we go forward with the MSBs, many of these types of institutions traditionally have not been regulated by the Federal Government, and in many cases by any governmental institution. It is critical that their input be part of the regulatory dialogue as we go forward, and we have attempted to do that in our rulemaking process. And they have come forward and participated in this dialogue, from casinos to the money services businesses to others such as broker-dealers.

CHARLESTON SITE CLOSURE

Senator CAMPBELL. Let me ask a couple questions. Mr. Basham, let me ask you a couple of things about FLETC. The site in South Carolina was supposed to be a temporary site. With the FLETC 5-year master plan well into the development stage, do you think that the temporary site is going to be closed in 2002–2004.

Mr. BASHAM. Mr. Chairman, I am fairly confident with the support that this committee has provided to FLETC that we are going to be closing that site no later than fiscal year 2004 and we are well on track to putting the facilities in place, both in Artesia and in Glynco, to accommodate Border Patrol training at FLETC.

Senator CAMPBELL. Was that site a former military base?

Mr. BASHAM. The Glynco base was a former——

Senator CAMPBELL. No, Charleston.

Mr. BASHAM. Charleston, yes, it was a naval base.

U.S. BORDER PATROL TRAINING PROJECTIONS

Senator CAMPBELL. Each year, FLETC struggles to determine Border Patrol's anticipated number of trainees. Would you tell the subcommittee what the actual number of Border Patrol trainees you expect and what you are doing to get a more accurate handle on the numbers?

Mr. BASHAM. The Border Patrol has very aggressively attempted to meet Congress's requirements to staff up. Unfortunately, they

are facing the same problems other agencies are facing in that they are competing for the same resources out there and they are very aggressively this year trying to raise their numbers. Unfortunately, they have not been able to meet the projections that they had originally given us. They will fall far short——

IMPACT OF FAILURE TO MEET PROJECTIONS

Senator CAMPBELL. When they make a projection, then you have to obviously increase your manpower, your instructors and so on if you expect a larger number of people. What impact does it have, when they do not reach their projection? What impact does it have on FLETC?

Mr. BASHAM. Well, first of all, the cost per student trained goes up because the costs are spread across less students. But the more severe impact is that unless we are given enough notice, leadway time, then those training slots go unused. We are working very closely with INS and the Border Patrol to come up with a better formula of filling those slots on the schedule so that we do not lose training opportunities. So those two are the two issues that we deal with when the projections are not fulfilled.

TRAINING SITE SCHEDULING

Senator CAMPBELL. How do you divide the training between Glynco, Georgia, and Charleston?

Mr. BASHAM. We have agreed on approximately a 60/40 split, meaning Charleston would get 60 percent, 40 percent going to Glynco, in order to maintain the efficiencies of both of those sites. However, at this point, it is very difficult to determine just what the Border Patrol is going to require through the remainder of this year and next year in terms of training starts. However, they are split about 60/40, depending on the number of classes the Border Patrol is requesting.

Senator CAMPBELL. Thank you. I was also very impressed yesterday with that display of counterfeit money, as Senator Dorgan was. I will tell you, that stuff looked so realistic, I am not an expert on it, but I defy any 18-year-old working in a 7-Eleven to tell the real thing from one of those $100 bills. I know you mentioned the difficulty with the new computer age of being able to duplicate money. It is my understanding, though, that the paper is supplied by only one supplier in the United States and that is controlled, monitored, and so on, is that correct, or do you know that?

Mr. JOHNSON. I will try that one.

Senator CAMPBELL. All right, Mr. Johnson?

Mr. JOHNSON. I believe there is one manufacturer that supplies the paper that is used to manufacture——

Senator CAMPBELL. Even feeling the real ones and the phony ones, I cannot tell the difference. If we are controlling the paper and we cannot very well control the printing process because of all these computers, would it not seem logical to address more of our attention towards the materials being used, like the ink and the paper, rather than the increased articulateness of the engravers that are making the counterfeit plates?

Mr. JOHNSON. The strategy in making the currency more difficult to counterfeit involved putting in security devices within the paper

itself as well as within the ink, and the Treasury Department embarked on a campaign last year and, actually the year before, to educate everyone about their currency, and from time to time you will see people holding up new $20 bills. What you will see if you hold it up is that to the right of the central portrait is a watermark that is embedded into the paper.

Senator CAMPBELL. Does that come when the paper comes or is that put in by Treasury after they get the paper?

Mr. JOHNSON. I am not exactly sure when it goes into the process. Some of the numerals on the ink actually have color-shifting ink, which is very difficult to reproduce with an inkjet printer that you would produce a P-note on. And there are other security devices, including security threads that are actually embedded in the notes and the different colored threads that are also in the notes.

CASINO GAMING

Senator CAMPBELL. One last question, perhaps Mr. Johnson or Mr. Baity can answer it, I was just thinking about the money services business, the MSBs, how they are proceeding. In 1988, we passed IGRA, the Indian Gaming Regulatory Act, as you remember. Now Indian casinos are really expanding, as you might know. Is there an impact or is there some connection or overlap or some process by which you work with Indian casinos, too, in the money laundering issue?

Mr. BAITY. Actually, when we addressed the issue of casino gaming, a large part of our outreach and consultation has been with the Native American Indian Gaming Association and its particular members. They were active participants in the regulatory process. We held five public hearings on our proposed regulation for suspicious reporting for casinos. They attended three of the five public hearings and submitted substantial and very helpful comments on our proposed rule. We have met with them both at their conferences and at numerous site locations to actually understand the impact of Native American gaming.

What we have tried to do is level the playing field for casinos across the board, and they have been very active in our consultation process.

Senator CAMPBELL. Thank you. Well, as you know, they have a board, a regulatory board, too, and Senator Dorgan and I both serve on the Indian Affairs Committee. They are sorely underfunded, as you probably know, the number of people they have to inspect a number of casinos. The workload is terrific and we are trying to address that in a different committee.

ADDITIONAL COMMITTEE QUESTIONS

I have several other questions, as other members do on the committee that were not here today, that we will be submitting in writing, so if you could get those answers back to us, I would appreciate it. We will keep the record open for a 14-day period to get those comments back, if we can.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO THE UNDER SECRETARY OF TREASURY (ENFORCEMENT)

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

BALLISTICS IMAGING

Question. I understand that the Treasury and Justice Departments finally came to an agreement with regard to their competing ballistics imaging systems. As a result, ATF will be responsible for replacing the existing DOJ DRUGFIRE equipment with their IBIS system.

What criteria has been established to determine whether scarce resources will be used to replace existing DRUGFIRE systems or to provide IBIS equipment to new locations?

Answer. The NIBIN Team has developed the following plan for establishing a truly National Integrated Ballistics Information Network.

NIBIN FIELD RESTRUCTURING

Development of Architectural Design and Deployment Schedule.

Phase I

Obtain the following information regarding current DRUGFIRE LANs from the FBI: Up-to-date hit/usage statistics; Age and maintenance history of LAN systems; Other agency/community considerations.

Phase II

The NIBIN Team will analyze the following data to identify the first 10 IBIS/"Unified System" LAN deployments to replace DRUGFIRE Systems: FBI DRUGFIRE data; Area firearms-related crime rate; Proximity to existing IBIS LANs; Agencies commitment histories; Community impact; External factors.

The NIBIN Team will conclude this process by developing a list of the first 10 IBIS/"Unified System" LAN (by area, not specific site) deployments in priority order.

—This first schedule of deployments will be provided to the NIBIN Board for notification of partner agencies.

Phase III

Beginning with the first area of priority, the NIBIN Team will invite partner agencies and any other entities deemed appropriate to offer input in the development of the new structure/configuration of the LAN.

The NIBIN Team will advise effected partner agencies of LAN configuration, execute standard MOUs, and schedule actual system deployment and training.

Phase IV

6 months after deployment and training have been completed, the NIBIN Team, Crime Gun Operations Section, will schedule a meeting with representatives of the field division and partner agencies for the purpose of ensuring that:

—All systems are completely operational.
—Systems are being used efficiently.
—Personnel have received adequate training.
—Goods/services contracted for were received.
—Any other related issues are addressed.

The proposed process for developing a new field architecture and schedule of deployment is dependent upon several assumptions:

—Actual deployments are contingent upon availability of funds.
—Deployments would be made by LAN priority. Piecemeal deployments should be last case scenario.
—Emphasis placed on the doing the job right the first time.

Question. What is the timing of each of the four phases of the restructuring plan?

Answer. Phase 1 is complete, Phase 2 is presently being completed; Phase 3 will begin once the NIBIN Board announces the first area for deployment; and Phase 4 will begin 6 months after the systems are installed.

Question. How many requests does ATF have on file from law enforcement agencies who would like to participate in the program?

Answer. At this time, ATF has 20 requests on file from law enforcement agencies who would like to participate in this program. During the roll out for this program, those agencies meeting our criteria will be included.

FIREARMS

Question. There is an Administration gun bill pending before the Judiciary Committee which I assume would mean more responsibility and more staff for ATF. The

President's fiscal year 2001 budget requested increased funding for gun-related activities at ATF.

What is the ATF staffing requirement for the pending gun legislation?

Answer. ATF is in the process of formulating resource requirements for the pending gun legislation in the Senate, as well as evaluating proposed gun legislation before the House.

Question. Are any of those resource requirements addressed by the ATF fiscal year 2001 budget request?

Answer. No, the President's fiscal year 2001 budget request is based solely on current law. Resources required for pending gun legislation would be in addition to the President's fiscal year 2001 budget request.

A total of $16,300,000 has been requested for both the Secret Service and the Customs Service for a protective air security program. The bulk of that is for a separate air branch for the Customs Service.

Question. How is air security currently provided? How long does it take the Customs Service to get the necessary aircraft to the location?

Answer. Currently, the Customs Service utilizes assigned aircraft and personnel to conduct airspace security operations.

Customs airborne interdiction tactics have been modified to perform airspace security jointly with the Secret Service.

The approximate transit time for aircraft to be in position and operational is 3 to 4 days. However, this varies depending upon where the event is located and where the support aircraft are stationed.

Question. How many annual events require air security? Where are these events located? How much lead-time is the Customs Service normally given for these events?

Answer. Since PDD 62 has been issued (May 1998), the average number of annual events requiring air security has been 3 to 5 events per year.

Three of the four events have been located in Washington, D.C. One event was located in Seattle, Washington. However, a designated event could occur anywhere in the United States. Historically, the majority of the events have taken placed in the Washington, D.C., area.

To date, Customs has been given several months of advanced notice for each event. However, determining who will pay for Customs costs to conduct these missions traditionally is made at the last minute since neither Customs nor the U.S. Secret Service has been provided any new funding for these purposes.

U.S. CUSTOMS SERVICE, OFFICE OF INVESTIGATIONS/AIR AND MARINE INTERDICTION DIVISION PRESIDENT'S DECISION DIRECTIVE 62.

Question. Why is a separate and dedicated staff necessary? Why should that site be in the D.C. area given the fact that events can be anywhere? Why should they be segregated from other Customs Service resources?

Answer. PDD 62 places an additional mandate on the Customs Service. This mandate requires Customs to support National Special Security Events with airspace security personnel and resources.

Providing this airspace security capability requires a large commitment on the part of the Service. For example, the Service utilized assets and personnel from 4 Southwest border branches to support the World Trade Organization meeting hosted by Seattle, Washington, in December 1999. As a result, Customs suffered an estimated 12 percent degradation in its counter-drug capability during the event.

To minimize this type of impact, the President's budget requests additional personnel and equipment for Customs to support these events. When not conducting PDD 62 training and operations, the personnel and assets will be conducting Customs law enforcement missions.

The site for the Customs air facility has not been determined. The D.C. area is being surveyed because the majority (3 out of 4) of the PDD 62 events has occurred in this area. In addition, the close proximity of the Secret Service's training academy in Beltsville, Maryland, with the proposed Customs air facility would facilitate the joint training requirements.

Although the D.C. area is being surveyed for the above reasons, the most critical element of the budget request is additional personnel and resources to accomplish this new mission.

Question. What will these dedicated aircraft and crews be doing when there are no events?

Answer. The Branch proposed for the D.C. area will be a Customs Air Branch. The branch will be established primarily to support the training and operational requirements of the Secret Service under the PDD 62.

In addition to the PDD 62 operations and training, the branch will provide aviation support to Customs and other Federal agencies in the Washington, D.C., and Baltimore areas.

Question. What was the initial Customs request for additional inspectors for the ports of entry around the country? Why did Treasury reduce that request to just 98 additional inspectors total?

Answer. The initial request for Customs inspectors was for 287 FTE. During each budget cycle tough funding decisions must be made. The decision on the level of Customs staffing was made with Customs, Treasury, and OMB at the table. After all of the competing initiatives were considered, it was agreed that the level of funding would be as proposed.

Question. Mr. Johnson, 3 years ago this subcommittee asked GAO to conduct an audit of vehicle management by the Department and its bureaus. The following year we provided $1 million to fund an automated system for vehicle management because the cost and rate by which vehicles needed to be replaced is a burden of over $30 million a year.

What is the status of the implementation of the program?

Answer. A baseline study to assess bureau systems and capabilities, evaluate commercial and Government fleet management software products in use, and provide recommendations on what a Departmental system should contain has been completed. Four options were presented by the contractor on how to develop the system. These were:

—Acquire and modify a commercial fleet management product;
—Acquire and modify a Government system already in use;
—Develop our own system in-house; and
—Develop a data warehouse to mine existing bureau systems.

The contractor's recommendation was the "data warehouse" approach and we concur with their recommendation. This approach yields results sooner, is modular in design and implementation and is the least disruptive to current bureau operations, as the other three approaches would all require replacing existing bureau systems.

Question. You have had 2 years to institute this program. What's the delay?

Answer. To have a Departmental system that would provide the desired information, it was necessary to conduct the baseline study and determine the capabilities and limitations of the disparate bureau systems. A contractor will program the file transfer routines necessary to extract data from the various bureau systems. Customs Service will provide the data dictionary and be the first bureau to have its data brought into the Departmental system. After Customs is successfully brought on board, we will proceed a bureau at a time.

Question. When can we expect to have this program in place? How soon will it begin to yield some savings?

Answer. In fiscal year 1999 and fiscal year 2000, bureaus were required to certify that vehicles being requested for procurement are within the limit specified by their appropriations language and are replacing vehicles meeting established replacement criteria. For fiscal year 2001, we will refine the requirements for data format. This will serve as an interim measure until we can use the vehicle management system to review and analyze bureau budget requests for motor vehicle procurements, beginning with the fiscal year 2002 cycle.

Question. With the FLETC 5-year master plan well into the development stage, do you think that the temporary site for Immigration and Naturalization Service (INS) and the United States Border Patrol (USBP) training at Charleston, South Carolina, can be closed in fiscal year 2004?

Answer. Recently, the Director of the Federal Law Enforcement Training Center (FLETC) transmitted to the Congress a study that addressed the issue of the closure of the Charleston, South Carolina as a temporary facility for the United States Border Patrol (USBP) training by fiscal year 2004. The results of the FLETC study support the consolidation of all USBP training—Basic and Advanced—into FLETC's Artesia, New Mexico training center by fiscal year 2004. The study also calls for the realignment of certain INS training and Bureau of Prisons training from the Artesia center to FLETC's Glynco, Georgia site. These moves are estimated to save the government as much as $45 million in cost avoidance in currently planned new construction. There also would be a cost avoidance saving of up to $8 million annually in services and travel realized by this realignment. FLETC's Director has briefed the Department of Justice and the USBP and he is working closely with them to resolve any issues that may arise from the implementation of the study. The Department of the Treasury endorses FLETC's proposal as a cost effective and viable plan to meet the Congress' direction in closing the Charleston site.

Question. FinCEN is rapidly approaching their 10th anniversary. As the financial transaction data bank for law enforcement, has there been an analysis done to see

if FinCEN is efficient and whether or not law enforcement agencies are utilizing the services?

Answer. Over the last few years, there have been a number of audits completed—both external and internal—involving FinCEN's customer satisfaction. The GAO and Treasury Inspector General have undertaken surveys of law enforcement agencies regarding their satisfaction with FinCEN's product and efficiency. In addition, FinCEN constantly queries the law enforcement representatives assigned to FinCEN, soliciting their views and suggestions on how to improve our work product. Every case support product that FinCEN sends to the field (approximately 7,000 in 1999 for over 150 agencies/departments) also has a formal FinCEN feedback form. Customer satisfaction with FinCEN's case support has been positive.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

LAW ENFORCEMENT HIRING AND ATTRITION

*Question.*The President's budget request seeks to hire a significant number of personnel for the various law enforcement bureaus under your jurisdiction. This is also a priority for Secretary Summers.

What difficulties is the Department facing in hiring and retaining qualified law enforcement personnel across the Department?

Answer. Due to the difficult budget climate, as with other Federal agencies, Treasury does find itself having troubles hiring the best-qualified personnel, including law enforcement personnel. In addition, the general competitive service guidelines for recruitment, selection, and hiring of criminal investigators do not provide enough flexibility to satisfy both diversity and unique skill requirements. The competitive service systems requires open competition and can involve total processing times of up to 62 weeks. Barriers also exist within the selection process under the competitive service that impede obtaining candidates with the most desirable profile for a position's unique requirements.

Question. Are you finding that agencies are competing for the same "pool" of perspective employees?

Answer. Treasury law enforcement bureaus hire new criminal investigators using a mix of competitive and excepted (Schedule A or B) hiring authority. In the competitive process there is a general "pool" of perspective employees that the bureaus may, in some cases, compete for. When the Schedule A or B hiring authority is used, this allows a more discreet group of employees, with specific needs for a specific bureau, to be identified and recruited.

Question. Are there specific incentives or other means (such as signing bonuses) at your disposal that you have—or need—to enhance your recruitment of qualified personnel?

Answer. Currently there are various recruitment and retention incentives available for use by Treasury. However, the Department weighs the use of these tools in the environment of budgetary availability.

MONEY LAUNDERING STRATEGY

Question. The National Money Laundering Strategy for 2000 is very ambitious. On top of the base anti-money laundering budgets for the various agencies, you have asked for a new, centralized account of $15 million to focus on the strategy's priority action items. Can you effectively and responsibly do everything you need to do to combat this critical problem with $15 million?

Answer. The Treasury bureaus have been pursuing efforts to combat money laundering for years—since the United States first criminalized money laundering. As those first statutes have been expanded and as our understanding of the threat posed by this crime has grown, additional resources have been devoted to these efforts. Even in the absence of a national strategy, Treasury bureaus would have continued to fulfill their responsibilities in this regard. What we are seeking in our 2001 budget request of $15 million is funding to support key Strategy initiatives including the provision of grants to state and local enforcement agencies. We are attempting to address the threat of money laundering through a comprehensive, integrated and systematic approach. This modest amount is needed to give this new approach a chance of success so that we can confront money laundering, here and abroad, through law enforcement as well as banking supervision and with government policies and public-private partnerships.

Question. Instead of creating a centralized account, would it not make more sense to apportion the funds directly to the implementing agencies such as FinCEN and the other bureaus?

Answer. Our national strategy is a bold, new step in addressing the threat of money laundering. It envisions a comprehensive response that involves efforts by an array of public and private stakeholders in our financial system. We believe that the appropriate level to coordinate, facilitate and direct this ambitious undertaking lies with Treasury Departmental Offices. That is why the Treasury representative on the Strategy Steering Committee is the Deputy Secretary. By making this a centralized account, we feel we are ensuring the appropriate level of control along with the necessary flexibility that attends this departmental perspective.

CUSTOMS STAFFING

Question. What was the Customs Service's original request to Treasury for additional inspectors for inclusion in the fiscal year 2001 budget?

Answer. The initial request for Customs inspectors was for 287 FTE.

Question. Why was the request reduced to only 98 additional inspectors? Can you tell us who made that decision?

Answer. During each budget cycle tough funding decisions must be made. The decision on the level of Customs staffing was made with Customs, Treasury, and OMB at the table. After all of the competing initiatives were considered, it was agreed that the level of funding would be as proposed.

CUSTOMS RESOURCE ALLOCATION

Question. I understand that the Treasury Department is reviewing the Customs Service's Resource Allocation Model. When can we in the Congress expect to receive this document?

Answer. The Department will complete its review of the model in the near future at which point the model will be presented to the Congress.

GS–11 JOURNEYMAN LEVELS (CUSTOMS, INS PARITY)

Question. Why did the Treasury Department reduce the Customs Service request for upgrading journeyman GS–9 inspectors to GS–11? The Immigration and Naturalization Service made a similar request for OMB which was ultimately granted.

Answer. The detailed package that would provide justification for requesting the upgrade was not completed in time for this budget cycle. However, we continue to work with Customs to ensure that a quality package will be provided to OMB as we deem necessary to ensure comparable pay for comparable work.

Question. The functional knowledge and training required for both Customs and INS inspectors is essentially the same, is it not?

Answer. Customs and INS inspectors are trained at separate academies at the Federal Law Enforcement Training Center. During the INS training a 2-hour block is set aside for a Customs instructor to share the functions of a Customs inspector with the INS students. A similar amount of time is allowed for an INS instructor to share their functions with the Customs students.

QUESTIONS SUBMITTED TO THE U.S. CUSTOMS SERVICE

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

Question. I have to say that we work hard to make sure that your base functions are funded. It makes our job very difficult when your budget is augmented with "emergency" funding because even though we don't have to pay for it up front there are always out-year costs. Because you are not getting the out-year base funding to accommodate these costs, our already tough job is tougher. For example, Congress provided $269 million in counter-drug emergency funding in fiscal year 1999. The out-year costs for these funds are coming due in fiscal year 2001 for a total of $23.331 million.

Mr. Kelly, is this the total annualization of all costs associated with the fiscal year 1999 emergency appropriation?

Answer. The President's budget includes sufficient funding to annualize operations in fiscal year 2001. However, once these initiatives are fully operational, there may be additional annualization costs in fiscal year 2002.

Question. Did you seek additional funds in your budget at that time to cover these costs without having to sacrifice your base funding needs?

Answer. If the base is fully funded in fiscal year 2001, Customs will be able to maintain current activities.

Question. Were all the costs for the supplemental covered, or did you have to cut items in your base funding to pay for them. If so, what did you cut?

Answer. If the base is fully funded in fiscal year 2001, Customs will be able to maintain current activities.

Question. Mr. Kelly, can you tell this subcommittee what your top five priorities are, in the order of importance?

Answer. These are my funding priorities in order of importance:

—Full funding for all of Customs base needs including adjustments;

—Maintenance of Automated Commercial System/Development of Automated Commercial Environment;

—Drug Investigation Initiative/Narcotics Illicit Proceeds;

—Operations and Maintenance Enforcement Infrastructure Initiative;

—PDD–62; and

—Forced Child Labor Initiative.

Question. Mr. Kelly, funding for ACE is the $210 million question for this subcommittee, one which we do not take lightly.

What is the Customs Service doing to help get the ACE user fee proposal enacted?

Answer. Customs has focused on developing a solid strategic approach and plan to initiate and manage the modernization program. Customs developed a sound cost estimate that incorporated appropriate risk analysis in the development of a Cost Benefit Analysis (CBA) that has been independently validated by the MITRE Corporation and KPMG. It is imperative to secure funding for this critical program in fiscal year 2001. The Administration believes the proposed fee appropriately captures some of the benefits that will accrue to private sector from modernization, including a streamlined cargo entry process, account-based transactions, and a paperless process.

Question. As Commissioner of Customs, what are you going to do about this fee, knowing that this subcommittee doesn't have these kinds of resources?

Answer. If the legislative authority to set such a fee is enacted and the Secretary of the Treasury establishes the fee, Customs will collect the fee in order to offset the requested appropriation of funds for Customs modernization.

Question. What is your strategy to get this issue resolved?

Answer. The Administration believes that it is imperative to secure funding for this critical program and looks forward to working with the Congress to ensure that funding is made available in fiscal year 2001.

Question. What is the Customs Service doing within its own budget to show its commitment to the ACE project?

Answer. We have identified $3 million to maintain and operate the National Customs Automation Prototype through fiscal year 2000 and we continue to work with the Department to identify funding to cover the remaining fiscal year 2000 shortfalls. Customs has identified $7 million for continued MITRE support and has potentially identified up to $5 million for ACS Life Support. However, there still remains a shortfall of $5 million for the modernization program office and $12 million for ACS Life Support. Customs is working with the Department on a near term proposal to fund these shortfalls. Reprogramming of funds for modernization is not without consequences to Customs current operations; Customs first priority is to maintain and identify funding for the critical life support of our current commercial system, the Automated Commercial System (ACS).

Question. Two years ago, the funding level for the current system, ACS, was $32 million. Last year we boosted the funding to a total of $67 million. This year you're requesting $123 million. Yet, in June of last year, it was my understanding that there was a $17 million shortfall in the ACS program.

What are you doing to address this shortfall?

Answer. As I stated above, Customs is actively working with Treasury to identify a funding source for the $17 million requirement needed in fiscal year 2000 to sustain the critical life support of our current system, the Automated Commercial System (ACS). Customs has potentially identified $5 million from prior year balances for ACS Life Support, and we are working with the Department to identify the remaining $12 million.

Question. Is the $17 million the total amount needed for the ACS shortfall?

Answer. Yes, $17 million is the requirement in fiscal year 2000 for ACS Life Support. Customs has potentially identified $5 million from prior year balances for ACS Life Support, and we are working with the Department to identify the remaining $12 million.

Question. Counterfeit Native arts and crafts continue to dilute the domestic U.S. market for legitimate arts and crafts. In 1999, the Customs Service testified that a June 1997 "cargo selectivity criteria operation" against importers identified as dealing in imitation Native American jewelry had failed to identify any significant violations.

Can you provide information on the geographical areas, ports of entry, and related information on this operation?

Answer. For this operation, which ran for 2 months, we targeted jewelry from Taiwan, which had been identified as a source country by the Indian Arts and Crafts Association (IACA). The IACA also provided us with the names of some importers who were alleged to be bringing in Native American style items which lacked country of origin marking. We compared their list with our official importer files, determined the types of goods they were importing and ascertained the names of their foreign suppliers. Another source provided names of a few foreign firms, which had been dealing in imitation Native American items in the past. We checked these exporters in our system to ascertain their domestic customers. This information was used to target the specific importers, their suppliers, and the types of goods in which they dealt. A total of 118 unique manufacturer/product and importer/product combinations were targeted. All targeting was done on a "national" basis—every port of entry was placed on alert. Importations of goods subject to the alert came through 12 different ports of entry across the country. A total of 265 shipments "hit" against our criteria during the operation, but only 8 of these violated our marking laws in any way. Thus, even with a narrowly focused operation that targeted highly suspected parties, their country of origin marking compliance rate was nearly 97 percent.

Question. Does the U.S. have any way of detecting these goods when they are exported from their country of origin?

Answer. One of the problems facing Customs in this area is that there are no specific tariff breakouts for Native American style items, so we must look at all items of a particular type (such as jewelry, earthenware, blankets, etc.). We must thus narrow the field in some other way in order to attempt to be effective without unduly impeding legitimate trade. That is why we focused our efforts against Taiwan and against firms alleged to be violating these provisions of law.

Question. To show you the audacity and creativity of foreign producers of counterfeit goods, a town in the Philippines has reportedly changed its legal name to "Zuni," and makers of counterfeit goods proceed to label their "Native goods" with the label "Made in Zuni," leading the purchaser to believe that the goods are made by artisans of the Zuni Pueblo of Indians in New Mexico.

Does the Customs Service have solid information even on countries of origin for these goods?

Answer. This story has all the earmarks of a similar tale that has been told in Customs for nearly 50 years. It was alleged in the early 1950s, when Japanese merchandise was cheap and of poor quality, that a Japanese town had changed its name to "Usa," and that goods originating in this town were being marked in all capital letters "MADE IN USA." We have not previously heard of any goods being marked "Made in Zuni," but any such goods would not pass muster with Customs for country of origin marking purposes. We would require any such goods to be marked "Made in the Philippines", as "Zuni" is not the recognized name of any foreign country.

An Internet search of Philippine maps failed to yield any location named "Zuni."

Question. The Customs employees union, the National Treasury Employees Union, has been visiting the Congressional budget and appropriations committees to request increased money for inspectional staffing on the Northern and Southern borders.

Has the Customs Service been doing the same?

Answer. Customs has been working with Treasury and OMB to develop a budget submission addressing needs for staffing on the Northern border.

The resource allocation model that you rely upon to determine where staff should be placed will not provide any additional funding for that staffing. Most likely the resource allocation model will demonstrate that Customs lacks inspectors in many areas of the country.

Question. What are your plans to get the money for those additional positions?

Answer. The Resource Allocation Model is one tool available to determine and, if required, to justify resource requests. The primary drivers of the model are workload, desired results, activity time, and increased enforcement threat. The results of the model have been sent to the Department of the Treasury and to the Office of Management and Budget for review. Pending results of these reviews, no final determination for gaining additional funding has been made.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

NORTHERN BORDER RESOURCES

Question. As a result of the attempted terrorist incursions from Canada late last year, you enhanced the Customs presence all along the Northern Border for a period of time—even in remote areas. What lessons did Customs learn about the need for additional resources on the Northern Border?

Answer. In December 1999, 26 Inspectors were temporarily deployed to remote and sparsely staffed Northern Border locations in support of the initial heightened alert operation. As this operation progressed into January, this initiative was intensified. Between December 17, 1999, and February 18, 2000, a total of 213 Inspectors from non-border locations were temporarily reassigned (TDY) to northern border locations to further support this heightened alert initiative. During this period, Customs also bolstered regular daily staffing levels at both northern and southern border locations by assigning over 700 additional Inspectors to duty on overtime each day.

Customs has approximately 150 special agents that support northern border investigations and port response. During the December state of heightened alert approximately 60 special agents were detailed to support northern border ports of entry. Increased work hours were implemented for 24X7 coverage and annual leave was cancelled.

This operation was logistically difficult to implement because many of the locations staffed by Customs are remote, one-man locations where housing facilities and infrastructure are not easily secured. Furthermore, in order to maintain effective 2 officer coverage at all northern border locations, 24 hours per day, 7 days per week, Customs expended a significant amount of overtime. Assigned officers were placed on 7 day per week work schedules and were required to work mandatory overtime. Some remote locations instituted 12-hour alternating shifts. This was physically and mentally exhausting for officers who were temporarily reassigned to the northern border. This effort had a similar impact on the ports of entry that provided TDY personnel to bolster northern border locations (San Francisco, Los Angeles, Miami, Houston, and Boston).

During the aforementioned operation, the Air and Marine Interdiction Division (AMID) provided support to numerous Customs offices located along the northern border. Based on the escalating need for Northern Border operations, AMID has begun a preliminary assessment of the benefit of establishing permanent units along the Northern Border.

In an effort to better coordinate and respond to these types of threats in the future, Customs has instituted a standard and formalized communication system, and a 4-level alert system has been defined to assist managers in responding in a uniform manner to these types of heightened alert situations. Additionally, Customs realizes that these long-term, sustained heightened alert efforts are very taxing on personnel assigned along the Northern Border. Customs, Treasury and OMB are working to identify the resources needed by Customs, as well as other Treasury bureaus and Justice law enforcement agencies, to fight the terrorist threat.

Question. What are Customs existing needs for the Northern Border and counter terrorism operations?

Answer. The U.S. Customs Service is currently working with the Department of Treasury and OMB to develop a budget submission addressing this issue.

Question. Customs has been conducting a Northern Border Infrastructure study. When can we expect to have that report delivered to Congress? Will this study also discuss the need for additional inspectors as well as improved ports of entry?

Answer. The Northern Border Infrastructure study will be completed and sent to Congress after Customs has completed consultations with the Treasury Department and within the executive branch.

Question. How could we improve the collection, analysis and dissemination of intelligence information along the Northern Border?

Answer. There are currently 26 Joint Terrorism Task Forces located in major cities throughout the United States with the mission to deter, defeat and vigorously respond to terrorist acts in the U.S. The Customs Service has 13 Special Agents assigned to the task forces to provide investigative expertise in the areas of illegal exports, Customs border enforcement, the smuggling of weapons of mass destruction, arms and money laundering. Customs participation in the JTTFs also provides a mechanism by which actionable terrorist related intelligence affecting our nations borders can be disseminated in real-time to appropriate Customs port and border personnel for enforcement action. Additional Customs Special Agent positions to

staff the remaining and anticipated JTTF's would greatly enhance Customs ability to disseminate terrorist related intelligence.

Additionally, Customs has improved the collection, analysis and dissemination of intelligence pertaining to violations of laws enforced by Customs through the creation of Intelligence Collection and Analysis Teams (ICATs). The ICATs' sole mission is to collect, exploit and disseminate actionable intelligence within the port area for both interdictive and investigative action. The ICAT concept, which brings to bear the expertise of agents, inspectors, analysts and other law enforcement personnel, has resulted in increased actionable intelligence production and sharing. ICAT teams exist along the northern border in Chicago, Illinois; Rouses Point, New York; Buffalo, New York; and Detroit, Michigan. Enhancements to these existing ICATs and the creation of an ICAT in Blaine, Washington, would further improve the collection, analysis and dissemination of intelligence along the northern border.

Question. How can we improve officer safety along the Northern Border?

Answer. The Northern Border Infrastructure study will address this question. When the study is completed, it will be forwarded to the Congress.

Question. What is the Remote Video Inspection Program? How many ports use it? Is it still a good idea?

Answer. The Remote Video Inspection System (RVIS) is a program that uses audio/video technology to allow travelers to enter the U.S. at small, remote ports of entry outside the ports' normal hours of operation. Frequent crossers in these remote locations have the opportunity to apply and be approved by both Customs and Immigration. The system, as originally implemented, would accommodate non-enrolled travelers. Upon arrival at the port, they are processed by an inspector at a 24-hour location and either admitted to the U.S. or directed to report to a staffed location for further inspection.

The system is currently in place at seven (7) locations. Conceptually, this is a good program. It provides expanded service to communities where the workload does not warrant the commitment of additional resources. Security at these locations has improved as there are now multiple cameras in place that allow monitoring of activity at the port after normal working hours, a capability that did not previously exist. We now believe that, until security at the ports can be further improved, all travelers should be required to deal with an inspector in person. We have, therefore, assigned inspectors to each of the RVIS ports on a 24-hour basis to process arrivals.

Question. Is the U.S. placing increased restrictions on border crossings from Canada?

Answer. No, there are no new or increased restrictions on travel from Canada to the U.S. During the heightened alert, the number and intensity of inspections of vehicles arriving from Canada were increased. At RVIS locations we have stationed inspectors to process travelers who arrive outside normal business hours so there has been no interruption of service to those communities.

COLUMBIAN SUPPLEMENTAL

Question. Shortly, the full Appropriations Committee is likely to approve the Administration's Supplemental request for $68 million to upgrade the radar on 4 existing P–3 AEW aircraft. Did Customs request of the Administration other items for the Colombia Supplemental that ultimately were not included in the Administration's submission to Congress?

If so, what items that you sought were directly related to drug interdiction mission in Colombia and the region?

Answer. Although the Customs Service did request additional items as part of its submission to OMB, Customs strongly supports the final Colombia Supplemental request. Funding of the items sought by Customs, along with other items sought in the Supplemental, is sufficient to provide a credible and effective assistance package for Colombia. In additional to the $68M for the P–3 AEW radar upgrades, Customs original submission to OMB included the following items directly related to the drug interdiction mission in Colombia and the region.

P–3 hangar facility ($21M).—Due to space constraints, Corpus Christi is incapable of accommodating more than 10 Customs P–3 aircraft. Additional funding is needed to begin construction on the new P–3 hangar facility at NAS Jacksonville, Florida. This facility will be utilized to accommodate the recently appropriated P–3 aircraft that will provide the majority of detection and monitoring support for Colombia.

Source zone tracker support ($3M).—Because of national priorities and funding constraints, DOD has not provided the number of aircraft needed to satisfy the requirement for tracker aircraft in northern Colombia. Customs has satisfied this requirement. Funding appropriated in the 1999 Emergency Supplemental will only be able to sustain the program through the end of fiscal year 2000.

APG–66 radar upgrades ($7M).—The Customs Citation aircraft based out of Aruba in support of Colombia use the APG–66 radar from the USAF's F–16/Fighting Falcon Program. In fiscal year 2000, the USAF will have completed its upgrade of the APG–66 to the APG–66V 2 variant. Consequently, they will no longer support the APG–66. Further, selected parts will soon become unavailable making repairs on the existing APG–66 radars very difficult.

Customs currently provides about 90 percent of our P–3 operational hours to supporting source and transit zone operations and maintains an alert fleet of C–550 Citation aircraft to respond to air targets departing from and returning to Colombia. The U.S. Customs Service is the primary agency carrying Host Nation Controllers in Colombia. Customs continues to provide special interceptor training to Colombia which has greatly improved the overall effectiveness of Colombian interdiction assets.The Department of Defense has the lead role for detection and monitoring for all counternarcotics operations in the transit and source zones. U. S. Southern Command has designated Joint Interagency Task Force-East (JIATF–E), as the controlling facility for U.S. agencies involved in air and marine interdiction in its area of responsibility. Joint Interagency Task Force-East determines which assets are best suited to meet program objectives. They also coordinate on the integration and execution of tasking of those assets on interdiction missions.

Over the past 2 years, Customs has provided approximately 90 percent of its P–3 operational flight hours to JIATF-East tasked missions. JIATF-East allocated 33 percent of those hours to source zone missions in 1998 and 35 percent in 1999. In fact, in fiscal year 1999, Customs aircraft provided 100 percent of U.S. Government detection and monitoring support to the source zone. As additional P–3 aircraft come on line, we are committed to providing more operational P–3 flight hours in support of JIATF-East missions.

Another critical area not previously addressed to the Administration is the issue of pilot recruitment and retention. To remedy the pilot shortage situation, we must recruit and retain highly skilled professional pilots to fly the aircraft in support of Colombia and the National Drug Control Strategy. The issue of compensation is the primary competitive issue, which draws pilots from Customs to the airlines. While recognizing that we will never compete dollar-for-dollar, with the high end of the airline pay scale, we must take steps to reduce this disparity.

AIR SECURITY INITIATIVE

Question. Why not use an existing air branch rather than creating a new one? Would it be more cost-effective to fly in personnel "as needed" rather than establish a new branch?

Answer. The Customs PDD 62 airspace security training and operational requirements are too much for one branch to manage without sacrificing our core mission (drug interdiction). For example, the recent World Trade Organization in Seattle required Customs aviation resources and personnel from four air branches.

Therefore, in order to carry out the direction set forth in PDD 62 with minimal disruption to interdiction missions and operations, Customs proposes to establish an Aviation Branch in the Washington, D.C. metro area.

This area has been identified as a practical location because three of the four PDD 62 events have occurred in Washington, D.C. This trend is forecasted to continue for future events.

In addition, the Secret Service training facility is located in Beltsville, Maryland. Its proximity to the proposed Customs Air Branch would facilitate the joint (Secret Service and Customs) PDD 62 training requirements.

The most cost-effective solution is to establish a Customs air support branch in the Washington D.C. area.

The PDD 62 Customs current cost considerations include the following: airspace security training, expense of moving aviation resources and personnel to event sites, and the loss of available aviation resources to the Customs core mission (interdiction along the borders of the United States).

Question. It has been suggested that PDD 62 "requires" that the new branch be located within a specific radius of Washington, D.C. Is this true, and if so, why? If the PDD does not specify the branch's location, who will make the decision where to locate the new air branch?

Answer. There has been no decision on the location of this facility. A decision on a basing location will be made after Customs completes site surveys of potential airfields. A location near the Washington, D.C. area makes sense for a number of reasons:

It would lessen the amount of flight time by Customs aircraft and reduce travel costs for support personnel.

Three of the four PDD 62 events supported by Customs air assets occurred in the Washington, D.C. area. This trend is forecasted to be similar for future events.

The mission requires strict standardized operating procedures (SOP's) and extensive training. By locating the Customs air support personnel and assets near the D.C. area, it would be closer to the Secret Service's training facility in Beltsville, Maryland. The close proximity of these two facilities and personnel would enhance joint training, procedural development and mission familiarity between operators.

Question. How closely are your two agencies working to ensure that duties and responsibilities are being appropriately shared and that there will be a seamless operation of the program?

Answer. The Customs Service and Secret Service are currently developing an MOU that defines agency roles and responsibilities.

Both agencies have identified headquarters level personnel as agency representatives for PDD 62 airspace security responsibilities. These representatives communicate with each other on a routine basis.

The Customs Service, in consultation with Secret Service, has developed a joint training course specifically designed for airspace security operations. This 5-day course is scheduled for 6 times a year.

To date, the Customs Service and the Secret Service, jointly, have conducted four PDD 62 airspace security missions. Prior to the issuance of PDD 62, Customs worked closely with Secret Service in conducting airspace security operations over the 1996 Summer Olympics in Atlanta, Georgia, and the 1997 Summit of Eight event in Denver, Colorado.

Question. What will personnel be doing once the events ends? Will they support the Customs mission or will there be follow-on training and support to Secret Service? Once an event ends, who retains control over personnel?

Answer. The branch proposed for the Washington, D.C. area would be a Customs Air Branch. The branch will be established primarily to support the training and operational requirements of USSS under the PDD 62. In addition to the PDD 62 events and training, the branch will provide counter-drug aviation support to Customs and other Federal agencies in the Washington, D.C. and Baltimore areas.

The U.S. Customs Service will retain control over its aircraft and personnel.

REGIONAL OFFICES FOR FORCED CHILD LABOR

Question. Funds started to be added in fiscal year 1999 to increase personnel at embassies around the world to investigate and combat forced child labor. This year the budget request includes $5 million/9 FTE for the child labor initiative.

Customs has received funds in the past few years to establish regional offices for forced child labor. What is the status of the establishment of these offices and how have the funds been used?

Answer. The $3 million received in fiscal year 1999 to increase foreign staffing was used to add two Special Agent positions in Bangkok, Thailand, and one in Montevideo, Uruguay. The funding also allowed Customs to reestablish a Special Agent position in the Hong Kong office. Additionally in fiscal year 1999, the Forced Child Labor Command Center was established. Currently there are two Special Agents and one Intelligence Research Specialist assigned to the Center. The selection of the second Intelligence Research Specialist is pending.

The $2 million received in fiscal year 2000, will be used to establish a regional office in New Delhi, India, and increase staffing in the Panama office. We are working with the Department of State to obtain final approval for that office. Selection of personnel for that office is in progress. The Special Agent in Panama is expected to report in March or April.

Question. How would the $5 million and 9 FTE in this year's budget request be used to further combat forced child labor?

Answer. Customs investigates both historical and current allegations of Forced Child Labor through the deployment of investigative teams to suspect foreign manufacturing facilities, and by fostering better working relationships and cooperation with foreign law enforcement agencies. Additionally, Customs conducts intensive Outreach Programs and training for law enforcement agencies, manufacturers, producers and other government agencies in the countries that have been identified as having a significant number of allegations regarding Forced Child Labor.

The $5 million in fiscal year 2001 will be used to: (1) establish and staff two regional offices in countries from which a significant number of allegations of Forced Child Labor have originated; (2) add an additional Special Agent position to the Senior Customs Representative in Hong Kong; (3) add an additional Special Agent position at the Forced Child Labor Command Center and; (4) establish eight Special

Agent positions in domestic cities were the importation of a high volume of goods made by Forced Child Labor has been identified.

The establishment of the additional regional offices and Special Agent positions will result in an increase in pro-active investigations, along with the exclusion of goods identified as having been made with Forced Child Labor from the United States.

QUESTIONS SUBMITTED BY SENATOR SUSAN M. COLLINS

Question. Commissioner Kelly, I understand that you face enormous challenges in carrying out the various missions of the U.S. Customs Service. I would like to focus today on your agency's maritime surveillance and enforcement support missions.

Could you elaborate further on those missions and describe what types of aircraft you are currently using to carry them out.

Answer. Customs operates 6 C–12 Beechcraft aircraft, obtained from DOD surplus stock, as Maritime Patrol aircraft in the transit and arrival zones. Equipped with 360-degree surface search radar, these aircraft are capable of intercepting and surveilling smuggling vessels in the transit and arrival zones. Slow airspeeds and extensive fuel endurance enable these aircraft to remain overhead and coordinate intercepts by USCS and USCG vessels.

Customs operates a fleet of 12 Enforcement Support Aircraft consisting of 5 B–200 and 7 C–12 aircraft as long-range, multipurpose platforms to transport personnel and equipment in support of interdiction and enforcement operations. Missions include the relocation or evacuation of tactical personnel, assets, prisoners, and evidence. This aircraft has been used to train host nation pilots in interdiction tactics, in support of the counterdrug interdiction efforts of our partner nations.

Question. Are maritime surveillance and enforcement support important missions of the U.S. Customs service?

Answer. The maritime interdiction mission is extremely important because the most recent Interagency Assessment of cocaine movement indicates that more than 85 percent of the cocaine movement is by vessel.

The enforcement support mission is also important because it augments interdiction and enforcement operations. Missions include the relocation or evacuation of tactical personnel, assets, prisoners, and evidence. These aircraft have also been used to train host nation pilots in interdiction tactics in support of the counterdrug interdiction efforts of our partner nations.

Question. It's my understanding that the maritime surveillance and enforcement support capabilities of the U.S. Customs Service needs substantial upgrading. More specifically, I understand that the C–12 aircraft that are currently part of the Customs fleet need to be replaced.

Is that in fact the case and, if so, why has the Administration failed to ask for funds to replace the C–12 in its fiscal year 2001 budget?

Answer. In October 1999, the Air and Marine Interdiction Programs consolidated into the Air and Marine Interdiction Division to improve the coordination of interdiction resources. The integration process included modernization of air and marine resources.

Customs released a request for information (RFI) in December 1998 to evaluate viable replacement aircraft. Replacement should begin in fiscal year 2001 to ensure operational effectiveness.

The Administration has not yet made a determination on the appropriate replacement cycle.

Question. What is the average age of the aircraft that Customs is using to meet maritime surveillance and enforcement support missions and what is their expected service life?

Answer. The average age of the Customs C–12 fleet is 25 years with approximately 12,000 flight hours per airframe. The C–12 manufacturer (Beechcraft) recommends the inspection and possible replacement of several major components at approximately 15,000 flight hours. Customs estimates that the first airframe will require this inspection in 2004. Extending their service life beyond this time will result in increased maintenance time and expense. This will adversely impact operational readiness.

Question. Can you briefly describe the supportability costs associated with the aircraft currently in the Customs inventory?

Answer. The supportability costs per flight hour are $2,562.00 for the maritime C–12M and $2,430.00 for the enforcement support C–12C. As the Customs C–12 fleet ages, maintenance costs will increase. The C–12 manufacturer (Beechcraft) recommends the inspection and possible replacement of several major components at

approximately 15,000 flight hours. Customs estimates that the first airframe will require this inspection in 2004.

Question. How much funding is needed over the next 4 years to adequately meet the maritime surveillance and enforcement support missions?

Answer. This information will be forwarded to the Committee once the Modernization Plan is reviewed and approved within the Administration.

Question. I understand that U.S. Customs needs a high-wing, fully-operable, rear-ramp aircraft that would provide the capability to make quick changes to meet multiple missions at low operational and acquisition costs.

If Congress should make funds available, could the Customs Service issue a request for proposal (RFP) in a timely manner?

Answer. Customs released a request for information (RFI) in December 1998 to evaluate viable replacement aircraft. Once the Modernization Plan is reviewed and approved within the Administration, an appropriate RFP could be completed expeditiously.

Question. What role do the tethered aerostats play in the Customs air interdiction program?

Answer. The Tethered Aerostat System (TARS) is vital to the success of the Customs air interdiction program. Customs considers the TARS to be the last line of defense against aviation smugglers. It provides low-level coverage with altitude, speed, heading, identifier Friend and Foe capability, and marine tracking capability in and near the arrival zone of our nation's air borders. Based on that information, Customs aircraft respond to suspect aircraft attempting to cross U.S. borders. The effectiveness of this approach is reflected by the landing short activity detected by the TARS system. The numerous seizures from the U.S./Mexico Hermosillo operation are also an indication of the TARS effectiveness and value in the overall interdiction effort.

Question. Under Customs Service management of the Tethered Aerostat Radar Systems (TARS) what was the average availability? What is the average availability of the TARS under Air Force management for the last 5 years?

Answer. Under U.S. Customs Service management of the TARS, system availability averaged 63.5 percent, from 1988–1991. Over the past 5 years, under Air Force management, the TARS has had 52.3 percent availability.

Question. Was Customs consulted prior to the Bahamas aerostat sites being closed? If so, what was Customs position on the closure?

Answer. Customs was not consulted prior to the decommissioning of the Bahamian aerostats.

Question. Does Customs have evidence of renewed drug trafficking activity in areas previously covered by the Bahamas aerostats? If so, in what quantities and when did the activity begin?

Answer. Since the deactivation of the Bahamian aerostats and the other ground-based Detection and Monitoring platforms, there has been a marked increase in air smuggling activity in Cuba, Puerto Rico, Haiti, and the Bahamas. There has been a resurgence of the smuggling methods employed during the 1970's and 1980's by general aviation aircraft and private maritime vessels in Cuba, the Bahamas, Puerto Rico, Haiti and South Florida.

Question. Was Customs consulted on Air Force plans to close the three Gulf Aerostat sites? If so, what was Customs position on the planned closure?

Answer. Customs was not involved in the initial decision to decommission the Gulf aerostats but instead was included only after the decision process was well along. Customs did not agree with the proposed decommissioning of the Gulf Aerostats. The Tethered Aerostat Radar System (TARS) is the last line of defense against aviation smugglers. Without TARS, radar coverage along the southern border of the United States and Puerto Rico would be severely diminished. Therefore, Customs supports the continued deployment and maintenance of all TARS assets.

Question. When Customs managed the TARS program, was radar data provided to NORAD and other federal agencies?

Answer. Yes. The USCS shared TARS data with the Southwest and Southeast Air Defense Sectors. At a later date, the Caribbean Radar Operations Center (CARIBROC) was opened and the data was shared with them. The rationale was to provide the radar data to NORAD facilities in support of their air sovereignty mission in addition to DOD's overall responsibilities as lead agency for counternarcotic detection and monitoring.

Question. What is the impact of protracted radar voids due to systems out of commission on Customs interdiction efforts? What back-up capability exists and at what costs?

Answer. Prolonged radar outages effectively eliminate coverage in the extended southern border region. Valuable intelligence on suspect aircraft short landings and

interdiction support to foreign operations would be lost in the extended region previously covered by the TARS. The legal requirement to establish probable cause and NEXUS for aircraft entering U.S. airspace from foreign would be extremely difficult to ascertain. Conventional ground-based radar would not begin to detect low-level tracks in a close enough proximity to the border making it difficult to confirm the exact origin of flight.

U.S. Customs has already increased P3 AEW and Citation flights to compensate for the loss of aerostat coverage. We know that our missions in the source and transit zones are vital to the National Drug Control Strategy; however, if the TARS continues to deteriorate we may be forced to redeploy P–3 assets to ensure coverage of our southern border.

QUESTIONS SUBMITTED TO THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

CUSTOMER SERVICE STANDARDS

Question. ATF developed customer service goals, which includes 22 specific standards. However, the agency has historically failed to meet most of these standards 90 percent or more of the time. So, rather than concentrate upon meeting the goals, I am told that ATF has reduced the standards from 22 to 5.

What are the 22 standards?

Answer. See below.

National Laboratory Center, Nonbeverage Products Section Nonbeverage Drawback Formula Approvals

1. We will approve, disapprove or identify deficiencies of submissions within ten (10) working days. Unusually complex products may require additional time, but these account for less than 10 percent of submissions.
2. We will respond to your telephone requests for information and assistance by the end of the following business day.
3. We will hold in the strictest confidence all information you provide us about your product formulas and manufacturing processes.
4. We will apply the same criteria to the evaluation of formula submissions from all our customers.

National Laboratory Center, Nonbeverage Products Section Specially Denatured Alcohol Formula Approvals

5. We will approve, disapprove or identify deficiencies of submissions within 10 working days.
6. We will hold in the strictest confidence all information you provide us about your product formulas and manufacturing processes.
7. We will apply the same criteria to the evaluation of formula submissions from all our customers.

National Tracing Center Firearms Traces

8. "Urgent" traces will be completed within 24 hours.
9. If your urgent trace cannot be completed within the established time frame, the NTC will contact you daily until it is completed.
10. "Routine" traces will be completed within 3 weeks.

Product Compliance Branch Label Approvals

11. We will be courteous. All our employees will treat you with respect.
12. We will be professional.
13. We will be confidential. Your proprietary information will be protected at all times.
14. You can expect us to approve or reject your formal label application within 9 calendar days of receipt.
15. You can expect us to comment on proposed (informal) labels within 15 calendar days.
16. You can expect us to respond to your correspondence within 21 calendar days.

Firearms and Explosives Imports Branch Firearms Import Approvals

17. You have the right to expect professional, prompt, and courteous service when you need our assistance in helping you complete your importation forms.
18. A correct ATF Form 6 will be processed in 4 to 6 weeks from date of receipt.

19. If we are unable to process your application because of incomplete or inaccurate information, we will return your application for correction within 10 working days.

20. Questions concerning the status of your importation application can be answered by calling us directly. If the Specialist or Examiner assigned to your application is not available at the time of your call, we will respond to you by close of business the next working day.

21. We will respond to your written correspondence within 21 calendar days of receipt.

22. Should we need additional time to research your question(s) [beyond 21 days], we will notify you by phone or in writing and provide you with an approximate response date.

Question. Of those 22, which eight standards were met?

Answer. To the extent these standards relate to our employees acting in a professional, courteous, confidential and prompt manner, we are meeting our customer service goals. In fiscal year 1999, seven of the quantitative standards were met at an acceptable level:

1. Our Laboratory held in the strictest confidence all information customers provided us about formulas and manufacturing processes 100 percent of the time.

2. Laboratory standards for applying uniform criteria in evaluating all product formula submissions were met 100 percent of the time.

3. National Tracing Center standards for routine firearms trace requests were met 90 percent of the time.

4. Product Compliance Branch standards for approving beverage alcohol labels were met 74 percent of the time.

5. Our Product Compliance Branch has kept proprietary information protected 100 percent of the time.

6. Firearms Imports Branch standards for approving import permit applications were met 88 percent of the time.

7. Firearms Imports Branch standards for responding to written requests for assistance were met 90 percent of the time.

Question. Which standards are going to be eliminated or consolidated? What will be the remaining five standards?

Answer. No published standard will be eliminated. Those published standards that are actually standard ATF business practices will no longer be included in the annual report on customer service accomplishments because the expectation is that they will be met 100 percent of the time. They apply to all offices in ATF.

Those standards for which no tracking mechanism exists or for which no data has been collected will be re-examined to determine whether they are valid standards addressing the needs and concerns of the customers being served.

The published standards relating to product sample approval or application approval will continue to be reported on while the remainder are being reviewed. They are:

1. Laboratory standard for approving, disapproving, or identifying deficiencies of non-beverage drawback formula submissions within 10 working days.

2. Laboratory standard for approving, disapproving, or identifying deficiencies of specially denatured alcohol formula submissions within 10 working days.

3. National Tracing Center completion of "routine" traces within 3 weeks.

4. Product Compliance Branch approving or disapproving of label applications within 9 calendar days of receipt.

5. Firearms and Explosives Imports Branch processing of a correct ATF Form 6 within 4 weeks of receipt.

Question. What input, if any, have you had with regulated industry on the development of these standards?

Answer. These 22 initial standards were developed with the input of "customers" of the respective ATF offices via surveys and consultations. Any review and refinement of these standards or development of new customer service standards for other offices in ATF will likewise include customer input. We are developing a standard process which will require customer input as a key element of standards development.

IMPORT PERMIT

Question. I have been informed that it can take 6 weeks to process an import permit. This is surprising, considering the lightning pace of commerce in the global marketplace.

Does this put our importers and businesses at a distinct disadvantage?

Answer. ATF acts as expeditiously as possible on all applications to import, and has set processing standards to improve service to the taxpayer, our customer. Generally, Form 6 applications currently are processed in 45 to 60 days, a realistic standard given current staffing and technological constraints. Delays in meeting these standards do occur on occasion and they are dealt with on a case by case basis. Often the delay is attributable to incomplete or missing information on the application, and every best effort is made to quickly resolve any complaint about this level of service. Customer service is stressed as a high priority, as is the importance of delivering high quality service, which is emphasized by managers to employees.

We are indeed concerned that the current time frames will place importers and businessmen in the United States at a competitive disadvantage compared with those from other countries in the world marketplace. However, we must closely examine each import permit application to ensure that no proscribed firearms or implements of war enter the United States; these determinations are often difficult. When we are informed that a permit application must be processed quickly in order to facilitate an overseas purchase, we do expedite the processing to the maximum extent consistent with our quality review procedures. We are also undertaking several technological and personnel-related enhancements to improve our processing time.

Question. What plans do you have to improve technology and increase staffing in order to reduce the processing time to, say, 1 week? Would electronic filing be feasible?

Answer. ATF is studying several options to improve our use of technology in this area. These options include the use of high quality scanners to reduce data entry time, the use of imaging technology to improve our filing and reporting capabilities, modifying our Imports database to increase its effectiveness in tracking and monitoring workload, and implementing an electronic filing system. In fact, ATF and the Department of the Treasury's Financial Management Service (FMS) are now developing a Memorandum of Understanding concerning electronic filing. FMS has agreed to build and fund an electronic government system, and ATF has been selected as the first agency to pilot this system. FMS will first build a financial transaction system, and, after testing, will then build on applications in other operational areas such as Import permit applications.

ATF is also increasing the staffing of the Firearms and Explosives Imports Branch to further reduce import application processing times. Additional examiners are now being hired to reduce the time taken in the initial review of the Form 6 Import Permit application, and a new Customer Service representative will be available to respond to any problems experienced by our customers. We also plan to hire data entry clerks before the end of this fiscal year to speed up the process of getting the application information into our Imports database; this will further reduce the burden on the application examiners.

Question. How much money is being expended to improve service to the public and the industry in general by improving technology, increasing staffing, and improving staff training?

Answer. Direct salary costs for the new employees will total in excess of $160,000 per year. We estimate that purchasing and implementing scanning technology for initial data entry will cost $550,000, a system to image and index records will cost approximately $250,000, and modifying our Imports database will result in an expenditure of an additional $550,000. We do not expect to incur any significant costs to implement electronic forms processing under our Memorandum of Understanding with FMS. On the job and classroom training for the new employees as well as refresher training for experienced employees will be coordinated with our Office of Training and Professional Development; since this type of specialized training is more appropriately done within the agency, we do not expect to incur substantial expense.

LICENSING CENTER

Question. The licensing center at ATF experienced a series of problems earlier this year that were possibly related to Y2K.

Have those technical difficulties been resolved?

Answer. Yes.

Question. Is the technology and staffing at the licensing center adequate to process licensing requests and renewals in a timely fashion?

Answer. Yes. Both the technology and staffing at the National Licensing Center (NLC) are adequate to process firearms and explosives licensing requests in a timely fashion. Notably, the NLC has implemented a new Windows based oracle applica-

tion and a state-of-the-art Xerox DocuPrint printing system that is easier to use and maintain.

EXPLOSIVES

Question. Explosives manufacturers have requested that ATF voluntarily disseminate information on regulation variances granted to various manufacturers, but that ATF has denied that request.

What types of variances does ATF grant to explosives manufacturers?

Answer. Under 27 CFR 55.22, ATF may issue variances to the regulations at 27 CFR Part 55 when: (1) Good cause is shown for the use of the alternate method or procedure; (2) the alternate method or procedure is substantially equivalent to the specifically prescribed method or procedure; and (3) the alternate method or procedure will not be contrary to any provision of law and will not result in an increase in cost to the Government or hinder the effective administration of this part.

ATF considers any proposal for a variance under this standard. For example, ATF has issued variances relating to alternate construction of magazines, recordkeeping procedures, temporary storage and proper locking of magazines.

Question. Would information on these variances be helpful to the entire industry?

Answer. It is impossible for us to determine whether all industry members would benefit from receiving information on variances issued by ATF. However, since each variance is evaluated on a case-by-case basis considering the specific circumstances at a particular location, it is questionable whether this information would provide any real benefit.

Question. Why was this request denied?

Answer. While some types of variances are granted fairly regularly, all variance requests must be evaluated on a case-by-case basis. Variances are considered to be exceptions rather than generally accepted procedures. Publication of approved variances may convey the impression that alternate methods are automatically approved and universally accepted. This could lead to companies utilizing what appears to be an acceptable method in circumstances that may cause a public safety hazard, and in which ATF would not approve the variance. Moreover, publication of all variances would demand significant additional funding and labor.

FIELD OPERATIONS

Question. In 1998 ATF field operations were restructured to merge law enforcement and compliance operations. I am told that this has resulted in law enforcement agents in the field being supervised by non-law enforcement of compliance personnel.

What impact has this restructure had on law enforcement operations?

Answer. ATF's Field Division Director position is reserved for special agents. No law enforcement operation is directly supervised by non-law enforcement personnel. The restructuring was designed to unify field personnel and to enable ATF to effectively plan and use ATF's limited resources to conduct enforcement operations. The restructuring also enhanced the flow of information between law enforcement and regulatory enforcement personnel. The restructuring created clearer lines of command and accountability under common leadership.

The field restructuring has been very successful. Given ATF's diverse responsibilities, the need for a more flexible and integrated work force that interacts and communicates effectively within itself as well as with its regulated industries is imperative. ATF's field restructuring has helped achieve this result.

Question. Are any other Federal law enforcement agencies organized this way?

Answer. We cannot account for the complete management structure for the other Federal agencies. However, prior to our restructuring, ATF managers met with officials from other agencies that have similar criminal enforcement and regulatory missions. Based on our multi-faceted mission and the unique abilities of ATF personnel, the restructuring of our field organization enhances our ability to administer the laws for which the Congress has made us responsible.

YOUTH CRIME GUN INTERDICTION INITIATIVE

Question. There are currently 38 Youth Crime Gun Interdiction Initiative of YCGII cities and 211 employees have been dedicated to that effort. That's about 5½ employees for each city. You are asking for an additional 113 employees and 12 new cities which would result in 9½ employees for each city.

How many ATF employees would be assigned to each of the 50 cities? Will any of the funding requested in fiscal year 2001 be used to staff existing cities? If so, how much?

Answer. Overall support per city would be 6 special agent positions, 2 inspector and 2 support positions. All of the current 38 cities have the required number of special agent positions. The $19,078,000 request is comprised of 108 positions (36 special agent, 12 inspector and 6 support personnel FTE) for the 12 new cities at an estimated requirement of $12,139,000. The balance of the request of $7,047,000 supports the inspector and support personnel required for the current 38 cities. The number of positions averaged per city also takes into consideration the workload created by trafficking investigations on the originating end of such schemes, which many times can be interstate in nature; the agent and other support required for the field division the YCGII city is located in; and the support required to continue viable analysis of crime gun information for those localities. Each area is unique.

Question. When and how would those 12 additional cities be selected?

Answer. Final selection will be made after Congress has taken action on the President's Budget. Potential YCGII cities are identified from those cities with a significant population base, from medium size cities up to major metropolitan areas. ATF then looks at relevant crime rates, employing The U.S. Department of Justice, Federal Bureau of Investigation's publication Crime in the United States Uniform Crimes Report as a source document for data on reported crimes involving youth and juveniles. Of the crimes reported, murder, robbery, assault and weapons violations are used in a statistical table ranking the cities by crime rate.

Final selection of candidate cities is determined by reviewing and ranking these violent crime statistics, but also taking into consideration significant commitments by the local communities to work with Federal law enforcement to reduce youth violence, and the existence of ATF field offices nearby for proper support.

COMPREHENSIVE CRIME GUN TRACING

Question. Funding has been requested for 10 more full-time employees under the Comprehensive Crime Gun Tracing initiative to address the increased workload at the National Tracing Center in West Virginia.

Exactly what would these 10 new employees be doing?

Answer. The 10 FTE's are required to support the additional workload resulting from Electronic Trace Submission System (ETSS) expansion in YCGII cities and comprehensive tracing to 250 cities. The FTE will also provide computer and training support to State and local law enforcement for comprehensive tracing capability in the 250 cities.

TOBACCO COMPLIANCE

Question. Congress provided funding last year for the ATF tobacco compliance initiative which would continue as part of base operations. Additional funding is being requested in fiscal year 2001.

What are the components of the tobacco compliance initiative?

Answer. There are two integrated components to ATF's tobacco compliance initiative, which was developed in response to the tobacco compliance requirements of the Balanced Budget Act of 1997.

The first component consists of qualification and compliance activities, and was launched in fiscal year 2000. This component involves background investigations relating to applications for permits by importers of tobacco products and by manufacturers of roll-your-own tobacco. This component also involves the collection of floor stocks taxes.

The second component of this initiative consists of investigations of unlawful diversion of tobacco products and trafficking in contraband cigarettes. This component involves the expansion of our efforts in these areas in fiscal year 2001 from the points of domestic manufacture or importation through distribution channels to wholesalers and eventually retailers. This initiative includes investigations of operations at foreign trade zones, customs bonded warehouses, and tobacco export warehouses.

Question. How are the resources being split among those components?

Answer. In fiscal year 2001, we anticipate a shift in the distribution of resources to support the initiative's diversion component. It is anticipated that approximately 75 percent of the resources in the fiscal year 2001 Tobacco Compliance initiative will be devoted to the diversion component. This is expected to result from referrals of information obtained from investigations of applicants under the qualification and compliance component. The remaining 25 percent will be required to sustain the qualification and compliance programs.

Question. What is the status of the cigarette gray market? Is it expanding?

Answer. Based upon information provided by the U.S. Customs Service for importations of foreign-produced cigarettes and ATF's data on cigarettes manufactured in

the U.S., we estimate that three (3) percent of all cigarettes sold in the U.S. are gray market cigarettes. We are continuing to see gray market cigarettes in the domestic market. The majority of these cigarettes were imported before January 1, 2000; however, in light of the restrictions on relanding cigarettes under the Balanced Budget Act of 1997, this market is now slowly being displaced with gray market cigarettes produced overseas by affiliates of our major manufacturers.

We think it is too early to tell yet whether the gray market is expanding. The reason for this is that gray market importers were allowed to stockpile cigarettes before January 1, 2000 and these cigarettes have not worked their way completely through the system.

The fiscal year 2000 Senate report contained a provision directing ATF to report by September 30 of this year detailing the number of employees dedicated to handling the new tobacco compliance law, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution.

Question. I know the report isn't due for 5 months, but do you have any preliminary information about these enforcement statistics?

Answer. The Senate report accompanying the fiscal year 2000 appropriations contained a provision directing ATF to report to Congress by September 30 of the year 2000 the number of employees dedicated to handling the new tobacco compliance law, the number of complaints received, the number of investigations initiated, and the number of cases referred for prosecution. The numbers are as follows:

Number of Employees Utilized	9.3
Number of Complaints Received	85
Number of Investigations Initiated (includes floor stocks, applications and gray market investigations)	326
Number of cases referred for prosecution	7

FEDERAL FIREARMS LICENSEES

Question. The fiscal year 2000 Senate report contained language instructing ATF to make identifying and addressing security recommendations for Federal firearms licensees a priority at the next firearms industry discussion group that convenes.

What is the status of this directive? Has ATF been working with industry on safety and security issues?

Answer. ATF is currently working on two training videos with the International Association of Chiefs of Police (IACP) and the Bureau of Justice Assistance (BJA) to develop videos for Federal firearms licensees (FFLs) and law enforcement agencies. The first video deals mainly with conducting firearms trafficking investigations and tracing crime guns. The second video deals with FFL security issues such as: keeping firearms out of the hands of criminals, improving business security, improving employee safety and reducing liability, and shipping problems and reporting thefts and losses of firearms.

In addition, ATF holds regular meetings with the National Shooting Sports Foundation (NSSF) to discuss industry trends and potential problems. The meetings often involve discussions on best business practices that licensees may use to reduce the potential theft of their firearms. The NSSF and ATF are also currently developing a seminar that will include anti-theft information for the industry.

Finally, ATF has published and distributes to FFLs, local law enforcement, and other interested parties ATF P 3317.2, Safety and Security Information for Federal Firearms Licensees (03/98).

SCHOOL BOMB DETECTION/THREAT AWARENESS TRAINING

Question. The fiscal year 2000 Senate report also contained a provision directing ATF to work with the Department of Education and Justice to make explosives detection training available to school districts. As you will recall, this was in the wake of Columbine High School bombings.

What is the status of your discussions with Education and Justice?

Answer. ATF has been involved in high level meetings with representatives of both Justice and Education to establish a framework for this program. In these meetings, it has been agreed that ATF will develop training programs and products and Justice and Education will assist with the delivery of the products.

Question. Has ATF begun any training classes?

Answer. ATF has historically provided similar training to school districts in prior years and has continued to do so this year. We have used training materials and products developed in previous years for other applications, but have begun this fiscal year to develop a training program to meet the specific needs of school districts and school security personnel. In the first quarter of fiscal year 2000, ATF provided training to 422 school personnel on bomb threat management techniques.

ALCOHOLIC BEVERAGE LABELING

Question. Last year ATF issued regulation on health-related labeling of alcoholic beverages. This created quite a firestorm of opposition because of the negative consequences of alcohol misuse. Recently ATF announced its decision to hold five public hearings across the country on this subject. Concern has been expressed that this is a waste of taxpayer money when ATF could simply revise or withdraw the regulations altogether.

Why did ATF decide to hold these hearings?

Answer. ATF has issued a Noticed of Proposed Rulemaking relating to health-related statements appearing on alcohol beverages. The issue of health-related statements on containers of alcohol beverages is a matter of interest to a broad spectrum of the American public. Prior to developing the notice of proposed rulemaking, ATF was contacted by various public advocacy groups, Federal health officials, and members of Congress regarding our policy on health claims and health-related statements. Additionally, various segments of the alcohol industry have expressed their belief that this topic deserves a full public hearing. In view of the significance of this issue and the diversity of opinions on it, we believe it is appropriate to take every necessary measure to assure that we hear and understand the views of all interested parties, including those who are not represented by industry associations. We believe that the upcoming hearings will assist us in making an informed and balanced decision on a policy for health-related statements on alcohol beverage labels.

Question. What steps are being taken to ensure a fair and balanced hearing in each location?

Answer. On February 28, 2000, ATF published in the Federal Register a notice announcing the dates and locations of public hearings that we are holding concerning health claims and other health-related statements in the labeling and advertising of alcohol beverages. While five hearings were originally scheduled, the number of hearings has been reduced to two, due to the small number of persons requesting to testify. The first hearing occurred on April 25, 2000 in Washington, D.C. The hearings are intended to ensure that all interested persons are provided an opportunity to be heard and will also provide ATF with the opportunity to ask questions of the witnesses where necessary to ensure a complete and accurate record. The February 28, 2000 notice of hearings advised that persons desiring to make oral comments at the hearings were to submit a letter, on or before April 7, 2000, notifying ATF of their intent to comment. A press release was issued simultaneously with the notice notifying all interested parties of the forthcoming hearings. A follow-up press release on the same topic was issued on March 31, 2000. To date, those who have expressed an interest in presenting oral comments at the hearings include a member of Congress, physicians, psychologists, a scientist, a researcher, advocacy groups, consumer groups, industry trade organizations, and individual members of the industry.

Question. The last hearing is scheduled in mid-August in Texas. How soon after the conclusion of that hearing do you expect to publish your findings?

Answer. In view of the reduced number of hearings, as explained in the answer to the previous question, the last hearing is now scheduled for late May in San Francisco. The last day for submission of written comments in this rulemaking proceeding is June 30, 2000. We anticipate publication of a final rule in the Federal Register in mid-to-late January 2001.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

SCHOOL BOMB DETECTION/THREAT AWARENESS TRAINING

Question. The fiscal year 2000 Senate report carried language directing ATF to coordinate with Education and Justice to make explosive detection training available on request for school districts nationwide through existing safe schools programs.

What is the status of your coordination with the Departments of Education and Justice on school bomb detection/threat awareness training?

Answer. ATF has had several high-level meetings with representatives of both the Department of Education (DOE) and the Department of Justice (DOJ) on this issue. A basic operating framework has been developed for implementing a school bomb detection/threat awareness training program. Under this framework, ATF will have primary responsibility for the development of a training program and materials. Once the programs are developed, DOE and DOJ will provide assistance as necessary with the distribution and delivery of the training product.

Question. Have any school districts yet availed themselves of ATF's expertise in this area?

Answer. There have been a number of schools and school districts that have requested ATF's assistance in developing bomb threat management plans and procedures. A number of school districts have also made requests for ATF to train employees charged with implementing those plans. These requests are not limited to this fiscal year; ATF has received similar requests in prior years as well. While we have not previously tracked the number of these requests, we have begun to do so this FY. Through the first quarter of fiscal year 2000, ATF, using existing bomb threat management training materials, has provided training assistance to 422 school personnel in 21 different school districts.

Question. How are you publicizing this training, if at all?

Answer. ATF participated with the Department of Education in a seminar held for public safety and physical security personnel from several of the larger school districts around the country. At this seminar, ATF previewed several of the training products we are currently developing for delivery as part of this program. DOE has also provided assistance in advising school districts of the availability of these training products.

NATIONAL INSTANT CRIMINAL BACKGROUND CHECKS (NICS)

Question. How many gun purchase denials have been made after NICS checks were performed and how many have been referred for investigation which meet ATF's follow-up criteria?

Answer. The FBI's NICS system began operation in November of 1998. As of April 5, 2000 ATF has received 119,754 denials from the FBI and of those, 31,798 have met the follow-up criteria and have been referred for investigation.

Question. Have the problems regarding NICS referrals been worked out with the FBI?

Answer. Problems with the referral process have not been of any long-standing nature, and the FBI has been very willing to help throughout. For example, protocols for the format for electronic files have been worked out. At this time, the FBI is transferring the denials they refer to ATF via download to a tape that is then sent to ATF and uploaded into a NICS Referral database. On or about April 25, the FBI is scheduled to start submitting the referrals via electronic transfer through an interface to the ATF database.

YOUTH CRIME GUN INTERDICTION INITIATIVE (TCGII)

Question. Does ATF know what the next 12 cities will be? If not, what specific criteria does ATF use to select cities for YCGII designation?

Answer. No, pending Congressional action, final selection of cities has not been made. Potential YCGII cities are identified from those cities with a significant population base, from medium size cities up to major metropolitan areas. ATF then reviews relevant crime rates, employing the U.S. Department of Justice, Federal Bureau of Investigation's publication *Crime in the United States Uniform Crimes Report* as a source document for data on reported crimes involving youth and juveniles. Of the crimes reported, murder, robbery, assault, and weapons violations are used in a statistical table ranking the cities by crime rate.

Final selection of candidate cities is determined by reviewing and ranking these violent crime statistics, but also taking into consideration significant commitments by the local communities to work with Federal law enforcement to reduce youth violence, and the existence of ATF field offices nearby for proper support. Prior to any final selection, ATF field management meets with potential candidates in their respective areas to assess the feasibility of the local department's involvement.

Question. How many FTE are currently devoted to YCGII?

Answer. Congressional action has provided 198 special agent, 5 inspector and 8 support personnel FTEs devoted to the YCGII program.

Question. How much of your budget is devoted for existing YCGII's versus the new cities?

Answer. The resources requested in the fiscal year 2001 President's Budget include 72 special agent positions (36 FTE), 24 inspector positions (12 FTE), and 12 support positions (6 FTE) to support the 12 new cities. The 74 inspector positions (37 FTE) and 44 support positions (22 FTE) are to staff the current 38 YCGII cities.

Question. If you were not to receive your full budget request for the new YCGII cities, would you cut the number of new cities or reduce across the board the amount each city would receive?

Answer. Comprehensive tracing would be provided to all participating cities, however law enforcement personnel would only be provided to support select cities.

QUESTIONS SUBMITTED TO THE U.S. SECRET SERVICE

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

WORKFORCE RETENTION AND WORKLOAD BALANCING

Question. The fiscal year 2000 wrap-up appropriations bill provided a total of $31 million to the Service for workforce retention and workload balancing. The fiscal year 2001 budget requests $41 million on top of that for an additional 250 employees.

Assuming that we have sufficient resources to fund that request, do you believe you would be able to fill those additional positions within the fiscal year?

Answer. Yes, assuming the funding is made available, we are very confident that we will be able to fill all of the additional positions requested in the fiscal year 2001 Budget.

The Service has taken many actions to ensure that it can achieve its hiring goals. First, by streamlining applicant processing to have some steps run concurrently instead of consecutively, and by reducing the allotted time for specific process phases, we have reduced the average hiring process completion time for special agents by over 40 percent. Second, to facilitate the expeditious processing of applicants we established a Recruitment and Hiring Coordinating Center, and staffed it with seven full-time employees. Third, we implemented a campaign to enlist the assistance and commitment of all our employees for recruiting, and distributed an Employee Recruiter Handbook to assist them. Finally, we began a national-level advertising campaign, to include advertising in high-profile publications such as USA Today, and established a toll-free number 1–888–813–USSS (8777) to assist potential employees in starting the application process.

Question. Would these additional resources fully address the overtime and workload issues facing the Service? In other words, do you envision requesting even more staff in fiscal year 2002?

Answer. The additional staffing provided with both the fiscal year 2000 and fiscal year 2001 budgets will meet approximately 70 percent of what we, and the interagency working group studying this situation, believe is required to adequately address the Service's workforce retention and workload balancing issues. It is therefore envisioned that additional staffing will be a part of the fiscal year 2002 budget.

Question. When do you expect to see a reduction in the amount of overtime as a result of this hiring initiative?

Answer. The impact on overtime of newly hired agents will not be realized until these new agents have completed training and returned to their field assignments. We do not expect a substantial change in average overtime until next fiscal year when all the agents hired in fiscal year 2000 have completed their training.

Question. Will all of these new special agents be allocated to the field rather than headquarters?

Answer. Most of the 484 additional positions budgeted for fiscal year 2000 and fiscal year 2001 will be assigned to the Service's field offices.

Question. Will any of the protective details be enhanced as a result of this staffing increase?

Answer. Given the level of overtime presently being worked by individuals on protective details, some of the additional positions will be allocated there as well.

WORKFORCE RETENTION AND WORKLOAD BALANCING STUDY

Question. It is my understanding that the Service initiated a workforce retention and workload balancing study.

What were some of the main recommendations of this study to increase the quality of life for special agents?

Answer. During 1999, the Department of the Treasury, Office of Enforcement, established the Interagency Working Group on U. S. Secret Service Workforce Retention and Workload Balancing. This working group, which also included representatives from Treasury Management and the Office of Management and Budget, analyzed the underlying causes for the decreased ability of the Secret Service to retain younger special agents, and the degradation of quality of life brought about by increased mission demands placed on the special agent workforce. The study group made several recommendations relative to workforce retention and workload balancing, with the recommendation for increased staffing having the greatest potential for improving the quality of life for special agents. It recommended that the Service increase the size of its workforce by 682 special agents.

The study group concluded that increasing staffing by this amount would address a number of key issues relative to quality of life for the Service's special agents.

First, it would reduce the rotational protective assignments (ROTA) for field agents to 25 percent. This significantly decreases the amount of time, under usual circumstances, during the year that field agents can expect to be subject to receiving protective assignments. These protective assignments involve a significant amount of time away from home and family. Second, it is expected to reduce the level of overtime per month to 62 hours, rather than the current 78 hours. Finally, it will redress the imbalance between protective and investigative activities that has developed over the past several years.

MAX OUT

Question. The fiscal year 2000 bill contained a 1-year provision which exempts the Secret Service from certain provisions of overtime regulations. In particular, overtime would be measured on annual salary rather than pay-period salary.

What is the status of implementation of this provision?

Answer. On January 21, 2000, the Department of the Treasury sent a request to the Department of Agriculture, National Finance Center (NFC), to make the necessary programming changes to the payroll system. On April 4, 2000, NFC advised the Department of the Treasury that there are significant obstacles to overcome in making these changes. The Secret Service is currently working with the Department of the Treasury and the NFC to find a way to overcome these obstacles and implement the provision.

Question. What is the Secret Service position on continuation of this provision?

Answer. Because of the way the protective mission must be accomplished, there will continue to be situations where individuals will be required to work levels of overtime that will indicate the need for payment of compensation beyond the biweekly cap. The Department of the Treasury supports the goals of the section 118 provision as was incorporated in the fiscal year 2000 Appropriations Bill, and the broader proposals incorporated in proposed OMB legislation (H.R. 1770).

NATIONAL SPECIAL SECURITY EVENTS

Question. Under the provisions of Presidential directive PDD 62, the Secret Service is the lead agency for security at large events such as the United Nations meetings and the State of the Union speech.

Please explain the Secret Service's responsibilities under PDD 62.

Answer. The Secret Service is the lead federal agency responsible for security design, planning and implementation at designated National Special Security Events.

Question. What other types of large events would fall under PDD 62?

Answer. PPD 62 only applies to those events designated by the Secretary of the Treasury and the Attorney General as National Special Security Events. Examples of such events include Presidential Nominating Conventions, Presidential Inaugurations, Presidential Summits, State of the Union Addresses and the Olympics.

Question. At the hearing you mentioned OpSail 2000 in New York City this summer. What exactly is OpSail 2000? Do you anticipate that it will be designated as a National Special Security Event under PDD 62? How many foreign heads-of-state/government to you expect to attend this event?

Answer. OpSail is an international naval review, which is scheduled for July 3–9, 2000, in New York Harbor. This event has been declared a National Special Security Event.

Approximately 30–40 thousand vessels are expected to gather in New York Harbor, to include both modern and ancient warships. The President, foreign heads-of-state/government and other prominent individuals are expected to attend. The President has invited 23 foreign heads-of-state/government to attend this event; however, to date the Service does not have any information regarding how many will attend.

Question. There were no additional funds requested in the fiscal year 2001 budget for any PDD 62 events. Will the Service have to absorb the costs associated with these events, or request supplemental funding? How have these events been funded in the past?

Answer. It is very difficult to budget for events based solely on their potential for designation. For example, in fiscal year 2001 the only known event that is likely to be designated is the Presidential Inauguration. Funding for this has been requested as part of the Service's fiscal year 2001 budget for providing protection for the campaign. At the time our fiscal year 2001 budget was being formulated, and continuing today, the appropriate means for funding the Service's new responsibilities under Presidential Decision Directive (PDD) 62 were and remain under discussion.

Because of the extreme uncertainty as to how many events will be designated as National Special Security Events, and as to when that designation will be made, the usual annual budget process may not easily accommodate the necessary financial planning for these events. It has been suggested that a source of funding, not tied directly to the annual appropriation, is the most effective means for meeting the resource requirements for security design, planning and implementation for major events designated as *National Special Security Events* in accordance with PDD 62.

In the past, the Secret Service has received additional funds from a Department of the Treasury Counter-terrorism Fund. In the absence of a separate funding mechanism, the Secret Service is not in a financial position to absorb such expenses.

2002 SALT LAKE CITY WINTER OLYMPICS

Question. As a follow-on to that question, there are fiscal year 2001 costs associated with the Salt Lake City Olympics in 2002. I am told that other Federal agencies, such as the FBI and FEMA, requested funding in the fiscal year 2001 budget. I didn't see anything in the Secret Service request, which is surprising given the fact that you will be the lead agency for security.

What are the anticipated fiscal year 2001 costs for the Salt Lake City Olympics?

Answer. The Service currently estimates that it will require $9.0 million to meet its responsibilities relative to security design, planning and implementation for the 2002 Winter Olympic Games.

Question. Why wasn't additional funding requested in fiscal year 2001 for preparation for that event?

Answer. At the time our fiscal year 2001 budget was being formulated, and continuing today, the appropriate means for funding the Service's new responsibilities under Presidential Decision Directive (PDD) 62 were and remain under discussion. Estimates as to the amount of additional funding the Service will need in fiscal year 2001 for preparing for the 2002 Winter Olympics were developed; however, decisions as to how to budget for this funding were not.

Establishing the mechanism for financing events designated as National Special Security Events in accordance with PDD 62, the 2002 Winter Olympics being one such event, is currently under discussion. This is why no funding request to cover the fiscal year 2001 costs relative to preparing for the 2002 Winter Olympics was placed in the fiscal year 2001 budget.

Because of the extreme uncertainty as to how many events will be designated as National Special Security Events, and as to when that designation will be made, the usual annual budget process may not easily accommodate the necessary financial planning for these events. It has been suggested that a source of funding, not tied directly to the annual appropriation, is the most effective means for meeting the resource requirements for security design, planning and implementation for major events designated as *National Special Security Events* in accordance with PDD 62.

In the fiscal year 2001 budget, the Department of the Treasury has a request for $25.0 million for a Counter-terrorism Fund. It is currently anticipated that this fund will be used to cover the Service's resource needs under PDD 62 in fiscal year 2001 for the 2002 Winter Olympics.

NATIONAL CENTER FOR MISSING AND EXPLOITED CHILDREN

Question. The fiscal year 2000 wrap-up appropriations bill contained a provision that required all Federal agencies to take a .38 percent reduction in appropriated funds. The Secret Service decided to reduce the amounts provided for operations of the Rowley Training Center and for assistance to the National Center for Missing and Exploited Children.

Why did the Service decide to reduce assistance to NCMEC?

Answer. Given the critical need for the Service to immediately address its workforce retention and workload balancing issues, and considering that $21.0 million in supplemental funding was provided in the same bill to do this, it seemed appropriate to shield the Service's Salaries and Expenses appropriation from any reductions mandated by the .38 percent rescission. Instead, the Service chose to take the rescission from funds appropriated to its Acquisition, Construction, Improvements, and Related Expenses account, and appropriated funds being transferred from the Violent Crime Reduction Trust Fund (VCRTF). Of the $4.2 million to be transferred from the VCRTF, $2.0 million is budgeted for 20 FTE and support costs to provide forensic assistance to other Federal, State and local law enforcement investigating cases involving missing and exploited children. The remaining $2.2 million is budgeted for grants to the National Center for Missing and Exploited Children. The rescission applied to this funding, amounting to $630,000, was taken from the $2.0

million budgeted for the Service. The NCMEC will receive all of the $2.2 million in grant funding originally appropriated.

Question. What impact will this have on grants to State and local law enforcement?

Answer. None of the funding the Service receives for its missing and exploited children program is available for making grants to State and local law enforcement.

Question. What impact will it have on forensic assistance that the Service provides?

Answer. No significant impact is expected relative to the level of forensic assistance that the Service will be able to provide to Federal, State and local law enforcement investigating cases involving missing and exploited children.

BIOLOGICAL DETECTOR TECHNOLOGY REPORT

Question. The fiscal year 2000 wrap-up appropriations bill also contained a provision directing the Secret Service to report on the possible benefits of biological detector technology. Chemical and/or biological threats are a continuing concern for this Subcommittee.

What is the status of that report?

Answer. The report is complete and has been delivered to the Department of the Treasury, Office of the Under Secretary for Enforcement.

Question. Will it include a review of the technologies being developed by private as well as government scientists?

Answer. The report includes a discussion of technologies being developed by both private and federal government entities.

UNIFORMED DIVISION PAY

Question. I understand that the DC Metropolitan Police Department has raised its pay rates. I am told that this has resulted in a discrepancy between the rate of pay for Metropolitan Police officers and the Secret Service Uniformed Division officers.

Has the Secret Service submitted a request to the Treasury Department and to OMB for a comparable pay raise for Uniformed Division officers?

Answer. Yes. The Secret Service has submitted a new pay proposal to the Department of the Treasury, and is working with the department to address this discrepancy.

CYBER-CRIME

Question. This subcommittee is well aware that criminal activity involving telecommunications and computer-related schemes continues to increase each year at an alarming rate. Cyber-crime is rapidly becoming part of our vocabulary.

What is the Secret Service's current involvement in cyber-crime investigations?

Answer. In 1986, subsequent to a revision of Title 18, USC, the Secret Service was provided authorization to investigate fraud and related criminal activities involving computers. Title 18 USC, Section 1030 continues to evolve, as computer networks become more complex. The Secret Service strives to provide investigative focus on the telecommunications, banking and finance sectors in computer fraud investigations. That focus has proved to be an asset in the effectiveness of Secret Service investigations and the ability to train and equip field offices to address specific high-tech investigations.

Along with the investigative expertise gained through interaction with the financial industry, the Secret Service has a clear understanding of the overall infrastructure of the financial system. The Internet and the telecommunications industry, with the fastest growing technologies in the world, provide the backbone for the emerging technologies in electronic commerce, financial transactions, and banking.

The Secret Service has taken proactive positions in identifying fraud as it occurs throughout the Internet and the telecommunications industry. The growth and evolution of the Internet has provided numerous commercial and financial opportunities, particularly in the areas of electronic commerce. With the exponential growth of the national information infrastructure, the same type of growth can be expected and is occurring in the area of global high-tech crime. For the past 10 years, the Secret Service has taken on these types of cases by targeting international organized hacking activity, new schemes designed to compromise electronic systems, and organized groups whose criminal activity is aimed at particular segments of the financial industry.

The Secret Service has established itself as the primary point of contact for network intrusion activity that threatens any bureau within the Treasury Department, and any of the computer systems utilized on the White House complex. All members

of the Service's Electronic Crimes Special Agent Program (ECSAP) have received extensive training regarding the system architecture for these networks and are prepared to respond to any intrusion activity. The Service will continue to take on this responsibility to address threats to these networks as they arise.

As the market penetration for computer equipment in the hands of the general public increases every day, and as the Internet continues to grow at more than 100 percent per year, it has to be anticipated that the criminal element will utilize it. The Secret Service has placed an emphasis on the dynamic growth of the ECSAP as an essential component of its investigative and protective missions. ECSAP agents, highly trained special agents qualified as experts in the forensic examination of electronic evidence, are assigned to nearly all Secret Service field offices. The program has expanded to include operational aspects such as technical guidance in search warrant preparation and execution, educational presentations, and technical advice to public and private sector organizations. Agents assigned to this program are also trained to examine the variety of electronic evidence seized in today's criminal investigations, to include: telecommunications devices, electronic organizers, scanners, and any other device manufactured to intercept or duplicate telecommunications services.

Question. Did the Service make any funding requests for cyber-crime investigations for fiscal year 2001?

Answer. The Service requested an additional 39 positions and $4.5 million for cyber-crime investigations in its fiscal year 2001 Budget Submission to the Department of the Treasury.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

EXCEPTIONAL CASE STUDY

Question. "60 Minutes II" recently aired a program on the Secret Service's exceptional case study in which agents and psychologists interview assassins and potential assassins to determine if there are similar traits and habits which can aid agents in attempting to predict and thwart future attacks. This study has been a success and is being expanded—at Director Stafford's behest—to interviewing students who have attacked fellow students in similar manners at schools across the country (i.e. Columbine).

What do you hope to learn from broadening your exceptional case study to interviewing students and other young people?

Answer. In the School Safety Study, the Secret Service's National Threat Assessment Center (NTAC) is using the approach developed in the Exceptional Case Study Project—the examination of pre-attack behaviors of assassins and near-assassins. The Secret Service developed operational information about the motives, planning, behaviors, and communications of attackers and near-attackers, and incorporated it into its protective and investigative programs.

NTAC's work to examine the thinking and behavior of school shooters parallels the Exceptional Case Study Project in its protective and preventative focus. In the School Safety Study, over 25 files were reviewed and eight individual perpetrators have been interviewed. The Service is developing information that will aid law enforcement and other professionals with protective and preventative responsibilities for school-based violence. The goal of the Service is to gather and analyze accurate information about the motives, thinking, planning, pre-attack behaviors, and communications of school shooters. Plans are being made to develop a threat assessment guide, and teaching and training materials (including videos) that can be used by school officials, law enforcement professionals, and others to identify, assess, and manage young persons possibly posing a risk of targeted school violence.

Question. Do you believe there are lessons which can be learned from this program which can be shared with your sister law enforcement agencies? For instance, have you shared your study with ATF so that they could perhaps incorporate your lessons in ATF's Integrated Violence Reduction Strategy (IVRS)?

Answer. There is great interest within the law enforcement community about the prevention of targeted school shootings; however, the law enforcement community lacks the knowledge and experience to develop and implement effective threat assessment protocols and programs.

The Secret Service's goal in the School Safety initiative is to gather, analyze, and disseminate accurate and operationally useful information, which can help law enforcement and other professionals prevent school shootings. The Secret Service plans to follow the model used with the Exceptional Case Study Project to develop and distribute a range of information. As a result of this study, the Secret Service devel-

oped a threat assessment guide for law enforcement professionals, a video teaching the threat assessment process, and several professional publications that were distributed to federal, state, and local law enforcement organizations and other interested professionals. In addition, the Secret Service provided several training presentations and seminars concerning the Exceptional Case Study Project and the threat assessment process.

The Secret Service has shared the dynamics of the School Safety initiative and its overall goals with the Bureau of Alcohol, Tobacco and Firearms (ATF). The National Threat Assessment Center is planning to develop similar products for the School Safety initiative. These products include a threat assessment guide, a training video, and other publications designed for law enforcement and other professionals with school shooting prevention responsibilities.

Question. What resources have you directed towards expanding this study? Do you envision a need for additional resources?

Answer. The Secret Service is attempting to pursue several goals in support of the School Safety initiative in fiscal year 2000 with current resources. These fiscal year 2000 goals include interviewing school shooters; gathering and coding investigative case records; providing threat assessment seminars and study group meetings; developing training videos; and publishing school safety guides.

In fiscal year 2001, the Secret Service plans to continue the support of the School Safety initiative by providing additional training seminars and presentations to local and state law enforcement and other professionals; gathering additional data analysis; and continuing to develop professional publications.

The Secret Service will continue to pursue the expansion of the School Safety initiative to fully develop the National Threat Assessment Center's potential, but additional funding will be needed to do this.

NATIONAL SPECIAL SECURITY EVENTS (NSSES)

Question. Who determines when an event becomes an NSSE?

Answer. The Counter-terrorism and Security Group (CSG), part of the National Security Council, votes on events brought before the group for consideration. If an event is recommended for designation by the CSG, the request is forwarded to the Secretary of the Treasury and the Attorney General requesting designation. Mutual concurrence by the Secretary of the Treasury and the Attorney General is required for an event to be designated.

Question. Is the Secret Service anticipating any NSSEs during this year? If so, how many and where will they be located?

Answer. For fiscal year 2000, the following events have been designated, or the Service anticipates that they will be designated, as National Special Security Events.

—Operation Sail (OpSail)—(designated) New York City
—Democratic Convention—Los Angeles, California
—Republican Convention—Philadelphia, Pennsylvania
—State of the Union—(designated) Washington, DC
—United Nations General Assembly—New York City

Question. I've heard some talk of OpSail 2000 in New York City this summer. What can you tell me about this event? Do you anticipate it will be designated a NSSE? How many foreign leaders are anticipated to attend?

Answer. OpSail is an international naval review, which is scheduled for July 3–9, 2000, in New York Harbor. This event has been designated as a National Special Security Event.

Approximately 30–40 thousand vessels are expected to gather in New York Harbor, to include both modern and ancient warships. The President, foreign heads-of-state/government and other prominent individuals are expected to attend. The President has invited 23 foreign heads-of-state/government to attend this event; however, to date the Service does not have any information regarding how many will attend.

Question. Has the 2002 Winter Olympics in Salt Lake City been designated a NSSE? If so, why has the Secret Service not requested funds for this event in the budget?

Answer. The 2002 Winter Olympics has been designated a National Special Security Event.

At the time our fiscal year 2001 budget was being formulated, and continuing today, the appropriate means for funding the Service's new responsibilities under Presidential Decision Directive (PDD) 62 were and remain under discussion. Estimates as to the amount of additional funding the Service will need in fiscal year

2001 for preparing for the 2002 Winter Olympics were developed; however, decisions as to how to budget for this funding were not.

Establishing the mechanism for financing events designated as National Special Security Events in accordance with PDD 62—the 2002 Winter Olympics being one such event—is currently under discussion. This is why no funding request to cover the fiscal year 2001 costs relative to preparing for the 2002 Winter Olympics was placed in the fiscal year 2001 budget.

Because of the extreme uncertainty as to how many events will be designated as National Special Security Events, and as to when that designation will be made, the usual annual budget process may not easily accommodate the necessary financial planning for these events. It has been suggested that a source of funding, not tied directly to the annual appropriation, is the most effective means for meeting the resource requirements for security design, planning and implementation for major events designated as National Special Security Events in accordance with PDD 62. In the fiscal year 2001 budget the Department of the Treasury has requested $25.0 million for a Counter-terrorism Fund. It is currently anticipated that this fund will be used to cover the Service's resource needs under PDD 62 in fiscal year 2001 for the 2002 Winter Olympics.

AIR SECURITY INITIATIVE

Question. Why not use an existing air branch rather than creating a new one? Would it be more cost-effective to fly in personnel "as needed" rather than establish a new branch?

Answer. To use resources dedicated to another mission presents a problem. The Service needs constant availability and control over the deployment of resources when they are necessary. Secret Service personnel assigned to the air security mission will be used to supplement the Service's core protective mission in Washington, D.C., when they are not operational or in training.

Question. It has been suggested that Presidential Decision Directive (PDD) 62 "requires" that the new branch be located within a specific radius of Washington, D.C. Is this true and if so, why? If the PDD does not specify the branch's location, who will make the decision where to locate the new air branch?

Answer. PDD 62 does not require that the new branch for air security be located within the Washington, D.C. metropolitan area. The Secretary of Treasury, in conjunction with the Attorney General, will make the decision as to the location of the new air branch.

Question. How closely are your two agencies working to ensure that duties and responsibilities are being appropriately shared and that there will be a seamless operation of the program?

Answer. The Secret Service and the Customs Service have had in the past, and continue to have, a good working relationship. Regular and rigorous joint training promotes teamwork and operational efficiency, while resolving issues related to tactics, and command and control. A continuous dialog occurs regarding operational support, training and cost-sharing.

Question. What will personnel be doing once the event ends? Will they support the Customs mission or will there be follow-on training and support to Secret Service? Once an event ends, who retains control over personnel?

Answer. When not being used to support an event, each agency will retain control over its own personnel. Secret Service personnel assigned to the air security mission, when not operational or in training, will be used to supplement the Service's core protective mission in Washington, D.C.

QUESTIONS SUBMITTED TO THE FEDERAL LAW ENFORCEMENT TRAINING CENTER

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

Question. Does the Border Patrol request an increase in the training of new hires in their fiscal year 2001 budget?

Answer. The Border Patrol is projecting training 2,300 basic students in fiscal year 2001, of which 435 have been requested in the President's request for fiscal year 2001.

Question. You stated that the fiscal year 2001 request will provide funding for 79 percent of the projected basic training workload requirements. What are your plans if each of the agencies staff up to full capacity?

Answer. With all three current sites Glynco, Artesia, and Charleston, SC FLETC has sufficient capacity to provide the workload being projected, but if all the participating agencies execute 100 percent of their projected workload FLETC will have

a shortfall in the funding to cover the direct cost of the training. FLETC would then be required to bill back to the agencies the direct cost for the additional 21 percent of basic training, defer or cancel training until next fiscal year, seek a supplemental appropriation, or reprogram funds to the extent they may be available. A problem that FLETC also may face is a shortfall in the number of instructors needed to provide 100 percent of the training. The only recourse FLETC has is to ask the agencies to provide additional detailed instructors to conduct the training or cancel the training due to lack of required instructor staffing.

Question. Provide the subcommittee with the cost associated with training at Glynco in comparison with the cost for training at the Charleston facility, including housing cost.

Answer. The Charleston operation is supported by FLETC, but the funding for overhead, housing, and meal costs are paid from the INS appropriation. The FLETC does not have access to those costs. However, FLETC reimburses INS for the tuition cost of $1,707.58 per student for each student trained at Charleston. This is consistent with FLETC's responsibility to absorb the direct cost of all basic training in our appropriation regardless of the location of the training. FLETC's Glynco costs for a Border Patrol student are as follows:

	Per day	Total
Tuition		$1,707.58
Lodging	$10.61	1,411.13
Meals	10.53	1,400.49
Misc. (Overhead)	14.05	1,868.65
Total Per Student		6,387.85

The Border Patrol Basic program is 133 days in length.

Question. ATF and Secret Service are predicting a tremendous increase in their 2001 budget request of the number of agents needing training at the FLETC. Without having the 5 year plan completed, will FLETC be able to handle this increased workload?

Answer. Based on the current capacity at both Glynco and Artesia and by using the Charleston facility for Border Patrol, at least through fiscal year 2001, the FLETC expects to be able to provide the increased training for these two agencies, as well as the projected basic and most advanced training of the other participating agencies.

Question. Is all new construction for Glynco and Artesia on target?

Answer. Funds have been obligated and contracts awarded for construction of a new dormitory, firearms ranges, a chilled water system expansion, and a classroom building at Glynco and a new dormitory and two firearms ranges at Artesia as part of the 5-year plan previously funded by Congress. Completion of the new dormitory at Glynco may be delayed a few months because the original contractor was unable to meet the construction schedule and a new contractor has taken over the project.

Question. Explain how the new firearms ranges being constructed at Glynco and Artesia will be used? Will they be used for basic training, advanced training or both? Will this meet current and future needs?

Answer. The first priority is to use the new firearms ranges to support basic training and then, when available, they will be used to support advanced training needs. These ranges, combined with proposed future construction of another firearms range and a firearms office building in Artesia and a firearms multi-purpose building, non-lethal shoot houses and a combat skeet range in Glynco, will meet the current and future requirements now identified to us by our agencies.

Question. When will these ranges be completed?

Answer. The completion dates on the firearms ranges now under design and construction are as follows:

Four 24 person ranges at Glynco will be completed by April, 2000.

Two additional 24 person ranges at Glynco are expected to be completed by December, 2000.

Two 24 person ranges at Artesia are planned to be completed by October, 2001.

Question. I understand that the Glynco facility needs to undergo some major renovations with an estimated cost of $47 million within a 10-year timeframe. You have requested $4,400,000 for renovations in 2001. Do you have a prioritized list of these projects?

Answer. The follow is a prioritized list of the facilities and the projected renovation costs:

Facility name	Building number	Year built	Estimated renovation cost
DC Residence Hall	95	1974	$5,000,000
New Mexico Residence Hall	96	1974	5,000,000
Administration Building	94	1974	3,500,000
Van Buren Office Building	68	1958	2,700,000
Maryland Residence Hall	63	1967	3,600,000
Monroe Office Building	66	1955	3,600,000
Steed Classroom Building	262B	1978	6,000,000
Classroom Building	65	1955	3,600,000
Jackson Office Building	67	1958	3,600,000
Jefferson Office Building	64	1955	3,600,000
Harrison Office Building	69	1969	3,600,000
Tyler Office Building	70	1969	3,600,000
Total			47,400,000

QUESTIONS SUBMITTED TO THE FINANCIAL CRIMES ENFORCEMENT NETWORK

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

MONEY SERVICES BUSINESSES (MSBS)

Question. What are the steps used to register the Money Services Businesses?

Answer. In August, 1999, FinCEN announced the registration of Money Services Businesses which includes money transmitters, issuers, redeemers and sellers of money orders and traveler's checks, check cashers and currency retail exchanges. This final rule provides a significant period of implementation of registration to permit government outreach through an on-going working relationship with the industry. These activities will be accomplished in conjunction with Treasury's Public Education Office, and IRS's Detroit Computing Center and Examination Division, among others. Also, FinCEN staff has met with the largest MSB service providers over the last s6months, and has met recently with a number of smaller, regional service providers.

In addition, a guidance document is currently being finalized. The forms to be used for both registration and SAR reporting are in draft form and will be finalized in the near future. The Detroit Computing Center is working with FinCEN on a statement of work for the design of the database that will house the registration information, and work will follow on an MSB-SAR database.

Lastly, plans are underway for setting up the MSB program office within FinCEN's Office of Compliance and Regulatory Enforcement.

Question. You have requested $2.3 million to contract with the Internal Revenue Service (IRS) or other regulatory partners to conduct regulatory oversight associated with the MSB national registration. Explain how this partnering process will work in registering the MSBs. What are the projections for the fiscal year 2002 requirements for this new venture?

Answer. The successful implementation of the MSB rules—both registration and suspicious activity reporting—is dependent on the continued support from the Internal Revenue Service. As you know, the IRS has a long standing and vital role in the fight against money laundering through various components—Criminal Investigation Division; the Examination Division; and the Detroit Computing Center. The MSB requirements make the importance of these already critical functions even greater. Without the funding, the registration program would be severely compromised. If the request were approved, FinCEN, in partnership with the IRS, would use the $2.275 million to coordinate forms distribution; customer interface to respond to public inquiries; compliance examination and review; and data processing support. This request also would allow for the hiring of 81 positions to carry-out the examination and customer service requirements.

In addition, as part of this implementation process and with the support and assistance of IRS, we will begin the outreach and education associated with suspicious activity reporting.

Question. Funding was available in fiscal year 1999 and 2000 for FinCEN to implement an extensive public awareness campaign for the registration of the MSBs. Has this been accomplished?

Answer. Working through the Department's Office of Public Education, a solicitation for this massive contract has been published and is currently open. We expect to have final offers from potential contractors by the end of April. The next step will be to evaluate these offers and chose a contractor. The schedule for this evaluation and selection process has been established, and we expect to have a contractor on board in early summer. The contractor will then immediately begin working on the first task order, which was issued along with the solicitation. That work order asks for a blue print from the contractor for the entire project to identify and educate MSBs about both the registration rule and the new SAR rule.

We also have held meetings with each of the major MSB service providers (Thomas Cook, Western Union, Traveler's Express, Money Gram, American Express, Citicorp, Dollar Financial Group, ACE Check Cashing) as part of its ongoing outreach efforts. These outreach meetings have concentrated on getting assistance from the industry in identifying suspicious activity. Within the next few months, we expect to publish the first guidance document that can be utilized by the industry to help them meet the requirements of suspicious activity reporting.

Question. With the registration of MSBs proceeding, what impact will that have on anti-money laundering efforts associated with the casino and securities industries?

Answer. In order to close off all avenues to money launderers, FinCEN has been looking beyond banks to other financial service providers that are vulnerable to money laundering. Over the next few years, FinCEN will simultaneously devise and implement regulatory programs for money services businesses, casinos, and the securities industry. The program currently underway for the MSBs will require a great deal of outreach and education that will take place over the next 2 years in order to have MSBs register and then report suspicious activity.

In addition, the final casino rule on suspicious activity reporting will be announced this summer with the proposed rule for the securities industry to come later in the year. All of these regulatory efforts are necessary in closing off each and every avenue used by money launderers.

NATIONAL MONEY LAUNDERING STRATEGY

Question. What role will FinCEN play in the implementation of the National Money Laundering Strategy?

Answer. FinCEN's workload will expand over the next year in order to achieve the goals outlined in the National Strategy. In fact, the Strategy's goals actually reflect many of the core responsibilities that FinCEN is already undertaking. The $2.9 million requested in the Department's appropriation will afford FinCEN with the resources needed to strengthen and enhance these efforts. Specifically, the funding will enable FinCEN to begin to provide analytical support to the High Intensity Financial Crime Areas (HIFCAs) and other multi-agency investigative efforts; continue to identify and target major money laundering schemes; expand its regulatory effort for non-bank financial institutions; and accelerate technological efforts to enhance our analytical capabilities.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

SCOPE OF MONEY LAUNDERING

Question. Obviously drug trafficking generates proceeds which have to be laundered through the financial system. I understand you have undertaken a study of the magnitude of money laundering. What is the magnitude of the money laundering problem we face today? What other areas of criminal activity will you be examining to determine the extent of the laundering problem?

Answer. FinCEN has been working to produce an analytically sound model that can be used to estimate the extent of the money laundering problem. We know that money laundering stems from certain categories of criminal activity that generate substantial proceeds that need to be laundered. While drug trafficking is the principal source of illicit proceeds, other troublesome areas include: fraud (against consumers, financial institutions, the Government, and others); bribery and corruption; sale of stolen goods; smuggling; illegal gambling; prostitution and pornography; and illegal trafficking in arms. Other important predicate crimes to money laundering are: illegal trafficking in persons; funds to support acts of terrorism; murder for hire and kidnapping; criminal infringement of intellectual property rights; and counterfeiting of monetary instruments.

Estimating the magnitude of money laundering is a complex undertaking, principally due to the clandestine type of activity and the technological complexity of

financial crimes. FinCEN is in the middle of a procurement process which seeks innovative methodologies for approaching this difficult problem. Because we have not yet received proposals from the consulting firms that will be competing for this contract, it is premature at this point to outline for you the most efficacious approach to be followed.

However, we expect to award the Magnitude of Money Laundering contract in June 2000. At that time, we would be pleased to thoroughly and promptly brief your staff on the analytical plan of action which we choose and to provide periodic updates on progress as the study unfolds.

SUSPICIOUS ACTIVITY REPORTING (SAR) FUNDS

Question. How important to your agency is the $2,275 million you have requested to contract with the IRS and educate the public about the requirements associated with Suspicious Activity Reporting?

Answer. This funding is essential for the successful implementation of the MSB rules—both registration and suspicious activity reporting. If approved, the request of $2,275 will provide funding to contract with the IRS to ensure that sufficient and continuing resources are available to conduct regulatory oversight associated with the MSB program, including activities such as forms distribution, customer interface to respond to public inquiries, compliance examination and reviews, and data processing support. This request also provides the funding to contract with IRS to hire approximately 81 additional personnel, which equates to 10 FTE in fiscal year 2001 (hiring will begin late in the fourth quarter). In addition, FinCEN will also begin the outreach and education requirements associated with suspicious activity reporting for this industry. These regulatory oversight activities are essential to ensuring compliance with national registration and other BSA requirements.

SUBCOMMITTEE RECESS

Senator CAMPBELL. With that, if there is no further testimony, this subcommittee is recessed. Thank you.

[Whereupon, at 10:31 a.m., Tuesday, March 30, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2001

TUESDAY, APRIL 4, 2000

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

The subcommittee met at 2:33 p.m., in room SD–138, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell and Dorgan.

DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

STATEMENT OF HON. LAWRENCE H. SUMMERS, SECRETARY

ACCOMPANIED BY LISA G. ROSS, ACTING ASSISTANT SECRETARY FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

OPENING STATEMENT OF SENATOR BEN NIGHTHORSE CAMPBELL

Senator CAMPBELL. Good afternoon. The committee will be in order. Senator Dorgan is on the way, but Mr. Summers, we can go ahead and start.

This is the third hearing of the Treasury and General Government Subcommittee on fiscal year 2001 budget request. I am pleased to welcome the Secretary of the Treasury, Larry Summers, here today. This will be Mr. Summers' first appearance before this subcommittee as Secretary. The last time he testified he was Deputy Secretary and we were talking about the appropriate access and inappropriate access to taxpayers' personal files with the Internal Revenue Service. I understand a good deal of that has been corrected and I am sure that all taxpayers would appreciate that.

The President's fiscal year 2001 budget request for the Treasury Department is very ambitious. There are major increases envisioned for many parts of the Department. For example, an additional 18 percent is being requested for Departmental offices. I am sure the Secretary will want to talk about those requests.

The Bureau of Alcohol, Tobacco and Firearms is expecting a 25 percent increase. The Customs Service wants an additional 14.8, and if we include the $210 million for the development of the Automated Commercial Environment computer system, or ACE, as it is called, it will be 22.4 percent. The Internal Revenue Service is looking for a 9 percent increase, including $119 million more for their

information technology investment account, and the Secret Service is hoping for a 20 percent increase.

In addition, funding for three new Treasury accounts has been requested, which includes $15 million to implement the money laundering strategy, $30 million to expand access to financial services, and $25 million for a counterterrorism fund.

This subcommittee will not be able, given the present allocation, to fund all of the requests. This morning, we hope to hear what the Secretary considers to be his highest priorities for fiscal year 2001. Although we have already heard from the IRS Commissioner, Mr. Rossotti, and the Treasury law enforcement agencies, I expect we will touch on some of those requests, too.

I have some questions that we will get to after the Secretary testifies, but I will make it easy on you and will not ask you any questions at all concerning Nasdaq's performance today.

With that, Mr. Secretary, go ahead and proceed.

STATEMENT OF LAWRENCE H. SUMMERS

Mr. SUMMERS. Thank you very much, Mr. Chairman. It is good to appear once again before this committee. I might just say that given that we in the government and sometimes in the Congress are sometimes criticized for being behind the curve, I look back to the hearing that you had on the issue of browsing and snooping at the IRS, and in light of the headlines that we are seeing all over the place today, that hearing looks to have been rather prescient and I think we can all take satisfaction from the steps that have been put in place to deter any kind of inappropriate access to individual tax records or any kind of inappropriate snooping or browsing by IRS employees.

Mr. Chairman, I am glad to have this opportunity to discuss with you and members of the committee the Treasury's fiscal year 2001 budget request and to seek to continue the cooperative spirit that we have achieved together.

Our budget totals $14.25 billion. In my statement, I want to focus on five important areas of priority. First, continuing to modernize the IRS. The IRS and Commissioner Rossotti in his new mission statement have pledged to work towards providing America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by applying the tax law with integrity and fairness to all.

Commissioner Rossotti, with his background in management and information technology, has brought a management focus and a new technology focus to the IRS. This year's budget seeks to build on the progress of the last several years, and in particular to make it possible to effectively implement the RRA, the IRS Reform Act legislation of 1998, by providing an adequate base for continued revenue operations.

Under this budget, for the first time in a number of years, the trend downwards in IRS staffing would be reversed, something that in my judgment is crucial if we are to maintain the integrity of our tax system based on voluntary compliance. The budget also provides support for a far-reaching change, an organizational modernization following what has become common practice in the private sector by moving to an organization based not on geographic

lines but on functional lines, as well as providing for continued funding of information technology modernization, which is an investment in lower budgets and greater tax compliance in the future.

The second priority embodied in our budget is increased capacity to fight drugs, violence, and other crimes. We include here a number of initiatives. First, we are requesting increased support to reduce the trafficking and smuggling of illicit drugs. This includes a request for aircraft and updated interdiction and surveillance, increased use of non-intrusive inspection equipment, and additional personnel to support Customs' counter-drug initiative.

Second, we are seeking increased support to combat financial crime. This has been a particular priority for me as Secretary because I believe that tackling money laundering provides the most effective way of going after the underlying crimes. Our approach is laid out fully in the Year 2000 National Money Laundering Strategy unveiled in the last several weeks. We seek a modest increase in appropriation to support enforcement in zones designated as high-risk financial crime areas.

Third, protecting our nation's leaders becomes ever more important with the dramatic rise in global terrorism and a significant increase in the number of protectees. We are requesting some 250 new positions at the Secret Service. Mr. Chairman, I might say that I see in my own travels how important this is with the average overtime of Secret Service agents in the field now in some cases exceeding 80 hours a month and giving rise to real attrition problems, which in turn create the need for more overtime. To break that cycle, I think it is crucial that we provide for new positions.

Fourth, reducing firearms violence. Mr. Chairman, we have all been very much affected by recent incidents pointing up the level of armed crime in our country. There is room for, and I certainly do not propose to join it today, much debate about what the right policies in response are. But I believe that there is a widespread consensus on the importance of successful enforcement of the laws that we have on the books now, and that is why the President's budget provides funding for 300 new agents, 200 new inspectors, and 150 new support staff at the Bureau of Alcohol, Tobacco and Firearms.

A third area of priority is the modernization of our trade systems. Since the Customs Modernization Act was passed in 1993, imports into our country have grown by more than half. Frankly, the existing technology cannot cope with this rise in volume. Our request has two main elements. First, to maintain the existing technology system, the ACS, and minimize outages or brownouts that can pose continuing problems to the work of Customs.

And second, and in my judgment absolutely necessary and imperative is work on the development of the Automated Commercial Environment, ACE, system that will eventually replace ACS. We have learned from our experience with the IRS about the overriding need for private sector discipline, of clear establishment of blueprints, of appropriate contracting procedures in order to assure that public information technology money is well spent, and we are applying what we have learned. We do believe that the proposed

fee contained in this year's budget appropriately captures a portion of the benefits that will accrue to private sector businesses from modernization.

Fourth, enhancing financial management within the Department. Here, we have made important progress over the last year with the successful introduction of the new development of the new $5 and $10 bills and the introduction of the $1 coin. We have seen the Bureau of Public Debt carry out a new mission of buying back public debt as well as issuing public debt. And the FMS, the Financial Management Service, continues to provide core services. It is important to secure continued funding for these programs.

Let me also mention one other initiative contained in this budget and that is the President's first account proposal that aims to bank the unbanked. It is important that, working through the financial sector, we seek to remedy a situation where more than 10 percent of Americans do not have a bank account and often pay more than $15,000 over their lives for the most basic check cashing and bill paying services.

The fifth and final priority reflected in this budget, Mr. Chairman, is continued support for the Department's offices. These include necessary resources for domestic finance, overseeing implementation of last year's historic Financial Modernization Act, maintaining core infrastructure technology, and restoring the main Treasury Building and annex.

Let me if I could, Mr. Chairman, mention one problem that I think over time we will have to address, and that is the problem of comparable salaries. I look, if I might, at my own field of economics. The Federal Reserve now pays approximately 60 percent more to a new Ph.D. economist coming out of school. Academic salaries are roughly comparable to those of the Federal Reserve, and salaries in the private sector are very substantially greater. While Treasury offers enormously rewarding opportunities and we have very, very good people, over time, that 60 percent pay gap has to take a toll, and I use the field of economics as an example because I am most familiar with it, but this is an issue that is a more general issue in the Department's offices.

PREPARED STATEMENT

Let me conclude on a personal note. Since becoming Treasury Secretary last year and in the 7 years before that I worked at the Treasury Department, I have been deeply impressed by the intelligence, professionalism, and dedication of my colleagues. I am sure this committee shares that confidence and I ask you to seriously consider and approve a budget request that will enable us to carry forward our vital missions with ever increasing effectiveness. Thank you, Mr. Chairman.

[The statement follows:]

PREPARED STATEMENT OF LAWRENCE H. SUMMERS

Mr. Chairman, Mr. Dorgan, Members of this Committee, I appreciate this opportunity to discuss Treasury's fiscal year 2001 budget request and to seek to continue to work in the cooperative spirit that we and Members of the Committee have achieved. I would like to take this opportunity to thank this Committee for its impressive and productive work over the years.

As you know, Treasury plays a crucial role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy and international and domestic economic policy.

We propose a budget that will enable Treasury to continue to provide the American public with the customer service and program reliability it expects and deserves.

Our budget request totals $14.245 billion for all operations. After taking into account two offsets—a $210 million fee on Customs' automated commercial system for the Automated Commercial Environment (ACE) and $42.5 million from the use of the estimated potential balance from the Treasury Forfeiture Fund—our appropriation level would be $13.992 billion.

We have provided the Committee with a detailed breakdown of Treasury's fiscal year 2001 budget request. Let me today highlight five important areas of focus.

—First, supporting continued IRS modernization.
—Second, strengthening our ability to fight drugs, violence and crime.
—Third, modernizing our trade systems.
—Fourth, enhancing our financial management.
—And fifth, supporting management operations.

CONTINUING TO MODERNIZE THE IRS

In its new mission statement, the IRS has pledged to focus on two core priorities: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities, and apply the tax law with integrity and fairness to all."

As the modernization and reorganization at the IRS has proceeded, some have framed debates on IRS priorities around a trade-off between enforcement and customer service. This argument is no different from believing that businesses face a trade-off between quality and cost.

We have heard similar false choices posed through the years. To have effective tax administration, there must be both compliance and high-quality customer service. A trade off is neither necessary nor desirable.

Under the leadership of Commissioner Rossotti, the IRS has already made impressive progress towards meeting both these goals. But there is more to accomplish.

In particular, we need resources to focus on three areas:

Continued support for organizational modernization

Until recently, IRS was organized along geographic lines. At the direction of Commissioner Rossotti, the IRS is reorganizing along customer lines. This enables the IRS to provide better service to groups of taxpayers with similar needs. This reorganization also enables the agency to become more effective and focused. For example, it will improve the agency's ability to clamp down on abuse of the tax code, including combating the growth of abusive corporate tax shelters.

The reorganization also involves building a modern management structure to enable the IRS to serve its customers better. This will involve significant re-training of staff because many are being asked to take on redefined roles. Fiscal year 2001 provides the second year of major funding for the IRS reorganization. We strongly believe this restructuring effort is putting the agency on the right track. It is imperative that we support the employees and leadership at the IRS so they can complete this monumental task of reorganizing the IRS for the first time in almost 50 years.

Continued support for computer modernization

The IRS is embarking on a plan to replace its antiquated computer system to bring it into the new century. The IRS core data systems are fundamentally deficient. The Master File system, on which all taxpayer accounts reside, is based on outdated 1960s technology. Modernizing the agency's technology will enable it to deliver on its pledge to provide better customer service for all and is absolutely necessary for the agency to make the improvements that the public needs.

In our fiscal year 2001 budget, we are asking for another deposit into the Information Technology Investment account (ITIA) to keep this program on track. The Committee has shown its support for this program in past years by making the needed deposits, and we ask that you continue to support this critical program.

Stabilizing the IRS

The IRS is on the road toward modernizing its organizational structure and computer systems. For several reasons, we feel the time is now right to reverse the decline in staff that has occurred at the agency over the last 5 years. First, no one anticipated the resources required to implement the very important provisions of

the Restructuring and Reform Act. Second, recent articles have highlighted the decline in enforcement activity over the last few years—a trend Commissioner Rossotti and I are particularly concerned about.

We feel the time is right to permit a modest expansion in IRS resources to ensure the integrity of the tax system, which depends heavily on maintaining voluntary compliance, and to provide the service the American taxpayers deserve. Our request provides 2,800 new positions, an increase of 2.9 percent over the next 2 fiscal years.

STRENGTHENING OUR ABILITY TO FIGHT DRUGS, VIOLENCE, AND OTHER CRIMES

Our second focus today is on improving our capacity to fight drugs, violence and other crimes.

As this Committee knows, Treasury oversees six law enforcement bureaus: Customs, the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the IRS, FinCEN, and the Federal Law Enforcement Training Center. Each of these has critical and extensive responsibilities.

Our fiscal year 2001 budget request enables Treasury agencies to continue to play a full role in the crucial anti-crime initiatives in which this Administration is engaged.

Mr. Chairman, last year you and others expressed concerns about the disparity of treatment between Treasury law enforcement and our Justice counterparts. This year's budget provides Treasury law enforcement with an 18 percent increase over the fiscal year 2000 budget. It recognizes the special law enforcement role that Treasury plays in the Administration's anti-crime strategy.

The proposals would result in the largest increase in Treasury law enforcement funding in more than a decade. Let me focus briefly on four key areas of this request.

Reducing Trafficking, Smuggling and Use of Illicit Drugs

Our request supports the Administration's counter-narcotics strategy by providing Treasury with resources critical to reducing the trafficking, smuggling, and use of illicit drugs across our borders.

The budget request supports Custom's responsibility to facilitate legitimate trade, while interdicting contraband through the use of enhanced technology and equipment. Customs remains committed to improving the efficiency and effectiveness of its drug interdiction.

Specifically, the budget request supports:

—Aircraft with upgraded interdiction and surveillance equipment.

—Non-intrusive inspection equipment for expanding interdiction efforts along the southwest border;

—And additional personnel and investigative equipment to support Customs Counter-drug Initiative. This will include new positions to implement the Foreign Narcotics Kingpin Designation Act and improve information-gathering capabilities on terrorist funding and narcotics trafficking. Our fiscal year 2001 request builds upon last year's supplemental request.

Combating financial crimes and money laundering

Our budget request also supports Treasury's central role in the implementation of the Administration's National Money Laundering Strategy. Deputy Secretary Eizenstat and Deputy Attorney General Holder unveiled the 2000 Strategy this week. The Strategy is aimed at combating dirty money and, in doing so, giving us additional weapons to fight the underlying crimes.

Money laundering has a number of intolerable effects on the U.S. economy and on American society. It enables the criminal to invest the proceeds in the perpetuation of the underlying crime, many of which are violent and spread drug addiction in our communities. It taints the U.S. financial system and damages the reputation of those involved. And it undermines U.S. government programs to support democracy and economic development around the world.

Our request will enable us to support initiatives in zones designated as high-risk financial crime areas (HIFCA). The budget also supports Customs, IRS, and the Financial Crimes Enforcement Network (FinCEN) by providing them with resources to strengthen the fight against money laundering. It will also enable these agencies to respond to additional information gathered from the expanded reporting requirements for non-bank financial institutions.

Protecting Our Nation's Leaders

Few agencies are required to work under such pressure or meet such rapidly expanding demands as the Secret Service. The dramatic rise in global terrorism and

a significant increase in the number of protectees have intensified the Secret Service's critical responsibility of protecting our nation's leaders.

We must address the increased workload of the Secret Service and the resultant decline in working conditions in order to retain members of this highly trained workforce and ensure their safety and the safety of their protectees. We are requesting 250 new positions in addition to the new positions in the fiscal year 2000 appropriation.

The increased hiring by the Secret Service and ATF will result in a significant increase in the workload at the Federal Law Enforcement Training Center (FLETC). This budget provides funding to address this increase and continues implementation of FLETC's 5-year Master Plan.

Reducing firearms violence

Mr. Chairman, we have all been deeply affected by a number of recent incidents that have focused attention on the level of armed crime in this country. There is a great deal of debate about the correct level of policy response. But, it is fair to say that there is now widespread agreement about the need to enforce existing laws to the fullest extent possible.

Our request will help us to build on existing efforts that fall within our firearms enforcement strategy, including the Integrated Violence Reduction Strategy (IVRS), the Youth Crime Gun Interdiction Initiative (YCGII), nationwide crime gun tracing, and the National Integrated Ballistics Information Network (NIBIN).

These and other efforts, strongly supported by President Clinton, Vice-President Gore and this Committee, have contributed to the sharp reduction in firearms violence in the last few years. With strong inter-agency support from the Department of Justice, our initiatives have also resulted in a clear rise in the number of firearm prosecutions, an increase of more than 12 percent between 1992 and 1999. But we can address more violations of firearms law. And we must reduce firearms violence further.

Our request strengthens our ability to achieve this national priority in four ways:

—First, providing funding for 300 new agents, 200 new inspectors and 151 new support staff at the Bureau of Alcohol, Tobacco and Firearms so that the agency can continue its crucial work of collaborating with state and local law enforcement agencies to reduce illegal acquisition, possession, misuse, and trafficking of firearms.

—Second, increasing the number of cities under the Youth Crime Gun Interdiction Initiative enforcement program by 12, bringing the total to 50.

—Third, strengthening the crime gun tracing system for law enforcement agencies nationwide, including equipment and training support for 250 state and local law enforcement agencies.

—And fourth, bolstering the Treasury and Justice Department's unified effort to provide automated ballistics imaging technology to Federal, State, and local law enforcement agencies.

In addition, Treasury has asked for funding to meet several other critical challenges. These include enforcement of laws against forced child labor, support for Secret Service and Customs efforts on counter-terrorism, and airspace security in support of special national events. The budget provides funding for these important responsibilities.

MODERNIZING OUR TRADE SYSTEMS

Our third focus is on modernizing our trade systems. Like the IRS, Customs has experienced a significant increase in demand on its trade system, and the system is not able keep pace. Since the Customs Modernization Act was passed in 1993, the number of merchandise lines on customs formal entries has more than doubled. The Customs Service is required to cope with this sharp rise in trade with substantially the same outdated technology it had when the Act was passed. Given the critical role of Customs in handling enormous volumes of goods and in combating drug and other types of trafficking, it is important that be equipped with the best tools to fulfill these goals.

As I have indicated, Customs is not alone in having to work with antiquated technology. We have learned a great deal from the experience of the IRS and are applying these lessons to Customs. These lessons include forging a clear and well-defined partnership with the private sector; adopting a systems life cycle discipline; and using an enterprise-wide blueprint and architecture to guide the integration of systems as they are developed.

Our request has two main elements:

—Additional resources to maintain the existing trade system, the Automated Commercial System, (ACS). The system is prone to outages or "brownouts," and it is important that we do what is necessary to minimize such disruptions.

—Begin work on a new system, the Automated Commercial Environment (ACE), which will eventually replace the ACS. This replacement is critical and will require a multi-million dollar investment over several years. We propose to establish a fee to fund the development of ACE, and that the fee would appropriately capture some of the benefits that will accrue to private business from modernization. These include a streamlined cargo entry process, account-based transactions, and a paperless process. It is imperative to secure funding for this critical program. The Administration looks forward to working with Congress on the fee to ensure that funding is available in fiscal year 2001, and through the life of the program.

ENHANCING FINANCIAL MANAGEMENT

My fourth focus is on financial management. We have made important progress this year with respect to the nation's money. We have overseen the development of the new $5 and $10 bills that will start circulating in May. And we have seen what has so far been a very successful introduction of the new dollar coin.

At Treasury we believe it is essential to achieve the highest standards of financial management. The two bureaus of the Fiscal Service—the Financial Management Service (FMS) and the Bureau of the Public Debt (BPD)—provide core services in the areas of government payments, collections, government-wide accounting and reporting, collection of delinquent debt, and Federal Government financing.

These are vital functions that enable Congress and the American public to have confidence in the ability of the U.S. government to keep a detailed and accurate account of public finances and to manage its finances professionally. This year, the Bureau of Public Debt carried out a new mission of buying back debt as a complement to its more traditional mission of issuing debt.

Owing to the excellent stewardship of the fiscal bureaus—including redirection of base resources and reinvestment of productivity savings for investment in state-of-the-art electronic commerce technologies—the budget proposals for the FMS and BPD are comparable to last year's requests.

Let me briefly in this context mention the budget request for the President's "First Accounts" initiative that aims to "Bank the Unbanked." To help fulfill the goals of this initiative, we will use Treasury's financial expertise to encourage low-income families who do not receive Federal benefits to open bank accounts.

Between 10 and 20 percent of our population lacks access to bank accounts and can pay up to $15,000 over a lifetime for routine transactions such as cashing a check or paying a bill. This is something that we have started to address through the EFT and ETA programs for those who receive Federal benefit payments. We believe it is important to work with the private sector to extend this opportunity to those who do not benefit from Federal payments.

MAINTAINING MANAGEMENT OPERATIONS

Our final area of priority is maintaining support for management operations. Departmental Offices provides the programmatic oversight and technical support essential to the Secretary's leadership role in law enforcement, revenue collection, international and domestic economic and tax policy, and financial management. The budget supports these functions with:

—Increases for core infrastructure operations, including technology upgrades that support Treasury's leadership role on economic issues.

—Essential resources required in Domestic Finance to oversee implementation of the recently enacted Financial Modernization Act, the most sweeping change in the regulation and management of financial institutions since the 1930s.

—Continued funding for the multi-year program to repair and restore the historic Main Treasury Building and Annex begun in December 1998.

In addition, our request supports four major projects: the Human Resources Information System; Integrated Treasury Network, Critical Infrastructure Protection, including the banking and finance sector; and the Public Key Infrastructure pilots.

The budget also strengthens the audit and investigative efforts of the Office of Inspector General and enhances the capacity of the Treasury Inspector General for Tax Administration to conduct mandated and discretionary reviews of IRS operations.

COMMUNITY ADJUSTMENT AND INVESTMENT PROGRAM

I would also like to report on the progress of the Community Adjustment and Investment Program or the CAIP, which is the domestic window of the North American Development Bank, but receives its own appropriation entirely independent from NAD Bank funding. The CAIP has been particularly effective in helping to create and sustain jobs in communities experiencing temporary job dislocation attributable to changing trade patterns related to NAFTA. To date, CAIP financing has helped to create and sustain over 7,000 jobs by facilitating more than $225 million in loans, loan guarantees and grants to businesses, workers, and communities. I urge you to support this year's funding request for the CAIP.

CONCLUSION

Mr. Chairman, let me conclude on a personal note. Since becoming Treasury Secretary last year, and in the 7 years that I have worked in this department, I have been deeply impressed by the intelligence, professionalism and dedication of the people with whom I have worked. I am sure this Committee shares my confidence in the uses that are being made of taxpayer funds. In that spirit, I ask that you approve our fiscal year 2001 budget request to support the work of the Treasury Department in fulfilling its wide range of responsibilities in serving the American people. Thank you very much.

Senator CAMPBELL. Thank you. Before I ask questions, I would like to yield to Senator Dorgan, do you have an opening statement.

STATEMENT OF SENATOR BYRON L. DORGAN

Senator DORGAN. Mr. Chairman, just briefly. Secretary Summers, thank you very much for joining us.

This budget request asks for some significant new resources for the functions that you are involved in and I know that you are talking about the continued reform of the Internal Revenue Service, strengthening the ability to fight drugs and crime, enhancing financial reporting and resource accountability, and also investing in community development and economic growth. These are all important areas.

I had mentioned at a previous hearing that this is going to be an interesting year. We have so many people here on Capitol Hill who are focused on the gun issue; such as a circumstance where a young child brings a gun to school and kills another young child in first grade. People's initial reaction will be, well, we must enforce gun laws. Well, enforcing gun laws requires the resources to do that and this budget requests resources to enforce gun laws. I think it is a perfectly appropriate thing to do and an appropriate request and I hope Congress will respond to it in an appropriate way.

Regarding the Customs computer trade modernization issue, frankly, I think it is unlikely for the Congress to agree to the Administration's proposed user fees, but no matter how we come out on that issue, we have to upgrade that system. The Customs Service system is really melting down on us and we need to provide the resources to find a way to address that. I know my colleague from Colorado has been working with many, including myself, to find a way to resolve those issues.

I have a number of questions I want to ask you, but let me just ask that my full statement be put in the record.

Let me also say, Secretary Summers, we have had the opportunity in past years to have your predecessor visit with us and I think that Congress owes you a debt of gratitude for your public service. I am pleased that you have decided to continue that service

as Secretary of the Treasury. As you described in your opening statement, we have a great many challenges ahead of us, but if we work together, we can respond to them in an appropriate way.

Of all the many functions you are involved with, almost half of the law enforcement activities of the Federal Government fall under your jurisdiction. Most of these activities are very, very important and we must do right by them in terms of providing the appropriate resources.

I would like to mention one final point. Before coming to Congress, I was an estate tax administrator. I have always felt it is important to put the word "service" back in the Internal Revenue Service and extend a helping hand to the American taxpayers to comply with tax laws. One of the proposals this year is for Internal Revenue Service systems modernization while strengthening customer service and compliance. I think that is very important.

PREPARED STATEMENT

So I am going to ask you later about abusive tax shelters that I think are very troublesome and whether we have the resources to address those. I am going to ask you a number of things, but first, let me thank the chairman. I was delayed with a couple of meetings in the Capitol, but I am pleased to be here and will ask my questions following Senator Campbell's questions.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Thank you, Mr. Chairman. I am pleased that Secretary Summers is able to join us today. In the months since he assumed the helm of the Treasury Department, he has maintained the steady hand of his predecessor, former Secretary Rubin.

Mr. Secretary, you are here today to explain the final budget request for the Clinton Administration. In many respects, this is an aggressive and robust request. You seek a net appropriation of $13.9 billion—an increase of more than $1.5 billion over the current year's appropriated level.

As iterated in the Department's budget documents, some of your key priorities are supporting continued reform of the IRS, strengthening our ability to fight drugs and crime, enhancing financial reporting and resource accountability and investing in community development and economic growth. These are all goals which I strongly support.

Specifically, you request nearly $120 million for continued investment in the IRS' systems modernization and $144 million to hire over 1600 FTE (Full Time Equivalents) to strengthen customer service and compliance. These are needs which must be met.

Your budget proposes an additional $106 million to add over 700 new positions to the Bureau of Alcohol, Tobacco and Firearms to enhance compliance with existing firearms laws, expand the Youth Crime Gun Interdiction Initiative, and improve ballistics imaging and gun tracing efforts. If we are to effectively enforce existing gun laws, these funds are the minimum needed to meet that challenge.

Your budget proposes to spend $123 million to maintain the Customs Service's existing commercial trade computer tracking system while also seeking an additional $210 million in new users fees for a significantly upgraded commercial computer system. While I have my doubts about the efficacy of yet another user fee, this upgraded Automated Commercial Environment (or ACE) is desperately needed as our trade with other nations continues to grow.

The budget also seeks $15 million for a new money laundering initiative, $25 million for a Counter-terrorism Contingency Fund, $16.3 million for a new, joint Secret Service-Customs Service Air Security Initiative, and $5 million to enforce child labor laws—in general, a host of innovative new initiatives. Each of these programs, individually and jointly, are worthwhile and a strong case can be made for them all.

But, I must be honest with you Mr. Secretary, I doubt that we will have sufficient resources to meet all of these requests—as well as those for other agencies also funded by this subcommittee. While we may be moving away from increasingly ir-

relevant budget caps and entering an era of alleged budget "surpluses," there are a number of our colleagues who would direct these surpluses to steep and—in my view—unwise and unsound tax cuts.

Today we are debating a budget resolution that would effectively tie this subcommittee's hands and prevent us from even maintaining current level of funding for these critical law enforcement and other initiatives. The levels in the pending budget resolution will do great harm to much that all of us today want and need to accomplish. But as we focus today on the rather more mundane aspects of funding the many necessary programs within the purview of this subcommittee and your Department, I would urge you to work with us on this subcommittee as we develop a bill in the coming months. Share with us your priorities and assist us so that we can craft a bill which meets the needs of the Department and, more importantly, the American people.

I look forward to working with you to meet that goal and I look forward to your testimony today.

Thank you, Mr. Chairman.

Senator CAMPBELL. Thank you for appearing, Mr. Secretary. You mentioned the five important areas. Did you mention them in the order of your funding priorities, with the first one being the top or do you have a priority order of those?

Mr. SUMMERS. I think they are all absolutely critical orders. I mentioned the IRS first because it is the largest component of the Treasury budget, but these are each very separate programs that meet critical needs and I would not want to be in the position of trying to say whether our country had a greater stake in an effective tax administration system or an effective law enforcement with respect to drugs. Both seem to be absolutely imperative.

Senator CAMPBELL. Well, I understand, but the reason I ask is because we have not passed a budget resolution yet, and as you know, the President's request was very good for this committee, about a 20 percent increase. I have my doubts that we are going to have that much money to spend when the budget resolution is passed. I think in the past, this committee has done our very best to supply the funds we could to your Department, but we do not know how much money we are going to spend yet—you probably know that—and will not maybe until next week sometime.

I want to also thank you, although you were not here, the different law enforcement agencies under Treasury did a very, very nice display here in the Dirksen about a week ago and a number of our colleagues came over and looked at it. We saw a lot of the weapons that you deal with, some of the high-tech paraphernalia that has been developed to fight in the drug war. I was particularly impressed with almost $1 million of counterfeit money that was stacked up on one table. I mean, only an expert would know the difference. In fact, I was so impressed, I got to thinking, I wonder if we could borrow some of that for this committee to bail us out, but somebody along the line would probably spot it that is better at seeing counterfeit money than me.

You also mentioned the difficulty of retaining people, and I know that is a concern of every Federal agency now, including the Army, as you know. With a vibrant economy, things are going good out in what I call the real world. It is harder to get people to serve. I know that. If it was in the power of this committee's jurisdiction to raise that pay, I would, but that is, of course, something the authorizing committee has to deal with, but I certainly commiserate with you.

WIRELESS COMMUNICATIONS

Let me ask you two or three other questions. This subcommittee has funded the wireless communications effort for the Department of the Treasury for several years. This year, you are requesting $55 million for this program. How much longer do you plan to request those funds and what are we going to see for the investment of that $55 million?

Mr. SUMMERS. Perhaps I could ask my colleague, Lisa Ross, who is the President's nominee to be our Assistant Secretary of Management and who has been very closely involved in our information technology efforts to answer your question.

Senator CAMPBELL. That is fine. Ms. Ross, would you like to comment on that?

Ms. ROSS. Yes. The $55 million requested this year is the first major request for a multi-year effort. As you know, the spectrum will shut down on December 31, 2004 and we are basically looking at a 3- to 4-year program to convert from analog to the new spectrum. This $55 million will start the program to affect this change over the coming 4 years. It also includes some capital investments to start to replace some of the equipment that will be compatible in the long term with the spectrum change that we need to make. So I would consider this the first major year of what will be the 3- to 4-year effort.

Senator CAMPBELL. Do you expect to ask for that amount for the next 4 years?

Ms. ROSS. Yes, we will be requesting resources over several years, as we roll out this legislated mandate, and specifically, will be requesting additional amounts in fiscal year 2002. We are in the process of reviewing those estimates now.

PUBLIC KEY INFRASTRUCTURE

Senator CAMPBELL. Okay. Mr. Secretary, you are requesting $7 million for public key infrastructure. What is the need for that program and what do you expect to achieve with that funding request?

Mr. SUMMERS. As we have communications both within the Department, with other agencies, and with increasingly internationally with respect to sensitive financial issues, it is increasingly important that those communications be secure. What public key infrastructure does is provide for the necessary kinds of encryption for secure financial communication. Of the $7 million, $5 million would promote public key infrastructure for certain bank and financial institution regulation pilot projects and $2 million would fund Treasury's share of the cost of the Federal bridge certification authority, which would govern the use of certification authorities, a holder of the key with respect to public infrastructure and ensure that we had technical interoperability, the ability to communicate between different government agencies.

I might just say that I think that given concerns about privacy, given the kinds of issues we discussed earlier in connection with the IRS, that I think having a satisfactory set of encryption technologies for communications and other kinds of records that need to be kept secure is of great importance.

COUNTERTERRORISM

Senator CAMPBELL. I thank you. The President's budget also requests $25 million for a counterterrorism fund within the Treasury Department. There is already an account similar to this for the Justice Department. I am sure you are aware of that. The difference, as I understand it, is the Treasury fund can be used only after an official emergency designation has been made, and I assume that is an emergency designation made by the President.

Tell us a little bit about that fund, the purpose of it, and if you ever had that type of fund before, how much money was appropriated before, how long did that funding last, and who is responsible for determining whether the money is disbursed from the fund?

Ms. ROSS. You are right in that the fund is being set up to cover national security events, and in the past, Treasury did have, a counterterrorism fund, but in the fiscal year 2000 budget, they did not have one. We used that fund in the past to fund those national security events and cover the additional costs that Secret Service, Customs, or ATF would incur as a direct result of those events.

The $25 million is to provide reimbursement for those costs of projects specially designated as emergency.

Senator CAMPBELL. Yes, if you would get back to us and elaborate on what qualifies as a national security event. Does that mean like world trade seminars, for instance, or——

Ms. ROSS. Yes. World trade last year, NATO was covered, mostly through supplemental funds, so we are trying to avoid having to do that again with the contingency planning that this fund provides.

Senator CAMPBELL. The riots we had at the WTO, things of that nature, it would cover?

Ms. ROSS. Exactly.

Senator CAMPBELL. Would that also cover things like the Olympic games, security for them, because I know in the past, we have had some requests for——

Ms. ROSS. Yes. In the 2001 budget, we actually do not have any funds in there for the Olympics. If we were not to get any additional funds, we would probably look to the counterterrorism fund to fund some of those needs.

Senator CAMPBELL. And who is responsible for dispersing the money or determining how it should be dispersed?

Ms. ROSS. Again, I believe those have to be events that are specifically designated by the President.

To answer your question about past funding it was $15 million in the split over 2 years, so this is somewhat of an increase but represents the pace at which we have been seeing these events being designated as national security events.

NATIONAL MONEY LAUNDERING STRATEGY

Senator CAMPBELL. Thank you. Mr. Secretary, why is the money laundering initiative funded in the Department office's account rather than the financial crimes enforcement account?

Mr. SUMMERS. Because the objective of the initiative is to provide for greater coherence of the efforts within the different bureaus to-

wards pursuing a set of specific objectives that were laid out in the National Money Laundering Strategy. For the first time, rather than have a set of dispersed law enforcement strategies following a Congressional mandate, Attorney General Reno and I have put out a National Money Laundering Strategy that identifies a set of priorities and have looked, for example, for FinCEN and Customs to be working more closely together.

Of the initiatives in the National Money Laundering Strategy and in that $15 million fund, six of the full-time equivalents would be in the Department offices to facilitate the coordination and the additional ones would be allocated to the bureaus to carry out their new roles in association with the Money Laundering Strategy.

Senator CAMPBELL. I see. Speaking of money laundering, what was the criteria used in designating the first high-risk money laundering and related financial crimes areas referred to as HIFCA?

Mr. SUMMERS. They were areas—the methodology there bore some resemblance to the approach that—let me see if I am going to be able to answer that without reading the sheet of paper that has just been handed to me, and then we can see whether I got it right or not——

Senator CAMPBELL. That is all right. I have to refer to notes, too.

Mr. SUMMERS. The basic approach was similar to that which has been used with respect to areas that are particularly serious in terms of the need for drug enforcement, and an interagency group was set up to evaluate which are the areas in which the problems are most serious and target those areas as the areas where they are most serious. That working group made the recommendations to a steering committee and then the Attorney General and I made the formal designations. We would expect that, over time, other geographic areas will be considered for designation as HIFCAs.

Senator CAMPBELL. This Money Laundering Strategy request includes 42 new FTEs, as I understand, are going to cover issues from three different offices, the Office of Enforcement, Domestic Finance, and Tax Policy, is that right? If the program covers all three offices, why is the Office of Enforcement the only division getting the FTEs?

NATIONAL MONEY LAUNDERING STRATEGY

Mr. SUMMERS. The 42 refers to the six in our Office of Enforcement and the 36 in our bureaus that I referenced. The Office of Enforcement has major responsibilities for the oversight of what is going on in the Customs, what is going on in FinCEN, what is going on at the Secret Service, and what is going on at the IRS, all of which have important financial crime responsibilities. So for coordinating law enforcement responsibilities, that is something that is taking place within the Office of Enforcement.

It is our judgment that the incremental responsibilities within our tax area, for example, around tax havens and around the regulatory issues that are covered within our domestic finance area were things that, given the need to constrain a budget, that we felt very strongly could be handled with existing personnel. I am sure the relevant under and assistant secretaries would be very pleased to have additional staffing to take on those responsibilities if there

was a desire to launch an initiative in that area, but our feeling was that that part of the work could be done in those areas.

Senator CAMPBELL. Thank you. Let me yield to Senator Dorgan so we can trade off on the questions a little bit here.

AIR SECURITY/INITIATIVE/NATIONAL SPECIAL SECURITY EVENTS

Senator DORGAN. Mr. Chairman, thank you very much.

Mr. Secretary, this is an easy question. Have you read the "Style" section of the Post this morning?

Mr. SUMMERS. I confess not.

Senator DORGAN. There is an interesting story in the "Style" section of the Post entitled "Anarchy, Anyone?" and it talks about the protests looming this month with respect to the meeting of the IMF. I asked the question, it is an interesting story, but I asked the question because in the budget submission, there is an initiative, the Air Security Initiative, with which you are familiar, and I am curious what will determine when an event becomes a national special security event. For example, would the meetings later this month of the IMF, do you think, trigger such a designation?

Mr. SUMMERS. I would not anticipate at this point that the IMF World Bank meetings, for which I assure you that the relevant agencies are making appropriate preparations, would be something that would trigger that special status where the Air Security Initiative would become involved. This is a National Security Council initiative to support events involving really very major and non-repeatable kinds of security threats. The NATO exercise in Washington, the WTO meeting, the Olympics in 2002 would be examples of the types of events that are contemplated as requiring air support.

Senator DORGAN. Seattle in December?

Mr. SUMMERS. Seattle in December, yes, probably.

Senator DORGAN. Mr. Secretary, I do not mean to make light of this at all. I asked the question because I think this obviously is going to become an issue and I wanted to know whether it related to the specific request here.

TAX SHELTERS

Let me ask a couple of questions about tax shelters, especially the abusive tax shelters. My understanding is that while we have had a robust and growing economy with record-breaking sustained economic growth, large corporate income tax receipts last year were down, which would seem to me to be at odds with what one would expect in a booming economy. One would expect corporate profits to be up, and therefore corporate tax receipts from the largest corporations to be up.

I assume at least part of the answer to that is the ever-increasing and more abusive tax shelters. You have spoken on it some. It relates, I think to why you need more resources at the IRS, something which I think is important and which I support strongly. Can you describe to us these more sophisticated, not in great detail, but the more sophisticated threat that comes from abusive tax shelters, and do you think that part of the reduction in corporate income taxes has come from that kind of enterprise?

Mr. SUMMERS. Senator Dorgan, I do suspect that corporate shelters have contributed to the erosion of the tax base. There are many factors in corporate revenue trends—accelerated depreciation with high investment, stock options, many factors—so I think it is difficult to quantify on that basis. But I think it is suggestive that those tax shelters which have come to our attention more or less by coincidence that we have closed down would have cost approximately $80 billion in revenues over the next 10 years and we have every reason to believe that what we see and are able to catch is the tip of an iceberg. So this is a quantitatively large problem.

The essence of a corporate tax shelter is not a business tax incentive about which people can reasonably differ. It is a transaction, and to use one of the lawyers' terms, is devoid of economic substance, that involves no real change in ownership or employment arrangements but involves a contrivance, such as in one famous example, the sale and then the lease back of a Swiss city hall for a period of a few hours that produced several hundred million dollars in tax savings for those who were involved, or the recharacterization of financial flows on an artificial basis.

Our judgment after quite extensive contacts with practitioners is that these kinds of transactions are being more aggressively marketed than in the past, often with confidentiality agreements, often with those who market them paid on a contingency fee basis, and often with legal contracts that say that in the event it is audited, the whole thing dissolves and goes back to the normal situation.

TAX SHELTERS

I think the approach that is most effective, and it is one we are seeking to work with the tax writing committees on, is an approach that is based first on better service to taxpayers by assuring, as Commissioner Rossotti's reforms will, that taxpayers have someone involved with them who knows about their industry and knows about their business and can tell what is real and what is not, and then, second, involves an approach based on disclosure, because as we have seen in so many contexts, some light is the best disinfectant, and that asks for those who are pursuing transactions that have many of the elements of a tax shelter to disclose those transactions so it is clear that they have been pursued and that a judgment can be made as to whether they are legal or whether they are not legal.

I think we also need to look in the penalty and ethical code areas, particularly with those who are involved in the marketing of these shelters. Certainly, the capacity of the IRS to vigorously enforce in this area, which is an area where over time tens of billions of dollars are at stake, depends upon the adequacy of its resources and that is why a budget request that reverses what has become a medium-term trend towards declining staffing seems to us to be so very important.

TRANSFER PRICING, RETURN-FREE FILING, AND OVERTIME

Senator DORGAN. Mr. Secretary, thank you for that. Let me also mention, I will not ask you a question about it, but I will mention my continued interest in the transfer pricing issue and what I think is substantial abuse in the area of transfer pricing to avoid

payment of taxes in this country by the largest corporations. Messrs. Pak and Zdanowicz, two professors from Florida, have done a lot of, I think, very interesting work in this area. I think they are more accurate than the Internal Revenue Service in the estimate of loss. I think the loss is in the tens of billions of dollars a year, and I will continue in my mettlesome ways to try to write little things in pieces of legislation that urges and stimulates and encourages and pushes the agency to continue working in this area.

I know you and I disagree about Federal legislation on transfer pricing, but I do want to tell you that my interest in that has not abated, nor do I think I am wrong. You are welcome to respond to that.

Let me also just mention that an area that I am really interested in working with you on, that we have discussed, is the issue of finding ways to save money and save taxpayers time and headaches with respect to return-free filing. More than 30 countries actually allow people to comply with their income tax responsibility without filing an income tax form. They do that through a rough justice form of having withholding become the actual tax liability.

I am about to introduce legislation that will do that in this country and that I think will allow up to 70 million people to comply with their income tax responsibility without having to file an annual tax return, which I think would be good for the IRS, less paper, good for the Treasury Department, less processing costs, certainly good for the taxpayers in this country. So I am anxious to continue to work with the agency and the Internal Revenue Service as you review all of these issues and hope that we can perhaps make some progress on that.

And then, finally, let me ask the question about overtime that Senator Campbell alluded to. I think it is very important for us to try to evaluate whether this is a good use of the taxpayers' money. I know you do not authorize and use overtime because you want to, you do it because you have to. I understand that. And yet, I think Congress ought to understand that overtime compensation is the most expensive compensation that we use and we probably ought to, when we look at the overtime usage in some of these agencies, which can be up to 2 weeks of overtime in 1 month. That is very substantial. We maybe ought to take a look at increasing the full-time equivalent positions as a more honest approach to meet the workload.

It is an area that I am kind of interested in, and I know that the chairman asked a question about it. What is it costing us and what are we getting for it? How could we better address that and make a more effective use of the taxpayers' money?

So I have given you a kind of a load there, Mr. Secretary. Feel free to respond to any of it.

Mr. SUMMERS. Senator Dorgan, I will try to respond quickly. On overtime, I share your sentiments. This is an issue in many places. The place where I feel it most pressingly within the Treasury Department is, frankly, with the Secret Service, where the mission is one where fatigue is a particularly precarious thing and that is why we are seeking extra full-time equivalents. There is the additional dynamic that excessive overtime tends to lead to attrition,

which leads to more overtime, and we have got to find a way to break out of that cycle.

With respect to return-free filing, I have enjoyed our discussions on this in the past and it is something we are certainly prepared to look at and work with you. My impression is that one of the committees will be having a hearing on this issue sometime in the next little while.

With respect to transfer pricing, Senator Dorgan, I do not think we do have precisely the same view on the near-term revenue potential of the issue, but I do think there is common ground and the recognition that as we all talk about the process of managing global integration and having it work for people, which is one of the themes that the President has stressed over the last year, that one part of that has to be making sure that global integration does not benefit mobile large entities at the expense of those who have less mobility.

One of the important areas that has to be examined in that regard is the whole area of tax rules on cross-border transactions, and certainly that calls for making sure that we have transfer pricing rules that do not allow what are real profits to entirely escape taxation. I think over time, as we think about a new global economy and a 21st century approach, that will be a set of issues that will have to be examined with increasing care.

Senator DORGAN. Mr. Secretary, thank you very much, and let me again say that I am heartened by your stewardship at Treasury. These are interesting times, and in many ways we are blessed with an economy that is so strong and has so many boundaries. But at the same time, there are a lot of interesting challenges. I have not asked about derivatives and hedge funds and other things, but I am glad you are there and I think that your stewardship at Treasury can give Congress some confidence on a number of these challenges.

Mr. SUMMERS. Thank you very much.

SECRET SERVICE HIRING

Senator CAMPBELL. Mr. Secretary, speaking of overtime and retention, we were told by several of the agencies that the jobs are getting tougher on the quality of life for all of them. When the Secret Service testified the other day, they talked about the difficulty they were having and, in fact, are trying to hire a total of 359 agents in the next 2 years.

As a result, last year, we provided $10 million by direct appropriation to the Service and the Department was directed to transfer an additional $21 million, which was done. Since those funds have been transferred, do you think the Service will be able to obligate all of it before September 30? This is the Secret Service I am talking about.

Mr. SUMMERS. I will give you a better answer if I turn around.

Senator CAMPBELL. Turn around.

Mr. SUMMERS. Yes, I am assured. There seems to be a unanimous view behind me.

Senator CAMPBELL. I think I got the same answer the other day from the gentleman that just gave you that answer.

Mr. SUMMERS. I will check that that is the case, and if for any reason there is any sense in which that is not the case, I will be sure to come back to you, Mr. Chairman.

Senator CAMPBELL. I wish you well. I know, as Senator Dorgan knows, it is difficult to get people to serve when they have to put in so much time and the quality of their own family deteriorates because of it.

GREAT PROGRAM

There is a program I am particularly interested in, and I asked the ATF about it the other day. It pertains to a program called the GREAT program. Are you familiar with that?

Mr. SUMMERS. Yes.

Senator CAMPBELL. I happen to think it has a real relationship to teen behavior and I noted with some regret that the funding for the program was reduced as the ATF contribution to the 38 percent rescission that we required here in Congress. We provided $13 million for grants to State and local law enforcement to participate in that program, $3 million more than was even requested by the administration. That was reduced by a little over $1 million, about $1,120,000. Do you know why that account was particularly picked for reduction?

Mr. SUMMERS. Let me say, Mr. Chairman, we are very much committed to the GREAT program and I share your view that this kind of prevention effort is one of the most important things the ATF can do with respect to firearms violence. What I was told was that you had a situation where there were some available carryover funds from previous years. You had a certain sized implementation capacity, and in light of the implementation capacity, it was possible to make this reduction in new funding without sacrificing what would have been the effectiveness of the program and that it did not reflect any kind of priority judgment about the GREAT program. It simply reflected the administrative feasibilities of the situation, and on that basis, we made the decision and, frankly, it was made with a little bit of regret because we did not want to do anything that even symbolically would suggest that the GREAT program was other than something that was very important to us.

Senator CAMPBELL. Well, as you go through this year, if you have to make some rescissions, I think I can speak for most of the committee members that the GREAT program is an important program for young people.

Mr. SUMMERS. Message received.

CUSTOMS SERVICE FUNDING REQUEST

Senator CAMPBELL. The administration has also proposed a Colombia drug supplemental. There have been a wide variety of numbers floating around, and I have two different numbers. The administration proposed $68 million for radar upgrades for Customs airplanes, but I have heard Customs is seeking $395 million for the same thing. Can you give the committee some insight on what the real request is?

Mr. SUMMERS. The real request is that that is contained in the President's supplemental request.

Senator CAMPBELL. 68?

Mr. SUMMERS. $68 million.

Senator CAMPBELL. Okay. What offsets is the Department willing to provide in order to increase it, or are you going to stick with that $68 million, do you think?

Mr. SUMMERS. The $68 million is the administration's request.

Senator CAMPBELL. There was a recent Washington Post article that said that the President's budget requested a 3.9 percent increase for the Customs Service over fiscal year 2000. There was a second article that added that the increase was 4.6 percent. Yet judging from the Department's justification information we are receiving from the Department, Customs is really looking at a 22.4 percent increase if all the requested funding is included. Could you clarify that?

Mr. SUMMERS. As always with budget figures, there are a range of ways of calculating them. The 22 percent figure that you cited, Mr. Chairman, includes, as for many purposes would be appropriate, all of the initiatives, including the fee-funded budget authority for the ACE system. Without the ACE system, the budget request would be 11.5 percent. The much lower 3.8 and 4.6 percent figures that you cited refer to the budget allotment to the base operations of Customs, excluding any new initiatives at all.

TAXPAYERS' ADVOCATE OFFICE

Senator CAMPBELL. Let me just ask maybe a last question or two. You talked about the poor old taxpayer a little bit. How is the Taxpayers' Advocate Office integrated into the Department? Has making it an independent reporting entity assisted the IRS?

Mr. SUMMERS. I think Taxpayer Advocate has made a—with the annual reports and reflecting the appropriate degree of independence that Congress prescribed, I think has made a useful contribution, yes.

Senator CAMPBELL. Has it focused more on the taxpayer or on the internal workings of the IRS?

Mr. SUMMERS. I think it has focused most on the aspects of the workings of the IRS and the tax law that impact directly on taxpayers and that create burdens and complexities and difficulties for taxpayers, issues such as the alternative minimum tax, and I think their report, along with many other factors, was one of the things that led to the decision that the alternative minimum tax issue is something that would be included in the President's budget.

Senator CAMPBELL. I think Mr. Rossotti is doing a fine job. He was in the other day, and I am continually pleasantly surprised at the productivity of his office.

Senator Dorgan, I had no further questions. Did you? I may have one or two I want to submit to you in writing.

Mr. SUMMERS. Sure.

CUSTOMS STUDY

Senator DORGAN. Mr. Chairman, just one or two additional questions.

The Commissioner of Customs has described to us a study they have done that I believe Treasury now has relating to their resource needs. Will Congress have access to that at some point when Treasury has been able to review it? The reason I ask the question

is I think both from the perspective of the southern border and also those of us from the northern border, the issues of resources are very important issues with respect to Customs.

Mr. SUMMERS. There are a number of issues that, as I understand it, need to be reviewed both within Treasury and OMB, but certainly when the study has been fully reviewed, we would anticipate that it would be available to Congress.

Senator DORGAN. Senator Campbell just asked whether we needed to increase the number of orange cones that we put in the middle of the road that separates the U.S. from Canada. When we are dealing with terrorists, searching all the cars in these busy ports, there are these little orange cones that are put up at 10 o'clock in the evening on these roads that come into North Dakota and Montana and so on. The folks that want to come in just remove the cone, and then if they are really polite, they will drive through and put the cone back and then keep going. If they are thoughtless, they will just leave the cone off to the side of the road. But we raise those questions because, this is a national issue. Terrorism is an important and growing issue and we need to certainly have the resources available to respond to it.

The Mint, as I understand it, is self-funded. I am curious however, of your impression of the success of the Sacajawea dollar, the gold dollar. That went out with a lot of fanfare. I assume you were involved in planning some of that. What is your impression of that?

Mr. SUMMERS. I would say that, and I can give you a more detailed answer in writing, but my impression is that the demand so far has rather exceeded our projections of demand and I think that a lot has happened since the last time the nation tried to introduce a dollar coin in the late 1970s. As a consequence, I think there is some receptivity to a dollar coin, which is, as I say, finding more circulation than was expected. I think the combination of the different color that is associated with this coin and the different tactile feel that makes it easy to distinguish in your pocket from a quarter has also helped raise demand for the coin.

While I know there have been some concerns around the distribution, I think those are issues that are being addressed. I think that the people at the Mint can feel some satisfaction that it is the lack of supply in the face of demand that has caused the concern this time around, rather than the accumulation of large inventories.

I will just, for the benefit of my friends with cameras, take the opportunity of your question to hold up one of these new coins.

Senator DORGAN. Mr. Summers, you have a great staff.

Senator CAMPBELL. I might tell my colleague that I was invited to the first striking of those coins out in Denver. We were out there about a month ago now. You also participated in something in North Dakota, too. I had a chance to talk to somebody from the Numismatic Association and they thought this was just going to be a marvelous coin for the collectors. I do not know how many they are going to mint. I guess that will be determined by the Federal Reserve Board. But it was a very interesting experience for me. They used an old machine that had been in use for 160 years or something of that nature in Denver to strike that coin.

Senator DORGAN. So the Secretary's initial impression is that this is gaining some acceptance?

DOLLAR COIN

Mr. SUMMERS. Yes, I think that is right. I am able to report that the Mint estimates that they will produce and ship approximately $1 billion golden in fiscal year 2000, and the advertising campaign has had some real efficacy and I think it is expected that—it obviously depends on how much TV people watch, but it is apparently expected that the vast majority of the target audience will see more than 15 advertisements addressing this. The Mint has had a number of partners, perhaps most notably at Wal-Mart. That has helped to introduce this coin into circulation. So I would say we are very pleased with the results of our——

Senator CAMPBELL. Say that again about Wal-Mart? I was writing some notes. What was your comment about Wal-Mart distributing coins?

Mr. SUMMERS. The Mint, as part of the distribution mechanism for the new coin, the Mint entered into a partnership with Wal-Mart for the distribution of some 94 million coins during the month of February. Wal-Mart obviously paid for all the coins and provided a kind of advertising through talking about the fact that it was using the coins and that then has driven, as these have come into circulation, increased demand, and in particular increased demand from the banking industry, to the point where the concerns, and they have been real concerns and we have tried to address them, have not been of nobody wanting the coins but of people wanting the coins and having difficulty getting them. I think that portends—I do not mean to minimize those problems, but that portends a favorable introduction for the dollar coin.

Senator DORGAN. I do not want to go further on this, but as you know, there was some criticism by small banks and also small merchants asking why a large merchant was given some preference here. We should not be savoring a large merchant over small businesses in endeavors such as this. While the damage has been done in this case, we must ensure that it does not happen again. When we visited with the Mint about that, they indicated that they had a schedule to move coins immediately into the banking system.

But I must say that I have not seen a gold coin out there yet, and part of it is because I do not shop much and when I shop, I never get change. But I, frankly—have you gotten a gold coin while you are out shopping?

Senator CAMPBELL. No. No, I have not.

Senator DORGAN. I want this to succeed, obviously, for a lot of reasons, and I hope they are moving out expeditiously all across the country.

Senator CAMPBELL. The only thing I can figure out is I shop at Wal-Mart, too, and they have a wonderful refund policy. Maybe when the people that get these coins find out they are plated and not real gold, they will be taking them back.

ADDITIONAL COMMITTEE QUESTIONS

I have no further questions. Did you?

Senator DORGAN. I have none. Thank you, Mr. Secretary.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

Question. Treasury has taken on the task of trying to help low-income American families find affordable ways to bank.

What steps have you taken to secure affordable services to the non-bank population?

Answer. In implementing the Debt Collection Improvement Act of 1996, Treasury began the Electronic Funds Transfer 1999 (EFT'99) effort to increase access to low-cost banking services for federal benefits recipients who may not have banking relationships. Under EFT 1999, Treasury, after broad public round tables with consumers and financial institutions, designed the Electronic Transfer Account (ETA) for people who receive federal benefits and do not have a bank account. The ETA, introduced in July 1999, is entirely voluntary for banks to offer and federal check recipients to enroll. It is an affordable transaction account for lower-income federal benefits recipients, at a price that is economically viable for financial institutions to offer. To date, over 400 financial institutions with over 2,500 locations have committed to offer the ETA thus far, with most institutions rolling out the ETA during 2000.

In order to enroll in an ETA, however, you must be a federal benefits recipient. The First Accounts initiative is designed to reach low-income people without bank accounts, but who are not eligible for ETAs because they do not receive federal benefits.

A related EFT'99 initiative, a pilot project run jointly by Treasury and the US Postal Service, has placed ATMs in post offices in low-income communities in Baltimore, Maryland and Tallahassee, Florida. These ATMs allow residents of these neighborhoods to access their bank accounts inexpensively in safe, secure and convenient locations. A component of the First Accounts initiative would build on the experiences of this pilot by helping financial institutions to increase the availability of electronic banking points in communities such as these that lack access to banking services.

Treasury also recently announced its involvement in National Partners for Financial Empowerment (NPFE). NPFE is a new forum for private sector organizations and companies to come together with federal participation to encourage Americans to save for their future and to take control of their personal finances. As a member of this forum, Treasury will work with other NPFE organizations to encourage families—especially those with low incomes—to make informed choices for common financial transactions, including home mortgages, retirement savings options, consumer credit and basic banking services.

Question. How will you convince the low-income population that they can afford to use this service if you are able to secure it?

Answer. Convincing the unbanked population to take advantage of low-cost banking services involves educating these consumers about such services, and designing those services in a way that is useful for the target population. As explained in the question and answer below, Treasury will work to educate low-income families—especially those without a banking relationship—about the benefits of participating in the financial services mainstream.

In designing First Accounts, Treasury will conduct new research on the financial services needs and preferences of the unbanked population. As part of EFT'99, Treasury commissioned research to analytically test the demand for different proposed features of the ETA. Treasury also completed new research on alternative financial services providers, such as check cashers and money transmitters, that reveals much about the demand for financial services among the unbanked population in the cities studied.

Treasury also plans to "pre-pilot" new products to gauge demand for different First Accounts product designs. This fall, Treasury's CDFI Fund will include an incentive for banks to provide innovative services to the unbanked by clarifying how its Bank Enterprise Award Program can be used to support the provision of new low-cost accounts. The demand for these accounts, among both consumers and financial institutions, will help Treasury to expand the availability of products that make sense for the unbanked and are economically viable for banks to offer.

Question. Do you have a plan on how to get this information out to low-income families and to make them aware that there is an alternative to the expensive way they are presently banking?

Answer. As part of the First Accounts initiative, Treasury would educate lower-income Americans about the benefits of having a bank account, managing household finances, and building assets. This educational effort would build on Treasury's experiences as a member of National Partners for Financial Empowerment, and its public education and outreach effort for EFT'99.

To explain the benefits of EFT and ETAs, Treasury launched a nationwide public education campaign that attempts to reach the millions of people that do not use direct deposit, and in particular those without bank accounts. That effort includes a wide variety of some 10 million printed materials, a guide to providing basic financial education in a range of local settings, a community outreach initiative involving national and local partnerships with organizations across the country, public relations activities and a public service advertising campaign that has included outdoor billboards, print, transit, and radio and television spots. As of the end of 1999, Treasury estimates that it has reached 1.1 million people face to face through the EFT'99 community outreach program alone. Treasury would seek to develop a similar education and outreach effort to implement the First Accounts initiative.

Question. I have to say that I am pleased by the Treasury Department's commitment to address the ACE funding issues that have been in the paper recently. Did the Customs Service seek emergency funding to run the ACE program during the Department's consideration of unmet funding needs?

Answer. There was no formal proposal from the Customs Service for ACE emergency funding within the context of unmet funding needs.

Commissioner Rossotti has been working toward his vision of a modernized IRS, one which (1) has the computer capabilities to actually function and (2) is structured to provide individualized assistance to specific groups of taxpayers.

Question. Do you support Commissioner Rossotti's vision?

Answer. The Department's original consideration of Charles Rossotti for Commissioner of IRS was precisely because of his management vision and his vast experience improving the performance of large, complex organizations. The Department supports this vision by working very closely with the Commissioner as he has implemented the new organization and begun the process of modernizing information systems. Along with his openness with key stakeholders (including the Department and the Administration) he has also used this organizational and systems modernization effort to empower the IRS employees, who also have participated in every aspect of the process.

Question. What do you think is the most important aspect of that vision?

Answer. The foundation for this lies in the new organizational structure which focuses on specific groups of taxpayers. This aspect makes it a powerful way for IRS to manage its resources and measure its progress. In the past, the IRS was structured and managed according to function with no one taxpayer being served by a single IRS office.

In the new organization, division managers will have full responsibility for all the function areas that serve their taxpayer groups. Each manager can decide how to allocate the resources based on a better understanding of the needs of that specific taxpayer group. Managers will use a balanced performance management system and market analysis to determine the best resource mix. For instance, a division manager may find that increased education and information up front will decrease the need for collection or enforcement action after the taxes are filed. Another division manager may find that mistakes in processing filed returns are causing delays and processing needs to be improved. Another division may discover an easier way to handle collections so that accounts do not age to the point of requiring drastic action.

This structure is consistent with most private sector financial industry organizations. Many of these organizations have proven to give outstanding and timely customer service. They were forced to make these customer-focused organizational changes in response to market forces. Those same market forces are affecting the IRS and the time is right to make this organizational change, which paves the way for future technological modernization.

IRS is about midway through the organizational restructuring. It is critical that we see this program through to completion, sometime in fiscal year 2002.

Question. What do you think is the most difficult component to achieve?

Answer. Given the magnitude of change at the IRS, there are many difficult challenges ahead. Immediate challenges for the IRS are the Business Systems Modernization effort, which has been compared to overhauling a 747 in mid-flight and the effort to improve post-filing (examination, collection, enforcement) efforts. While these changes are being made, IRS must maintain high levels of service to taxpayers.

Business Systems Modernization involves the design and implementation of a number of different systems at the same time. Proper sequencing and attention to system interdependencies will be needed if this modernization is to be useful to the organization.

The implementation of the Reform and Restructuring Act (RRA) and the recent decline in audit coverage has exposed the difficulties IRS has with maintaining post-filing activities. Only by focusing on the specific challenges each taxpayer group represents can improve current post-filing activities to decrease taxpayer burden and avoid the aging of uncollected accounts. This effort will take some time as each division manager begins to assess his or her organization and analyze the taxpayers served by it. IRS has already begun the effort, due to not only the guidance of the RRA, but from the thoughtful contributions of the Citizen Advocacy Panels and suggestions generated from Problem Solving Days.

These challenges highlight the enormity of change occurring at the IRS. As stated earlier, the Department is confident that the IRS has pulled together a top-notch management team to face these challenges and we are working closely with them to monitor their progress.

The IRS Management Board was created to help the IRS make appropriate decisions about its computer modernization program. From all accounts, that Board has been successful. Now the IRS Oversight Board is moving forward.

Question. Will there be any overlap between the two Boards?

Answer. The IRS Oversight Board has responsibilities that create the potential for some administrative overlap with the IRS Management Board, as well as the potential for duplicative reporting requirements for the IRS. Treasury created the IRS Management Board in 1995, later permanently established by an Executive Order, to provide on-going oversight of the IRS modernization program. As the modernization program began to stabilize, and in keeping with a broader mission set forth in the Executive Order, the board evolved into a more general management forum, reviewing both major operations and modernization programs, including filing season readiness. The board is chaired by the Deputy Secretary and includes representatives from Treasury, IRS, OMB and the National Partnership for Reinventing Government. Commissioner Rossotti's leadership at the IRS over the past 2½ years has contributed enormous stability and support to this process. His leadership, partnered with the board's guidance and support, has positioned the IRS to move ahead on plans to modernize all aspects of the agency.

Question. If so, what steps will you take to coordinate efforts?

Answer. As the IRS Oversight Board becomes operational and develops an active agenda, I anticipate a changing role for the IRS Management Board. The IRS Oversight Board will likely focus on many of the issues currently addressed by the IRS Management Board. I do see a continuing role in the near term for a group like the IRS Management Board, within the context of the Department's general oversight responsibilities. he IRS has benefited greatly from regular interactions with senior administration officials at IRS Management Board meetings. We will likely continue those meetings in a smaller, less formal forum. In any case, we will work closely with the Oversight Board to avoid duplication and overlap wherever possible. Our goal is to ensure that we have done everything possible from the Department's perspective to enable the IRS Oversight Board to carry out its responsibilities.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

DAKOTA CERTIFIED DEVELOPMENT CORPORATION

Question. Last November, the Dakota Certified Development Corporation—a small business lender in North Dakota—met with several members of your staff here in Washington about a proposal that would enable local and regional banks to meet Community Reinvestment Act (CRA) requirement by investing in a fund to provide affordable housing in rural communities with less than 15,000 people.

I understand that the DCDC has responded to requests for information from the Office of the Comptroller of the Currency (Community and Consumer Policy Division) and submitted all available housing and income statistics.

Would you please look into this matter and find out when the Dakota Certified Development Corporation can expect a decision from the Department of the Treasury?

Answer. On November 4, 1999, the Office of the Comptroller of the Currency (OCC) and the other federal bank regulatory agencies, which interpret CRA on a joint basis, met with representatives of the Dakota Certified Development Corporation (DCDC) to discuss the DCDC's inquiry as to whether financial institutions that

invest in the Dakota Community Development Fund, LLC will receive positive CRA consideration when their regulators evaluate the institution's Community Reinvestment Act (CRA) performance. A number of interagency meetings and conference calls were held subsequent to that meeting to discuss the issues raised by the DCDC's inquiry. Those discussions culminated in a letter from the OCC that was sent to the President of the DCDC on April 26, 2000. The OCC apologizes for the delay in responding to the DCDC's request. See attached letter.

COMPTROLLER OF THE CURRENCY,
ADMINISTRATOR OF NATIONAL BANKS,
Washington, DC, April 26, 2000.

JOHN A. KRAMER,
President, Dakota Certified Development Corporation,
Fargo, North Dakota.

DEAR MR. KRAMER: This is in response to your inquiry about whether financial institutions that invest in the Dakota Community Development Fund, LLC (DCDF) will receive positive consideration when their regulators evaluate the institution's Community Reinvestment Act (CRA) performance. The purpose of this letter is to provide consistent guidance to our examiners, financial institutions, and the public; not to endorse any specific project or product.

In order to provide broadly applicable guidance as described above, this letter will focus on how an examiner will determine whether an investment in the DCDF or similar program would receive favorable consideration under the CRA regulation.

Background

The State of North Dakota has recognized the lack of rural housing across the state as a crucial issue. The main obstacle to construction of single family housing in rural areas of North Dakota, based on the information you provided, is the difference between the appraised value of housing and its actual construction cost. As a result of this "gap", financing of single-family housing is often unavailable to all but the most affluent families. Lack of financing has often stopped the construction and purchase of new housing in rural areas.

Your research into why multifamily housing is not being built in North Dakota has identified three concerns of developers, which have prevented them from developing and constructing multifamily housing in communities of 8,000 or less:

—The amount of equity required for these projects, which in metropolitan areas normally varies from 10 to 20 percent, is somewhere in the 40 to 60 percent range in rural North Dakota.

—The appraised value of these projects does not equal the construction cost.

—The market rents in communities of 8,000 do not provide the cash flow to service the cost of the new facility.

The information you provided states that in response to the rural housing shortage in economically viable communities in North Dakota, the DCDF will be formed and will be capitalized by investments from local and regional financial institutions. The mission or purpose of the DCDF is: To promote development within the state of North Dakota; to provide programs that are designed to facilitate the flow of lending and investment capital into distressed communities, and to individuals who have been unable to take fall advantage of the financial services industry; to provide access to credit and investment capital as an essential ingredient for creating and retaining jobs, developing affordable housing, revitalizing neighborhoods and unleashing the economic potential of small business.

The DCDF will be used as an economic development tool that will focus initially on multifamily housing and then move into single family development. The focus will be on affordable housing, but not specifically housing for low- to moderate-income families, as there are several programs offered in the state to fill this need. There may be some blending of incomes in these developments, but no specific income requirements will be set.

The program will be operated on the same concept as the SBA 504-loan program. The lead lender will participate in 50 percent of the project and receive the first mortgage. These first mortgage loans will be done at market rates. The DCDF will in turn provide 40 percent of the financing in a second mortgage position at treasury rates and the development/owner will be required to provide 10 percent of the project capital.

The DCDF will primarily be used in communities that have developed redevelopment zones (renaissance zones). An application may be submitted to the State of North Dakota to designate a portion of a city as a renaissance zone if:

—The geographic area proposed for the renaissance zone is located wholly within the boundaries of the city submitting the application;

—The application includes a development plan;
—The proposed renaissance zone is not more than twenty square blocks;
—The proposed renaissance zone has a contiguous boundary and all blocks are contiguous;
—The proposed land usage includes both commercial and residential property; and
—The application includes the proposed duration of renaissance zone status, not to exceed 15 years.

Cities with designated renaissance zones are able to give property and state tax exemptions for projects located in those zones.

Discussion

The CRA regulations establish the framework and criteria by which the regulatory agencies assess an institution's record of helping to meet the credit needs of its community. The regulations identify a number of different evaluation methods for examiners to use, depending on the business strategy and size of the institution under examination. Regardless of the evaluation method used to evaluate a regulated financial institution, an institution may receive positive consideration for making "qualified investments" that help meet the credit needs of the institution's assessment area(s) or a broader statewide or regional area(s).

The regulations define a "qualified investment" as a "lawful investment, deposit, membership share or grant that has as its primary purpose community development." "Community development" means affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs; or activities that revitalize or stabilize low- or moderate-income geographies." "Low-income" means "an individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography." "Moderate-income" means "an individual income that is at least 50 percent and less than 80 percent of the area median income or median family income that is at least 50 and less than 80 percent, in the case of a geography."

In determining whether investments in the DCDF are qualified investments, examiners will look to see whether the DCDF or the activity of the DCDF in which the bank's funds have been invested has as its primary purpose community development. In making this determination examiners will use one of two approaches. First, if a majority of the dollars or beneficiaries of the activity are identifiable to one or more of the enumerated community development purposes, then the activity will be considered to possess the requisite primary purpose. Alternatively, where the measurable portion of any benefit bestowed or dollars applied to the community development purpose is less than a majority of the entire activity's benefits or dollar value, then the activity may still be considered to possess the requisite primary purpose if (1) the express, bona fide intent of the activity, as stated, for example in a prospectus, loan proposal, or community action plan, is primarily one or more of the enumerated community development purposes; (2) the activity is specifically structured (given any relevant market or legal constraints or performance context factors) to achieve the expressed community development purpose; and (3) the activity accomplishes, or is reasonably certain to accomplish, the community development purpose involved. The fact that an activity provides indirect or short-term benefits to low- or moderate-income persons does not make the activity community development, nor does the mere presence of such indirect or short-term benefits constitute a primary purpose of community development. Financial institutions that want examiners to consider certain activities under either approach should be prepared to demonstrate the activities' qualifications.

Examiners will also look to see whether the activities of the DCDF are part of a governmental plan to revitalize or stabilize a low- or moderate-income area, or for other evidence of governmental support in projects to revitalize or stabilize low- or moderate-income geographies. Activities that directly revitalize or stabilize low- or moderate-income geographies would receive favorable CRA consideration. Investments in middle- or upper-income housing programs in distressed areas may also be considered as qualified investments if these investments are part of a governmental plan, or there is other evidence of governmental support for revitalization or stabilization efforts, and the activity would not significantly disadvantage or primarily have the effect of displacing low- or moderate-income individuals and communities.

Community development activities outside low- or moderate-income areas that stabilize or revitalize particular low- or moderate-income areas may also receive favorable CRA consideration if, for example, these activities are part of a plan to revitalize or stabilize the low- or moderate-income area.

The CRA regulation also allows examiners to account for conditions in high cost areas. For example, examiners could take into consideration the fact that activities address a credit shortage among middle-income people or areas caused by the disproportionately high cost of building, maintaining or acquiring a house when determining whether an institution's loan to or investment in an organization that funds affordable housing for middle-income people or areas, as well as low- or moderate-income or areas, has as its primary purpose community development. The flexibility of the regulation in this regard may be particularly relevant in those areas of rural North Dakota where the current cost of construction exceeds the appraised value of the home. However, it is expected that once comparably priced housing is constructed, the "gap" between the appraised value and the cost of new construction will no longer exist. DCDF "gap" financing will then no longer be necessary because conventional financing will be available from financial institutions.

I trust this letter is responsive to your request. If you have additional questions, please feel free to contact Malloy T. Harris, Jr. on my staff at (202) 874-4851.

Sincerely,

RALPH E. SHARPE,
Deputy Comptroller, Community and Consumer Policy.

AIR SECURITY INITIATIVE/NATIONAL SPECIAL SECURITY EVENTS (NSSES)

Question. Who determines when an event becomes a National Special Security Event? Do you or does the President upon your recommendation?

Answer. The National Special Security Event (NSSE) designation process is initiated by the interagency Counter-Terrorism and Security Group (CSG). The CSG notifies the Secretary of the Treasury and the Attorney General of events it believes should be designated a NSSE. When the Secretary of the Treasury and the Attorney General agree, an event is given the NSSE designation.

Question. Is it necessary to create a new air branch to meet the needs of the air security initiative? Wouldn't it be more cost effective to fly in personnel and helicopters "as needed" rather than establish a new branch?

Answer. The Customs PDD 62 airspace security training and operational requirements are too much for one branch to manage without sacrificing our core mission (drug interdiction). For example, the recent World Trade Organization in Seattle required Customs aviation resources and personnel from four air branches.

Therefore, in order to carry out the direction set forth in PDD 62 with minimal disruption to interdiction missions and operations, the President's budget proposes to establish an Aviation Branch in the Washington, D.C., metro area.

This area has been identified as a practical location because three of the four PDD 62 events have occurred in Washington, D.C. Over the long term, it is anticipated that this trend is likely to continue for future events.

In addition, the Secret Service training facility is located in Beltsville, Maryland. Its proximity to the proposed Customs Air Branch would facilitate the joint (Secret Service and Customs) PDD 62 training requirements.

The most cost-effective solution is to establish a Customs air support branch in the Washington, D.C., area.

The PDD 62 Customs current cost considerations include the following: airspace security training, expense of moving aviation resources and personnel to event sites, and the loss of available aviation resources to the Customs core mission (interdiction along the borders of the United States).

Question. Does Presidential Decision Directive 62 require that the air branch be located within a specific radius of Washington D.C.? If PDD 62 does not specify the branch's location, who will make the decision where to locate the new air branch?

Answer. PDD 62 does not specify the location of the air branch.

There has been no decision on the location of this facility. A decision on a basing location will be made after Customs completes site surveys of potential airfields. A location near the Washington, D.C., area makes sense for a number of reasons:

—It would lessen the amount of flight time by Customs aircraft and reduce travel costs for support personnel.

—Three of the four PDD 62 events supported by Customs air assets occurred in the Washington, D.C., area. This trend is forecasted to be similar for future events.

—By locating the Customs air support personnel and assets near the D.C. area, it would be closer to the Secret Service's training facility in Beltsville, Mary-

land. The close proximity of these two facilities and personnel would enhance joint training, procedural development and mission familiarity between operators.

TAX SHELTER REGULATIONS

Question. I have read with some interest recent reports concerning your effort to close down some of the tax shelters which are used by corporations to avoid paying billions of dollars a year in taxes. You were quoted in the Washington Post as saying that is the "most serious compliance issue facing the American tax system today." Also, you indicated in our earlier meeting your concerns about these shelters further undermining the voluntary compliance with the tax system by customers. I realize that many of the regulations you propose are still being formulated, however, other pieces of the package are well on their way to being enacted.

Can you generally describe the issue you are attempting to confront and discuss what impact these shelters have on the revenues collected by the Treasury?

Answer. The issue we are trying to confront with respect to corporate tax shelters is one in which aggressive corporations have entered into transactions that lack economic substance other than tax avoidance. These abusive transactions often are marketed to multiple corporate taxpayers as "off-the-shelf" products and can be contrasted with normal tax planning by which taxpayers properly structure legitimate business transactions to minimize their tax liability.

It is difficult to ascertain exactly how much revenue is lost to these transactions. Indeed, part of the strategy of implementing these transactions is to structure them to minimize the likelihood of their discovery by the IRS. [Some have suggested that these transactions may result in revenue losses of $10 billion annually.] Moreover, we have concerns beyond the effect on Federal revenues. Corporate tax shelters breed disrespect for the tax system—both by the people who participate in the tax shelter market and by others who perceive unfairness. A view that well-advised corporations can and do avoid their legal tax liabilities by engaging in these tax-engineered transactions may cause a "race to the bottom." If unabated, this will have long-term consequences far more important than the revenue losses we are experiencing. Finally, significant resources—both in the private sector and the Government—are currently being wasted on this uneconomic activity. Private sector resources used to create, implement and defend complex sheltering transactions are better used in productive activities. Similarly, the Congress (particularly the tax-writing committees and their staffs), the Treasury, and the IRS must expend significant resources to address and combat these transactions.

Question. What, if any, resources in your budget request are directly focused on addressing these concerns about corporate tax shelters?

Answer. No additional funds have been requested in the fiscal year 2001 budget specifically for the tax shelter program. However, the IRS will make efforts to internally redirect resources to this area. In addition to applying existing staffing resources, we will work internally to increase our travel and enforcement expenses budget in the shelter area. The increased enforcement expense efforts would include hiring outside experts in such areas as asset valuation and actuarial projections.

TREASURY AGENCY FINANCIAL AUDITS

Question. It is my understanding that in the recent financial audits of Treasury by the Inspector General your department received an "qualified" opinion.

Can you describe for us the basis for this assessment and what actions you are taking in order to clear any discrepancies?

Answer. The Department received a qualified opinion on its fiscal year 1999 financial statements due to the inability of the Internal Revenue Service's administrative systems to produce timely, auditable data to support the information reported in the financial statements. Please be assured that corrective actions are underway to address these problems so that we can report more favorable results in future years.

The Department is actively involved with the IRS on both short-term efforts to improve financial reporting on its administrative accounts for fiscal year 2000 and longer-term efforts to reconfigure and/or replace outdated core financial and management systems over the next 2–3 years. Based on the General Accounting Office (GAO) acknowledged progress in 7 areas of IRS financial reporting for fiscal year 1999, our intent is to ensure that these results are sustained and improved. We have already turned our attention to the preparation of the fiscal year 2000 financial statements.

Extensive meetings with the GAO audit team during the fiscal year 1999 process have brought into focus the key administrative areas with financial reporting deficiencies. The Department continues to work with the IRS team in the CFO's office

to address these deficiencies, albeit through improving labor intensive processes until permanent systems solutions can be installed. Examples of such processes which were successfully used for fiscal year 1999 and will be sustained going forward include: reconciling fund balances with Treasury; shoring up and promptly clearing suspense account entries; and, establishing an acceptable property valuation figure. Until the systems solutions have been installed, we believe perfecting the aforementioned processes can overcome the financial reporting deficiencies in the administrative accounts for the short-term. IRS has successfully done this on the tax revenue side for the past 3 years, including another clean opinion on the $1.9 trillion that IRS collected for fiscal year 1999.

Question. Are these discrepancies likely to arise in future audits?

Answer. The Department's major impediment to receiving an unqualified opinion is the well-publicized situation at the IRS. IRS' financial systems problems will take a long-term effort to correct; accordingly, we do not think it is reasonable at this time to project receiving an unqualified opinion before fiscal year 2002.

Departmental management fully recognizes the leadership role Treasury must play in sound financial reporting and will continue to support the IRS efforts to sustain the progress made during fiscal year 1999, strengthen the CFO structure and management team within the IRS, and build the financial systems needed to improve both financial reporting and, more importantly, management of IRS resources. To that end, the Department is actively engaged with the IRS on the longer-term systems solution that will have the precision and automated capabilities to sustain the financial reporting gains of fiscal year 1999 and the next few years.

BUREAU OF ENGRAVING AND PRINTING/ADDED AUTHORITY

Question. The Administration has proposed legislation to enable the Bureau of Engraving and Printing (BEP) to produce currency, postage, and other types of security documents on behalf of foreign governments and States on a reimbursable basis. This legislation has yet to pass the Congress.

What are the compelling arguments for Congress to enact this legislation?

Answer. The Bureau of Engraving and Printing (BEP) has submitted a proposed bill to the Congress that would authorize the production of security products on behalf of foreign governments and the States on a reimbursable basis. This legislation was recently introduced in the House of Representatives as H.R. 4096, the "Bureau of Engraving and Printing Security Printing Amendments Act of 2000." This measure is currently pending before the Committee on Banking and Financial Services.

The BEP initiated this legislation because entities other than Federal agencies often request our expertise in designing and producing postage stamps, currency, and other kinds of security documents. For instance, in February the government of Kuwait solicited our help in printing "revenue certificates." Unfortunately we were not able to assist Kuwait due to current statutory limitations.

Enactment of the proposed legislation would serve four primary purposes.

1. Allow the United States to assist foreign nations with the design and production of security products and the development of stable monetary systems to facilitate international commerce.

2. Expand and hone the skills of the BEP workforce through a greater variety of specialty printing and engraving projects.

3. Allow the BEP to test—without cost to U.S. taxpayers—new technologies and techniques and apply such experience in the development and production of the next generation of U.S. currency.

4. Enable the BEP to create efficiencies by establishing more consistent production schedules, which would marginally reduce the cost of products provided to other federal agencies.

Question. How much extra business and revenue can the Bureau of Engraving and Printing expect to earn if it were to take on these additional duties?

Answer. The Bureau of Engraving and Printing does not expect to achieve a significant increase in revenue, at least in the short term, from the new printing authority that would result if this legislation becomes law. The opportunity to leverage this expanded authority for the benefit of its current customers has the greatest potential for long-term value. Any expansion of BEP's product base will decrease costs to all its customers through more effective use of available equipment capacity and by spreading fixed cost over greater units of output. Beyond the cost considerations, this expanded printing authority would open the door to new technologies and skills that could eventually be utilized in the manufacture of U.S. currency and stamps. The knowledge and skill enrichment potential is expected to be of greater long-term value than any additional revenue that may be realized.

SUBCOMMITTEE RECESS

Senator CAMPBELL. Mr. Secretary, thank you very much for appearing today.

Mr. Summers. Thank you very much.

Senator CAMPBELL. The subcommittee is recessed.

[Whereupon, at 3:30 p.m., Tuesday, April 4, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2001

THURSDAY, APRIL 6, 2000

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

The subcommittee met at 9:33 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell and Dorgan.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF NATIONAL DRUG CONTROL POLICY

STATEMENT OF BARRY R. McCAFFREY, DIRECTOR

Senator CAMPBELL. Good morning. The committee will be in order. I would like to begin this morning by welcoming Barry McCaffrey, the Director of the Office of National Drug Control Policy, before the committee. Senator Dorgan, the ranking member, notified us that he is in another hearing right nowbut he will be along shortly.

We are here today to go over the fiscal year 2001 budget request for the ONDCP. Although the ONDCP is responsible for coordinating the anti-drug effort for the entire Federal Government, we are here today to discuss their own fiscal year 2001 initiatives. Specifically, I have an interest in receiving an update on the current trends in drug use and availability and how the ONDCP's 2001 budget request addresses those issues.

I know that members of the committee are also interested in discussing the media campaign which to date has received $565 million, over half a billion dollars, a large amount. What I would like to ensure is that we are seeing over a half a billion dollars in return for that investment.

Last year, the General told this committee—3 years ago, not last year—that within 2 years, we would begin to see behavioral changes in our youth attitudes toward drugs because of this media campaign. Yet the 2000 drug strategy shows no real change, as I can see, in the youth drug problem in the country. I am very concerned by this, but we will get into this as we move along in my question time.

My underlying concern with all these efforts is we continually send money towards the problem without expecting a strict short-term accountability. When we fund initiatives like the media cam-

paign, it is not as if we have plenty of resources available to fund everything that is requested. We have to see a clear return on that investment. The budget initiative is so tight that we have to make conscious choices that make it even more difficult and require even greater trade-offs. The decision not to fund a program or to reduce its funding to accommodate something like the media campaign are choices that we have to make.

I would tell you that for this bill alone, the administration request of 20 percent increase for fiscal year 2001 is considerable, yet that figure is somewhat realistic in light of the budget resolution. The problem with this level is that all of the agencies and their constituencies develop very high expectations that we may not be able to fund. That is not to say the requests are not warranted or are not needed, but we have to operate within whatever budget level we are given and we have not finished that budget resolution on the floor, as the Director knows.

With that, go ahead, General McCaffrey, with your testimony and I will ask some questions later. I am sure Senator Dorgan will be here by then, too.

I might tell you that they have notified us that there are votes starting at 10:30, so your complete testimony will be included in the record. If you would like to abbreviate, that is fine.

STATEMENT OF BARRY R. MC CAFFREY

Mr. MCCAFFREY. Mr. Chairman, thank you for calling the hearing. I know the time is limited and I will, with your permission, try and get a lot of information on the table quickly and then respond to your, Senator Dorgan's and others' questions as they may appear.

We did put a lot of effort into the written statement, along with the charts. I would ask them to be placed in the record.

Senator CAMPBELL. Without objection, they will be. We have a copy of them here.

Mr. MCCAFFREY. I would also like to note with enormous pride and gratitude the presence in the room of the people who have shaped the National Drug Control Strategy, and indeed who do the work.

Art Dean is here from the Community Anti-Drug Coalitions of America, Dr. Linda Wolf Jones from Therapeutic Communities of America, Kathleen Sheehan from the National Association of State Alcohol and Drug Abuse Directors. A very important person to our effort, from the Ad Council, Donna Feiner is here, Harry Frasier from Fleishman Hillard, and David McConnaughey from Ogilvy Mather, and as you know, those are the two principal contractors who do all the work on our media campaign.

DARE is represented by Jim McGivny. Sarah Casen is here from the National Council on Alcoholism and Drug Abuse, Katherine Wingfield from the National Drug Prevention League. Our right arm in this effort, the Partnership for a Drug-Free America, Shawn Clarken and Gloria Steedman are both here, as well as Judge Jeff Tauber from the National Association of Drug Court Professionals, and Tom McDaniels, the Legal Action Center.

I mention them because at the end of the day, it is astonishing, the number of people who are actually involved in this issue. When

you start looking at two million people behind bars and five million chronic addicts in America, and you look at the support communities who actually do something with this issue, these people behind us represent literally hundreds of thousands of professionals.

I am going to run through some charts, Mr. Chairman. They are available for you, but let me just note there are some key documents that you and your staff have available to you. These are the bulk of what you asked me to do. That is the 2000 Annual Report. This is the first year we have done one. It absorbed enormous amounts of effort. Each year, I am supposed to come down to you and other appropriation chairmen and explain what we achieved in the preceding year, and I might add, the Strategy which we began writing in 1996 essentially now remains operative for 5 years unless changed by new environmental circumstances.

You have also required me by law to do a 5-year budget summary each year and to roll it forward. This is an enormously important document. It is not yet good enough, but I would suggest that in the years to come, this ought to be the center of debate, not the coming budget execution year, but the out years so that we can get a longer-term perspective on what we are trying to achieve.

You have also required me by law to establish a system of Performance Measures of Effectiveness. There are 12 target outcomes. There are 86 intervening variables. This is moving in the right direction, and I think, over time, will allow the Congress to demand to see concrete data which tells you whether or not our programs are working.

Finally, we do have a Counter-Drug Research and Development Blueprint we put out each year now where we try and ensure that we understand where we are spending our CTAC money and to what impact. We also have a pretty good evaluation plan on that CTAC program.

Another document you need to be aware of is the General Counter-Drug Intelligence Plan, which again, by law, required me to go determine, how do we pull together law enforcement and foreign intelligence to better support this drug mission.

These charts that I am going to run through, I will just use them sort of as brief talking summaries and not talk to each point. I do need to start, of course, in each case with the National Drug Control Strategy goals and to say that everything we do, including the $496 million that you are considering, which I might add, Mr. Chairman, is an eight percent increase over last year, has to relate to those five goals and 31 objectives, and then, presumably, must be measured by one of the 86 variables of the Performance Measures of Effectiveness.

Next chart. This is a matrix summary of what ONDCP's Fiscal Year 2001 Budget Request are asking you to consider, the fiscal year 2000 enacted level was $461 million, and now we are asking for $496 million in fiscal year 2001. The Special Forfeiture Fund, it is too bad we use that as a collective title for some enormously important programs: the Drug-Free Communities Act, which I am going to talk about in detail, the National Youth Anti-Drug Media Campaign, General Counter-Drug Intelligence Plan, $25 million criminal justice treatment demonstration, and the National Drug Court Institute.

If I may make two points that I would welcome your own questions on, one is salaries and expenses. Our whole budget that we are looking at here is 2.6 percent of the national drug effort, which is in nine different appropriations bills, which over time has had this enormous, 52 percent increase in prevention education funding, which has had a 32 percent increase in drug treatment funding, and a one-third increase in the research budget. We are at 2.6 percent of that effort. Our salaries and expenses are a fraction of one percent, 0.01 percent of the whole effort.

I would ask you for full funding for salaries. We are now almost manned up to full level and we have some really severe demands on us and I would like to make sure that the next administration gets a full-up operation.

I would also draw your attention to two other items. When it comes to the media campaign, and I will talk to this at greater length, I would respectfully request full funding at $195 million of this program. We have had some significant and dynamic changes. It is starting to pay off. I will talk to those numbers. But the $10 million to get it up to $195 million are crucial for the media buy. We had a 40 percent increase, as an example, in the cost of Network TV advertising. I will talk to the issue, but that $10 million is important.

Finally, the Drug-Free Communities Act, which is now really hitting its stride—we have a splendid new person running it—will be up to about 400 community coalitions by the end of this coming year. There is a cap in there on administrative expenses of three percent and I would ask you to consider raising that cap to seven percent, without which I fear we are not going to do our job in intelligently having that program move forward.

NATIONAL YOUTH ANTI-DRUG MEDIA CAMPAIGN

The next chart. There are some subordinate charts, which again I will just show you and then move on. The media campaign is in many ways a crown jewel of what we are trying to achieve. It is now one of the most sophisticated and intelligently structured public health campaigns in American history. It is out there. We are in year three. It is starting to definitely affect youth attitudes. We are seeing adolescent drug use rates in America go down after years of steady increase. There was a 13 percent reduction in last year alone in 12- to 17-year-old drug exposure. We are seeing youth attitudes starting to change.

We are getting increasingly good at our minority-ethnic outreach efforts. We understand we have to talk to America wherever they are. There are 102 different market strategies around the country. We are in 11 languages other than English. We are on six web pages, four of which are in languages other than English—Spanish, Chinese, et cetera. We are now starting to begin to get to the Native American population, the American Eskimo population. I think this is really starting to bite in. We are very proud of what we are doing.

We are also seeing, thankfully, some very civic response by the media. The numbers are there to underscore the 108 percent matching effort against the appropriated dollars and also a signifi-

cant $72 million chunk of in-kind response from American media and business.

The next chart. This summarizes where we have gone on what essentially is a two-for-one return on Federal investment dollars, and that goes from January 1998 to June 2000 estimated. The chart speaks for itself, but the bottom line is, we delivered more than $700 million of messages that were science-based, that were vetted through a behavioral change expert panel, and showed them to a target audience in the right programming at the right time and in multiple languages.

Those are just some of the examples. The PDFA has got 10 years' worth of pretty good data. This is an example of what we are talking about. We are starting to see—and by the way, all these studies cluster together. They tend to be supportive of the same observations. Young people are now saying things like, kids who are really cool do not use drugs, and in my school, marijuana users are not popular. We are seeing youth attitudes shift. We think the program is clearly doing what it was intended to achieve.

Next chart. I want to show you three videos. I also showed the House Appropriations Committee some videos out of the Ad Council. They have done some splendid work on trying to do a media outreach campaign to create more community coalitions, and at some point, your staffers may want to see that work. We also have the Ogilvy Mather branding campaign, which I would love to talk about when you have time. It is an incredibly good concept to get more bang for our dollars.

Let me just show you an example of three of the new ads that are going out in what we are calling a flighting concept, so this is wrap-around advertising of a strategic platform message. Go ahead and show the three videos.

Pretty powerful stuff, and again, what we are doing is we have a message platform aimed at either young people or adults. There are four message platforms for each group. And all this material, again, is science-based and then vetted through the behavioral change expert panel.

HIGH INTENSITY DRUG TRAFFICKING AREAS

The next topic I would just mention is the HIDTA program, High-Intensity Drug Trafficking Areas, and we do have both Johnny Hughes and Tom Carr here from the Washington-Baltimore HIDTA. The program has gained incredibly in popularity. This one has surprised me. Cops and prosecutors across the country were forming task forces anyway. They understood they had to bring this kind of material together. But this is somewhat of a modest investment in law enforcement that has had, in my view, order of magnitude payoffs.

I hear from law enforcement professionals around the country that this is the best thing they have seen in 25 years of law enforcement. It pays for the ability to integrate intelligence, blue-on-blue deconfliction, to bring together disparate communications systems. There is a huge payoff, and for that reason, you notice at the bottom we have eight requests to expand existing HIDTAs and six applications pending for new HIDTAs.

I have a problem. I do need some flexibility to be allowed to take the money you give me, analyze the results, and fund programs in some sort of a management decision. An awful lot of these funding amounts now are being specified in the appropriations bill.

NATIONAL CRIMINAL JUSTICE TREATMENT DEMONSTRATION

The next chart. The National Criminal Justice Treatment Demonstration Project, $25 million. There is a complementary program in the Department of Justice for $75 million. We had a National Conference on Prisons and Drugs. We brought in 800 people from around the country, the Attorney General, Secretary Donna Shalala, and I. We said, one of the major problems in America is we have 2 million people behind bars. Eighty-five percent of them probably have a chronic drug or alcohol problem. So until we organize this community with the front end of the system, the drugs courts—there are now more than 700 online or coming online—until we get prison-based drug treatment and a reasonably drug-free prison environment, and then, most crucially, until we have a follow-on program of community supervision, drug testing, and drug treatment, we will never break our way out of this.

So this money, this $25 million is for 15 community demonstration projects to try and bring together the health care professionals and the criminal justice community, and then the Department of Justice would have $75 million, which will be primarily focused on the criminal justice system.

DRUG-FREE COMMUNITIES

The next chart. The Drug-Free Communities Program is now really starting to bite in. As you know, we are now out in 213 coalitions. We will be up to 408 communities by the end of the year. We are in almost every State in the union. Senator Dorgan, we are going to work with your State as we had only one application. We will get out there and try to educate them on how to package their thinking to take advantage of this tremendous program.

It is paying off and please note that 15 are, for example, in Native American communities. We have tried to make sure that the money did not just go to big, established community coalitions. I think it is going to have a huge impact over time. I might add, more than a third of them went to rural communities and small towns.

COUNTER DRUG TECHNOLOGY ASSESSMENT CENTER

The next chart. The Counter-Drug Technology Assessment Center, we did not get all we wanted out of OMB, but the total request stands at $20.4 million. The piece of it that deals with the technology transfer has been enormously popular across America with more than 1,000 items of equipment delivered in 2 years. Most police departments that ask get their top request; we have greater than 96 percent satisfaction rate. This is enormously popular. More money clearly could be used wisely in this program, but the request stands at $3.7 million for that technology transfer.

GENERAL COUNTER DRUG INTELLIGENCE PLAN

The next chart. The General Counter-Drug Intelligence Plan, which I talked to, we have stood up already about a 30-person secretariat. You have to bring together several communities, many of which are internally well organized, CNC at the CIA for example, but you have to end up not violating a thicket of laws, all of which make sense, to protect American citizens from U.S. foreign intelligence operations and to ensure that the foreign intelligence operations are not blown in U.S. courts. We are going to establish priorities. We are going to improve the situation enormously for America's sheriffs, police chiefs, Border Patrol sector commanders, and Customs SACs, to make sure that the intelligence we have which is extremely good, gets to the law enforcement professionals who need it to carry out their operations, and I would ask you, sir, to consider $3 million to help us get that thing up and running this year. Thank you.

DOPING IN SPORT

The next chart. Doping in sport, as a former Olympian yourself, you know the importance of trying to protect not just the Olympian athletes who are going to Sydney and Salt Lake City but literally the millions of young people in America today who have access to steroids and other performance-enhancing drugs through the Internet. It is not just 16-year-old athletes. We are talking to their trainers, their coaches, and their team physicians.

The U.S. Olympic Committee has really done a superb job. They are standing up their own independent drug testing agency, and, of course, immediately it will impact on U.S. Olympic athletes, but to some extent NCAA athletes and to those professional athletes who want to stay eligible to compete in the Olympic movement.

That money—we actually requested $3 million, we have on the table $700,000—will go a long way to ensuring that we create a drug-free environment for American athletic competitors around the country.

The next chart. Colombia I know we are going to primarily focus on the $496 million that your subcommittee has responsibility for, but I would underscore, Mr. Chairman, we do have in Congress a request for $1.6 billion for the so-called Andean Ridge drug aid package, of which a significant amount—about 85 percent of it goes to Colombia, the remainder to Bolivia and Peru, which as you know have had these astonishing successes in reducing drug production.

Poor Colombia is in an emergency. They have 40 million people who largely have nothing to do with the drug trade. They have an operative democracy. They grow coffee and flowers and have intellectual property development. They are wonderful people. They have a million internal refugees. A half-million have fled the country. They have lost control of 40 percent of the land area of their nation. They are now the dominant producer of the cocaine and heroin that come into the United States. Ninety percent of the cocaine in America originated in or transited through Colombia, and some 70 percent of the heroin seizures in the United States last year, by some brilliant work principally by DEA and Customs, came out of Colombia.

We have put together a package that is based on Colombian strategic thinking. We believe that in the coming 2 to 5 years, we can make an enormous impact to support U.S. national interests. Illegal drugs kill 52,000 Americans a year, and we think we owe it to our police chiefs and sheriffs to stand with the Colombian democratic partner with what we think is a pretty coherent broad range request.

On that note, Mr. Chairman, again, I thank you for the opportunity to appear before your subcommittee and I look froward to responding to your own interests.

Senator CAMPBELL. Thank you, General.

[The statement follows:]

PREPARED STATEMENT OF BARRY R. MCCAFFREY

INTRODUCTION

All of us in the Office of National Drug Control Policy thank the Committee for the opportunity to testify today about the Office of National Drug Control Policy's (ONDCP) fiscal year 2001 budget. Chairman Campbell, Ranking Member Dorgan, distinguished members of the subcommittee, your interest in all aspects of drug control policy and your commitment to bipartisan support of a comprehensive response to the nation's drug abuse problem are much appreciated. We welcome this opportunity to review the fiscal year 2001 budget request for ONDCP. To provide a framework for understanding this budget, this testimony will provide an overview of the National Drug Control Strategy and an analysis of current drug trends as reported in ONDCP's 2000 Annual Report.

Though comprising only a small percentage of the $19.2 billion federal drug control budget, the critical importance of ONDCP's $496.8 million budget request cannot be over emphasized. These funds enable ONDCP to carry out successfully its unique dual mission of providing drug policy guidance to the Executive Branch and managing its own programmatic responsibilities. ONDCP achieves its policy mission by advising the President on national and international drug control policies and ensuring the effective coordination of drug programs within Federal departments and agencies. In addition, ONDCP accomplishes its programmatic mission by implementing, managing, and evaluating four key programs to reduce drug use and its consequences in America: the National Youth Anti-Drug Media Campaign, the Drug-Free Communities Program, the High Intensity Drug Trafficking Area Program (HIDTA), and the Counterdrug Technology Assessment Center (CTAC). This budget will provide ONDCP with the resources necessary to ensure the successful implementation of the National Drug Control Strategy, which will have broad reaching, positive impacts on this nation and its citizens.

ONDCP is proud of the growing partnership between the Executive and Legislative branches on drug control issues. Mr. Chairman, over the past year, all of us at ONDCP have been tremendously pleased with the steady support your subcommittee has given our efforts to reduce drug abuse and its consequences in America. The hearing you held on ONDCP's National Youth Anti-Drug Media Campaign was an important occasion to highlight our programs and accomplishments.

OVERVIEW OF THE NATIONAL DRUG CONTROL STRATEGY

The Office of National Drug Control Policy Reauthorization Act of 1998 (Public Law 105–277) required the President to submit to Congress a comprehensive, long-term strategy for reducing drug abuse and the consequences of drug abuse in the United States by limiting the availability of and reducing the demand for illegal drugs. The operative five year strategy was submitted in February 1999. The five goals and thirty-one supporting objectives first established in the 1996 National Drug Control Strategy that serve as the basis for a coherent, long-term national effort remain the heart of the Strategy and will guide federal drug control agencies over the five-year period.

The Strategy takes a long-term, holistic view of the nation's drug problem and recognizes the devastating effect drug abuse has on the nation's public health and safety. The Strategy maintains that no single solution can suffice to deal with this multifaceted challenge. The Strategy focuses on prevention, treatment, research, law enforcement, protection of our borders, drug supply reduction, and international cooperation. Through a balanced array of demand-reduction and supply-reduction ac-

tions, the nation's goal is to achieve a 50 percent decrease in drug use and availability and at least a 25 percent decrease in the consequences of drug abuse by 2007. If this goal is achieved, just 3 percent of the household population aged twelve and over would use illegal drugs. This level would be the lowest documented drug-use rate in American history.

The Strategy's five goals are:

—Educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco.

—Increase the safety of America's citizens by substantially reducing drug-related crime and violence.

—Reduce health and social costs to the public of illegal drug use.

—Shield America's air, land, and sea frontiers from the drug threat.

—Break foreign and domestic drug sources of supply.

The five goals organize thirty-one objectives that are narrowly focused and stipulate the specific ways in which the goals will be attained. Under the prevention goal (Goal 1), for example, nine supporting objectives articulate the specific ways that illegal drug use and underage consumption of alcohol and tobacco products will be reduced. Programmatic initiatives are tied directly to one or more of these objectives. The National Youth Anti-Drug Media Campaign, for example, supports Goal 1, Objective 2—pursue a vigorous advertising and public communications program. It also supports Goal 1, Objective 7—create partnerships with the media, entertainment industry, and professional sports organizations.

Progress towards the Strategy's goals and objectives is gauged through the supporting Performance Measurement of Effectiveness (PME) system. The PME system fulfills congressional guidelines that the Strategy contain measurable objectives and specific targets to accomplish long-term quantifiable goals. The nucleus of the PME system consists of twelve "impact targets" that define measurable results to be achieved by the Strategy's five goals. There are five impact targets for demand reduction, five for supply reduction, and two for reducing the adverse health and criminal consequences associated with drug use and trafficking. Eighty-seven additional targets further delineate mid- (2002) and long-term (2007) targets for the Strategy's thirty-one objectives. A number of these are stretch targets in that they require progress above that attained in previous years. This system is in accordance with recommendations from the National Academy of Public Administration, the General Accounting Office, and other organizations advocating good government practices. The overall performance system is described in detail within a companion volume to this Strategy—Performance Measures of Effectiveness: 2000 Report.

HIGHLIGHTS OF ONDCP'S 2000 ANNUAL REPORT

Public Law 105–277 also requires the President to submit to Congress an Annual Report on the progress in implementing the Strategy. General reporting requirements for the Annual Report include:

—Assessment of federal success in achieving the National Drug Control Strategy goals and objectives (using the Strategy's Performance Measures of Effectiveness system). This analysis includes an assessment of drug use and availability in the United States as well as prevention, treatment, law enforcement, interdiction, and international programs.

—Modifications during the preceding year of the National Drug Control Strategy or national drug control performance measurement system.

—An explanation of how the Administration's budget proposal is intended to implement the National Drug Control Strategy and how proposed funding levels will help do so.

—Measurable data from the annual performance measures.

—An assessment of private-sector initiatives and cooperative efforts dealing with drug control among federal, state, and local governments.

ONDCP has prepared the following documents in compliance with these requirements:

—The National Drug Control Strategy Annual Report

—Drug Control Budget: Fiscal Year 2001

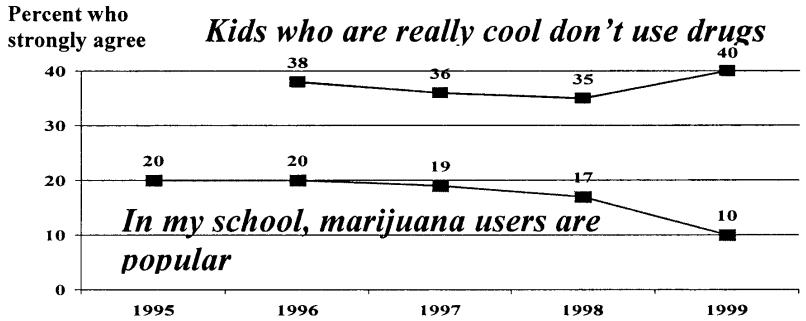
—Performance Measures of Effectiveness: Implementation and Findings

—Counterdrug Research and Development Blueprint Update

National Drug Use Rates are Steady at Half Peak Rate of 1979.—Overall drug use rates remained steady in the 1990s. An estimated 13.6 million Americans (6.2 percent) twelve years of age and older were current users of any illegal drug in 1998. This number is slightly less than the 13.9 million estimate for 1997. Drug use reached peak levels in 1979 when 14.1 percent of the population age twelve and

over were current users. Since 1996 the number of current users remained steady, with statistically insignificant changes occurring each year.

1991–1995 Trend of Increasing Drug Use by Adolescents Has Been Halted.—In 1998, 9.9 percent of youth age twelve to seventeen reported current use of an illegal drug—a 13 percent decrease from 11.4 percent in 1997. This decline was the first statistically significant drop in four years. Teen attitudes toward drugs are improving—the percentage of teens who strongly agreed with the statement, "kids who are really cool don't use drugs," increased from 35 percent in 1998 to 40 percent in 1999.



Source: 1999 Partnership Attitude Tracking Study

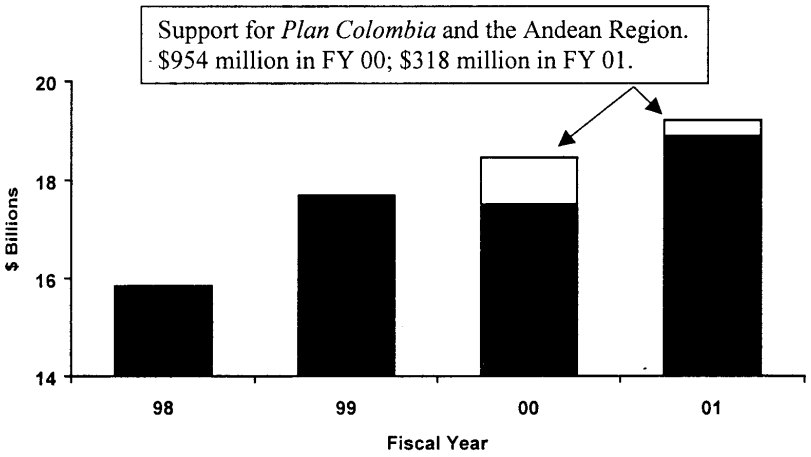
The Consequences of Drug Abuse are Devastating.—Using a methodology that incorporates deaths from other drug-related causes, ONDCP estimates that in 1995 there were 52,624 drug-related deaths. This figure includes 14,218 drug-induced deaths for that year, plus mortalities from drug-related causes. In 1998, there were an estimated 542,544 drug-related emergency department episodes and 982,856 emergency department drug mentions in the coterminous United States. These figures have remained relatively stable from 1997. Illegal drugs accounted for an estimated $110 billion in expenses and lost revenue.

The Tragic Cycle of Drugs and Crime must be Broken.—While national crime rates have declined dramatically, more than 1.6 million Americans were arrested for drug-law violations in 1998—a decrease of one percent from 1997. More than two-thirds of adult male arrestees and half of juvenile male arrestees tested positive for at least one drug in fifteen of thirty-five sites in 1998. 22 percent of inmates in state prisons are incarcerated for drug-law violations; 60 percent of inmates in federal prison are incarcerated for drug-law violations.

Illegal Drugs Impair Workplace Productivity.—Almost 75 percent of current drug users aged 18–49 are employed full or part-time—more than 8 million workers. As national unemployment rates decreased, rates of drug use among the unemployed have risen. In 1998, 18.2 percent of unemployed adults aged eighteen or older were current illicit drug users, compared to 13.8 percent in 1997. Drug use is estimated to cost $14 billion a year in decreased productivity. In 1997, those who reported current illegal drug use were more likely than those who reported no drug use to have worked for three or more employers in the past year (9.3 percent versus 4.3 percent), to have skipped one or more days of work in the past month (12.9 percent versus 5 percent), or to have voluntarily left an employer in the past year (24.8 percent versus 15.4 percent).

THE SUPPORTING FISCAL YEAR 2001 FEDERAL DRUG CONTROL BUDGET

In total, drug control funding recommended for fiscal year 2001 is $19.2 billion, an increase of $760 million (+4.1 percent) over the fiscal year 2000 level of $18.5 billion, which includes proposed supplemental funding of $954 million to support Plan Colombia and drug control activities in the Andean region. Also, the President's fiscal year 2001 proposal includes an additional $318 million to support Plan Colombia. Spending that supports drug education, prevention, and treatment programs increases by $330.8 million (+5.6 percent) in fiscal year 2001 over the fiscal year 2000 level. This budget represents an increase in treatment dollars of 32 percent from fiscal year 1996 and an increase in prevention dollars of 52 percent from fiscal year 1996. Spending that supports drug law enforcement efforts increases by $773.7 million (+8.6 percent) in fiscal year 2001 over the fiscal year 2000 level. A summary of drug-control spending for fiscal year 1998 through fiscal year 2001 is presented below.



Increases in fiscal year 2001.—The following major increases in drug-control funding are included in the President's fiscal year 2001 budget request:

Youth Prevention

National Youth Anti-Drug Media Campaign: +$10 million.—These additional resources bring ONDCP's Media Campaign to $195 million in federal funds in fiscal year 2001, matched by private sector contributions. ONDCP, in conjunction with other federal, state, local, and private experts, is implementing a $2 billion public-private partnership, multi-year national media campaign, including paid advertisements. The campaign targets youth, their parents and other influential adults on the consequences of illicit drug use. The anti-drug media campaign is fully integrated nationwide, including utilization of television, the Internet, radio, newspapers, and other media outlets.

Safe and Drug-Free Schools Program: +$50 million.—These additional resources include $40 million to expand the interagency Safe Schools/Health Students initiative, which supports community-wide prevention activities in conjunction with HHS and the Department of Justice. Also, the budget includes $50 million to continue the School Coordinator Initiative, started in fiscal year 1999. In fiscal year 2001, this effort will support drug and violence prevention coordinators in over 1,300 middle schools across the country to ensure that local programs are effective and link school-based prevention programs to community-based efforts.

Criminal Justice Programs

Stop Drugs—Stop Crime: +$112 million.—In order to break the cycle of drug use and its consequences, drug-abusing inmates in local, state and federal correctional systems need access to drug treatment and supervision. The President's fiscal year 2001 budget includes several enhancements in support of this effort:

—*OJP & ONDCP Support: +$100 million.*—New funding is requested to help states and localities implement new systems of drug testing, treatment, and graduated sanctions for persons under supervision of the criminal justice system, including prisoners, parolees and probationers. This funding consists of $75 million provided through the Office of Justice Programs (OJP) and $25 million from ONDCP's Special Forfeiture Fund. Also, OJP's support includes $25 million targeted to offenders who are re-entering society.

—*Drug Courts: +$10 million.*—These additional resources will bring total funding for the Drug Courts program to $50 million in fiscal year 2001. This initiative provides alternatives to incarceration through using the coercive power of the court to force abstinence and alter behavior with a combination of escalating sanctions, mandatory drug testing, treatment, and strong aftercare programs.

—*Residential Substance Abuse Treatment (RSAT) Program: +$2 million.*—This funding will continue expansion of the RSAT program. RSAT is a formula grant program that provides funds to states for state and local correctional agencies to provide intensive drug treatment to hardcore drug users before and after they are released from prison.

Prison Construction: +$420 million (drug-related).—This enhancement is a multi-year project that includes program increases for partial site and planning of two penitentiaries and three medium security facilities in fiscal year 2001. Funding is also requested in fiscal year 2001 to complete the construction of ongoing projects, including one penitentiary and five medium security facilities. The Bureau of Prisons (BOP) is experiencing dramatic increases in the number of inmates due to higher number of prosecutions, particularly drug cases. This, as well as the recent sharp increase in immigration cases, is the primary cause of current BOP inmate population growth.

Treatment

Targeted Capacity Expansion (TCE) Program: +$53.8 million.—This additional funding will help the Substance Abuse and Mental Health Services Administration (SAMHSA) expand the availability of drug treatment in areas of existing or emerging treatment need. Further, these new resources will enable SAMHSA to provide additional states with State Incentive Grants. These grants aid in the coordination of substance abuse prevention funding streams within a state.

Substance Abuse Block Grant Program: +$31.0 million ($22 million drug-related).—This increase for SAMHSA's Substance Abuse Block Grant will provide funding to states for treatment and prevention services. This program is the backbone of federal efforts to reduce the gap between those who are actively seeking substance abuse treatment and the capacity of the public treatment system.

Treatment and Prevention Research: +$37.2 million.—The fiscal year 2001 budget includes new funding for research conducted by the National Institutes of Health. Research is the lynchpin of efforts to educate and enable America's youth to reject drugs and to decrease the health and social cost of drugs to the American public. Funding supports activities of the National Institute on Drug Abuse (NIDA). NIDA programs include the National Drug Abuse Treatment Clinical Trials Network, prevention research, medications and behavioral therapies, and understanding and preventing relapse.

Community Anti-Drug Coalitions: +$5 million.—With this enhancement, total funding for this ONDCP grant program will be $35 million in fiscal year 2001. This initiative provides resources to groups to build and sustain effective community coalitions that help prevent drug use by youth. Sustained and comprehensive prevention efforts at the community level are required to deliver a constant anti-drug message. These activities include the involvement of local leaders in the areas of drug prevention, treatment, education, law enforcement, government, faith, and business.

Law Enforcement and International Programs

Customs Enforcement Infrastructure Enhancements: +$112.5 million (drug-related).—This funding will continue Customs efforts to shield America's land, air, and sea frontiers from the drug threat and provide new funding to enhance and modernize the Customs Air Program. Funds will be used to purchase additional flight safety systems, as well as upgrades to radar systems and computer capabilities.

Forward Operating Locations (FOLs)—DOD: +$77.9 million.—The drug control budget for the Department of Defense includes these resources in fiscal year 2001 for restructuring SOUTHCOM's theater counterdrug architecture, which includes Military Construction funding for FOLs in Ecuador, Aruba and Curacao. This will reinstate some of the counterdrug support capabilities that had been resident in U.S. military bases in Panama.

DEA Law Enforcement Support & Financial Management: +$65 million.—This funding will expand several DEA activities, including infrastructure support for the FIREBIRD system, Southwest Border and money laundering operations, intelligence capabilities, and financial management oversight functions. The principal component of this initiative ($56 million) is for FIREBIRD. FIREBIRD is DEA's primary office automation infrastructure, which provides essential computer tools for agents and support staff.

Coast Guard's Campaign Steel Web Enhancements: +$43.8 million (drug-related).—These additional resources will support the United States Coast Guard's drug-interdiction efforts, primarily in the transit zone region of the Caribbean and Eastern Pacific. In particular, funding will be used to expand the implementation of the Coast Guard's non-lethal use-of-force initiative that has proven effective at disabling non-commercial maritime craft used to transport illicit narcotics.

Southwest Border—INS: +$28.3 million (drug-related).—For the INS, a $24.5 million ($163.3 million drug and non-drug) enhancement is requested for the Border Patrol. This enhancement includes funding for an additional 430 Border Patrol agent positions, $3.0 million (drug-related) to continue deployment of the Border Pa-

trol's Integrated Surveillance Intelligence System (ISIS) program, and $7.5 million (drug-related) for Border Patrol construction projects. In addition, the INS request includes $3.8 million (drug-related) for additional Immigration Inspector positions to staff three new ports along the southern border.

Assistance to Colombia

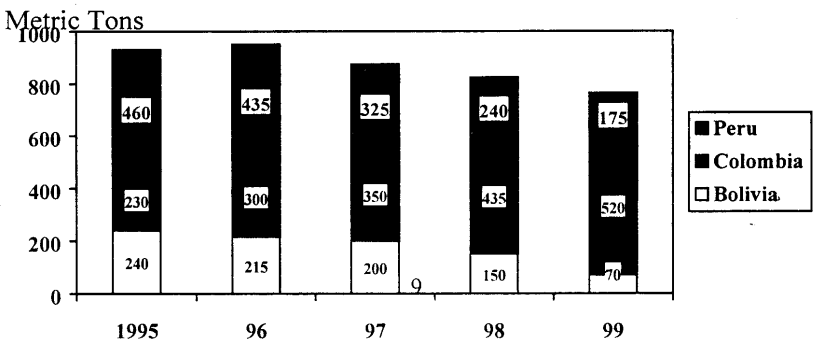
The President's budget proposes $1.6 billion in fiscal year 2000 and fiscal year 2001 funding for counternarcotics efforts in the Andean Region, primarily in Colombia. This builds on current funding for Colombia of over $330 million and includes $1.3 billion in new funding. An estimated 90 percent of the cocaine that enters the United States originates in or passes through Colombia. Up to six metric tons of heroin is produced annually in Colombia, and much of this total is shipped to the United States. Colombian heroin comprises 65 percent of the heroin seized today in the United States. Cultivation of coca, the raw material for cocaine, has nearly tripled in Colombia since 1992. In addition, Colombian traffickers and coca farmers have recently adopted new cultivation and processing techniques, increasing the amount of drugs processed from each acre of crop. Colombia now cultivates more than half of the coca leaf grown in the world. If unchecked, the rapid expansion of coca crops and cocaine production in Colombia threatens to increase significantly the global supply of cocaine over the next several years.

Efforts by the government of Colombia to attack the drug trade are hampered by the fact that guerrillas and paramilitary groups control Colombia's major drug-producing regions. In addition to these armed groups, organized drug mafias continue to run international aspects of Colombia's drug trade. The money produced by the drug trade enriches these outlaw groups, which generate violence and corruption while threatening Colombia's democratic institutions. These problems contribute to the country's insecurity, which is compounded by the worst economic recession Colombia has experienced in almost seventy years.

The democratically elected government of Colombian President Andres Pastrana devised a comprehensive, integrated strategy, called Plan Colombia, to address Colombia's drug and interrelated social and economic troubles. The Administration proposes $1.6 billion for assistance, including an increase of $1.3 billion in support of Plan Colombia—consisting of a fiscal year 2000 supplemental appropriation of $954 million and new fiscal year 2001 funding of $318 million.

No single solution can cure all of Colombia's difficulties. Consequently, the program is an integrated combination of funds for Colombian counterdrug efforts and for other programs to help President Pastrana strengthen democracy and promote prosperity. The proposal would enhance alternative development; strengthen the justice system and other democratic institutions; and provide counterdrug equipment, training, and technical assistance to Colombian police and military forces. The U.S. government is encouraging our allies, along with various international institutions, to assist Colombia in implementing President Pastrana's plan. The budget proposal provides additional funding for counterdrug regional interdiction and alternative development to shore up significant gains against drug production in Peru and Bolivia and prevents traffickers from simply moving their operations to avoid law enforcement.

Andean Potential Cocaine Production 1995-99



ONDCP'S COORDINATING ROLE

The Office of National Drug Control Policy's statutory responsibilities are established in the following laws and executive orders:

The Anti-Drug Abuse Act of 1988.—Requires ONDCP to set priorities, implement a national strategy, and certify federal drug control budgets.

The Violent Crime Control and Law Enforcement Act of 1994.—Extends ONDCP's mission to assessing budgets and resources related to the National Drug Control Strategy.

Executive Order No. 12880 (1993) and Executive Orders Nos. 12992 and 13023 (1996).—Assign ONDCP responsibility within the executive branch of government for leading drug control policy and developing an outcome-measurement system.

The Office of National Drug Control Policy Reauthorization Act of 1998.—Expands ONDCP's mandate and authority and sets forth additional reporting requirements and expectations, including:

—Development of a long-term national drug strategy
—Implementation of a robust performance-measurement system
—Commitment to a five-year national drug control program budget
—Permanent authority granted to the High Intensity Drug Trafficking Areas (HIDTA) program along with improvements in HIDTA management
—Greater demand-reduction responsibilities given to the Counter-Drug Technology Assessment Center (CTAC)
—Statutory authority for the President's Council on Counter-Narcotics
—Increased reporting to Congress on drug control activities
—Reorganization of ONDCP to allow more effective national leadership
—Improved coordination among national drug control program agencies
—Establishment of a Parents Advisory Council on Drug Abuse.

ONDCP'S FISCAL YEAR 2001 BUDGET REQUEST

ONDCP's fiscal year 2001 requested budget authority of $496.8 million represents an increase of $35.358 million (+7.7 percent) over the fiscal year 2000 enacted budget. While this budget is critical to the success of the National Drug Control Strategy, it represents only 2.6 percent of the total federal counterdrug funding. The budget request reflects four program accounts: the Salaries and Expenses program; the Counterdrug Technology Assessment Center; the Special Forfeiture Fund; and the High Intensity Drug Trafficking Areas (HIDTA) program. Your investment in this small agency of 154 dedicated professionals is paying dividends to the American people as it fulfills its mission of reducing drug use and its consequences.

Salaries and Expenses: $25.4 million.—ONDCP's budget provides $25.4 million for salaries and expenses to support ONDCP's requested 155 Full Time Equivalents (FTEs)—125 full time employees and 30 detailees—an increase of $2.577 million over the fiscal year 2000 enacted budget. The funding for this programatic component is the key item for all the other programs funded through the ONDCP budget. Without a fully staffed and funded ONDCP, none of these other initiatives can be carried out. Major expenses include:

—$12.267 million for compensation of 125 FTEs. This represents an increase of $839,000 over the fiscal year 2000 enacted total of $11.428 million, to support pay raises, within grade increases, and 1 additional FTE within ONDCP.
—$2.294 million for rental payments to GSA.
—$6.041 million for guard services, professional services contracts, maintenance services, and related costs. Included in this amount is funding to support conferences and to fund the Drug Policy Information Clearinghouse.
—$1.1 million for research to develop and asses drug policy; identify and detail changing trends in the supply of and demand for illegal drugs; monitor trends in drug use and identify emerging drug problems; assess program effectiveness; and improve data sources.
—$1.0 million for the National Alliance for Model State Drug Laws to encourage states to adopt and implement laws, policies, and regulations to reduce drug use and its adverse consequences.
—$786,000 for travel and transportation costs.
—$672,000 for communications, utilities, and miscellaneous costs. This amount will fund telephone and telecommunications costs, postage, and ADP equipment.
—$386,000 for equipment. This amount will provide a basic level for the purchase of required office equipment (including replacement equipment), such as Personal Computer Systems, ADP equipment and secure communications equipment.

Special Forfeiture Fund: $259 million.—ONDCP's budget for the Special Forfeiture Fund is $43.703 million more than the fiscal year 2000 enacted budget. This request funds the National Youth Anti-Drug Media Campaign, the Drug-Free Communities Program, the National Drug Court Institute, Counter-drug Intelligence Architecture, and a Treatment Demonstration Project.

The National Youth Anti-Drug Media Campaign

In fiscal year 2001, ONDCP is requesting $195 million for the National Youth Anti-Drug Media Campaign to support Goal 1 of the 1999 National Drug Control Strategy, which is to "educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco." ONDCP will continue the five-year initiative begun in fiscal year 1998, and expanded in fiscal year 1999, that uses paid media messages to change youth attitudes about drug use and its consequences. Strategically targeted, high impact, paid media ads—at both the national and local levels—are the most cost effective, quickest means of changing drug use behavior through changes in adolescent perceptions of the danger and social disapproval of drugs. Although public service messages (PSAs) are part of this campaign, it is impossible to reach the specific audiences at the times and with the frequencies that are required to move drug use attitudes with PSAs alone.

The non-advertising component of the anti-drug campaign delivers our messages through radio and television, print media, the Internet, faith communities, health professionals, community coalitions, schools, parents, coaches, and organized sports. The drug prevention campaign also includes an entertainment industry component to ensure that drug use is depicted accurately on television and in film and music.

Through strategic partnerships, the Campaign is increasing the number of organizations and businesses through which accurate drug messages reach their target audiences. These alliances are extending Campaign messages to reach youth and parents in the communities where they live and in places where they spend most of their time—including schools, on line, at work and at play—helping build long-term substance abuse prevention activities. Media and advertising partnerships bring expertise to every aspect of the Campaign. All major television networks donated airtime, special programming and production of celebrity PSAs. Significant national partners playing critical roles in the Campaign include the Partnership for a Drug Free America, The Ad Council and the American Advertising Federation. Other Campaign partners include organizations that have focused historically on young people, parents and substance abuse issues, education, and other fields with broad reach into target audiences. These include the Campaign's newest entertainment industry partner, the Hollywood Reporter, Youth Development partners such as YMCA of the United States of America and National FFA Organization (formerly the Future Farmers of America), and the Girl Scouts USA. Education partners helping to communicate anti-drug messages include the National Middle School Association and the National Association of Student Assistance Professionals, as well partnerships with major news organizations such as the Annie E. Casey School of Journalism for Children and Families, Chicago Tribune, USA Today and New York Times.

The campaign developed Internet sites with industry leaders such as America Online (AOL). Content is being developed for campaign-related web sites. Freevibe.com helps youngsters make positive, well-informed, life-style decisions. The Parents' Drug Resource Center—on AOL at Keyword "Drug Help?"—teaches parents about underage drug use, connects them to drug-help resources, and offers expert advice on child-rearing. Other Internet initiatives combine online banner ads with educational mini-sites, online sponsorships, promotions and interactive events. These activities, combined with a rich multimedia advertising program, have created an unprecedented social marketing effort on the Web. Highlights include:

—More than 10 million page views on the Media Campaign websites.

—Attained more than 168 million pro-bono Internet match impressions.

—Campaign's kid-oriented web site Freevibe.com received nearly 5 million "hits" and parent-oriented Parents' Drug Resource Center located on America Online garnered more than 196,000 user entries in the first three months of operation.

During the past year, the campaign reached 90 percent of America's youth at least four times a week through advertising; and communicated advertising messages in eleven languages to youth and adults of various ethnic groups. The Campaign represents the largest multicultural advertising and communications effort ever undertaken by the Federal government, with messages and delivery tailored to ethnic audiences. It combines culturally competent and relevant messages designed by African American, Hispanic, and Asian-owned companies, to ensure the credibility of the messages and to enhance their impact.

The campaign's pervasive presence has also been manifested in increased demand for anti-drug information. Since the national launch of the campaign in July of 1998, inquiries received by the National Clearinghouse for Alcohol and Drug Information (NCADI) have increased dramatically. The number of inquiries received between July 1998 and June 1999 increased by 159 percent over the corresponding 1997–1998 period. NCADI also responded to 102 percent more requests for information and distributed more than sixteen million items between July 1998 and June 1999. On peak days—which corresponded with specific anti-drug campaign events (e.g. an article in Parade magazine, media coverage of national launch, and media "roadblocks")—requests surged by 367 percent over pre-Campaign levels. Per month Internet requests for substance abuse information have increased tenfold since July 1998.

The Drug-Free Communities Program

In fiscal year 2001, ONDCP is requesting $35,000,000 to continue and expand the Drug Free Communities Program (an increase of $5 million over the fiscal year 2000 enacted budget). As part of the $35 million budget, more than $32.5 million will be granted directly to 408 coalitions throughout the United States. As described in the authorizing legislation—the Drug-Free Communities Act of 1997—all funded coalitions must match their federal grant funds with other non-federal sources of support, including both cash and in-kind contributions. Grantees may receive a maximum amount of $100,000 for years one and two, up to $75,000 for year three, and no more than $50,000 for years four and five.

The Drug-Free Communities Program provides funds, knowledge, and other resources to help local leaders prevent youthful drug problems, including the underage use of alcohol, tobacco, and inhalants. This program now supports 213 communities located in forty-five states, Puerto Rico, and the U.S. Virgin Islands. Applicant communities must match their grant awards with funding from non-federal sources. Communities may re-apply for federal funds over an additional four years, but after year two become eligible for decreasing levels of federal support. This funding policy adheres to the Congressional intent of supporting programs that are able to support themselves in the future solely through local resources.

The Drug-Free Communities Program is complemented by a number of private sector organizations and other public agencies, including the National Association of State Alcohol and Drug Abuse Directors (NASADAD), National Prevention Network, National Guard, Mothers Against Drunk Driving (M.A.D.D.), AmeriCorps and National Inhalant Prevention Coalition, that provide useful tools, occasional funding and frequent communications among the communities and other useful resources. The program is ably guided by the Advisory Commission on Drug-Free Communities, an eleven member, presidentially-appointed expert group representing many sectors and organizations across the United States. The Community Anti-Drug Coalitions of America (CADCA) is a coalition membership organization that provides a wide array of technical support, program ideas, and advocacy to community coalitions around the U.S.

National Drug Court Institute

In fiscal year 2001, ONDCP is requesting $1.0 million for the National Drug Court Institute. These funds will continue the expansion of the Institute's drug court training program for practitioners; convene special advisory groups to develop curricula in new disciplines; develop a national community probation initiative; and expand and update the Institute's video instruction library.

Drug courts divert drug offenders out of jails or prisons and refer them to community treatment. Drug courts seek to reduce drug use and associated criminal behavior by retaining drug-involved offenders in treatment. Defendants who complete the program either have their charges dismissed (in a diversion or pre-sentence model) or probation sentences reduced (in a post-sentence model). Title V of the Violent Crime Control and Law Enforcement Act of 1994 (Public Law 103–322) authorizes the Attorney General to make grants to state and local governments to establish drug courts. In October 1999, 416 drug courts were operating nationwide, including eighty-one juvenile, eleven tribal, ten family, and seven combined drug courts. Two hundred and seventy-nine were in planning stages, up from a dozen in 1994.

Drug courts have been an important step forward in diverting non-violent offenders with drug problems into treatment and other community resources, leaving the criminal justice system to address violent acts. One hundred and seventy-five thousand people have entered drug courts since their inception, and 122,000 graduated or remained active participants. A review of thirty evaluations involving twenty-four drug courts found that these facilities keep felony offenders in treatment or other structured services at roughly double the retention rate of community drug pro-

grams. Drug courts provide closer supervision than other treatment programs and substantially reduce drug use and criminal behavior among participants.

Counter Drug Intelligence Architecture

In fiscal year 2001, ONDCP is requesting $3 million for the Counterdrug Intelligence Executive Secretariat. The Fiscal Year 1998 Treasury and Government Appropriations Act requires ONDCP to improve counterdrug intelligence coordination and eliminate unnecessary duplication. An interagency Task Force was formed in the fall of 1997 to review the United States Counterdrug Intelligence Centers and Activities. The Task Force focused on ensuring drug intelligence mission statements for the core components were clear, that appropriate relationships and oversight were in place, and that information sharing and dissemination mechanisms worked.

The Task Force concluded there was no all encompassing, national counterdrug intelligence architecture. Instead, there were two loosely associated systems, one for law enforcement and one for the foreign counterdrug intelligence system; neither operates closely or efficiently with the other. The Task Force proposed 89 specific recommendations in the following areas: National Counterdrug Intelligence Coordination; National Level Intelligence Centers; Regional, State and Local issues; Information Systems Architecture; Personnel and Training; and Foreign Counterdrug Intelligence Coordination. Since the development of the Task Force report, the interagency has worked to create an action plan, the General Counterdrug Intelligence Plan (GCIP). This unclassified plan was approved by the President, signed by eight Cabinet level officials, and released publicly in February 2000. The cornerstone action initiative of the GCIP establishes a senior interagency working group (The Counterdrug Intelligence Coordinating Group) and its permanent support staff (The Counterdrug Intelligence Executive Secretariat—CDX) which will promote continuous improvement of the national drug intelligence system. The $3.0M for fiscal year 2001 will allow initial stand up of the CDX to include office space and equipment, limited travel, and initiation or continuation of work to implement the 73 action items in the GCIP, as well as new action items identified outside the GCIP.

National Criminal Justice Treatment Demonstration Project

In fiscal year 2001, ONDCP is requesting $25 million for the National Criminal Justice Treatment Demonstration Project. Many states and localities have replicated national evaluations of drug testing and treatment for criminal offenders. What they request—and have demonstrated they will use—is specific guidance on how to best implement the most effective practices established by research and experience. The Project will identify effective treatment elements from nationally recognized program models and implement these in demonstrations at the community level. Such demonstrations will involve community collaboration and pooling of public safety and public health resources.

The results of these state and local demonstrations will be used to improve the dissemination of best practices, including the provision of step-by-step implementation manuals. Evaluation results will be disseminated regarding: collaborative mental health and substance abuse approaches for juveniles and adults with co-occurring disorders; the impact of family involvement, and the family as the unit of treatment; rehabilitation programs that include comprehensive skills building, job training directly linked to employment, and viable education programs; and cognitive behavioral approaches for juveniles. The conduct of national, regional, and state conferences and workshops will also be considered as means to provide follow up assistance.

High Intensity Drug Trafficking Areas (HIDTA): $192 million.—In fiscal year 2001, ONDCP is requesting $192 million for necessary expenses of the HIDTA program, $729,000 more than the enacted fiscal year 2000 budget. HIDTAs are designated regions with critical drug-trafficking problems that harm other areas of the United States. The ONDCP Director—in consultation with the Attorney General, Secretary of Treasury, heads of drug-control agencies, and appropriate governors—designates these locations. In addition to coordinating drug-control efforts, HIDTAs assess regional drug threats, develop strategies to address the threats, integrate initiatives, and provide federal resources to implement initiatives. HIDTAs strengthen America's drug-control efforts by forging partnerships among local, state, and federal law-enforcement agencies; they facilitate cooperative investigations, intelligence sharing, and joint operations against drug-trafficking organizations. The Department of Defense gives priority support to HIDTAs in the form of National Guard assistance, intelligence analysts, and technical training.

Since January 1990, counties in the following 31 areas have been designated as HIDTAs: Houston, Los Angeles, South Florida, New York, and the Southwest Border, which includes South Texas, West Texas, New Mexico, Arizona and Southern

California (in 1990); Baltimore/Washington, DC and Puerto Rico/U.S. Virgin Islands (in 1994); Atlanta, Chicago, Philadelphia/Camden (in 1995); Gulf Coast (Alabama, Louisiana, and Mississippi), Lake County (Indiana), the Midwest (Iowa, Kansas, Missouri, Nebraska, North Dakota, and South Dakota), Northwest (Washington), Rocky Mountains (Colorado, Utah, and Wyoming) (in 1996); Northern California (San Francisco Bay Area) and Southeastern Michigan (in 1997); Appalachia (Kentucky, Tennessee, and West Virginia), Central Florida, Milwaukee, and North Texas (in 1998); and Central Valley California, Hawaii, New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont), Ohio, and Oregon (in 1999).

The HIDTA program advances the National Drug Control Strategy by providing a coordination "umbrella" for agencies to combine anti-drug efforts through an outcome-focused approach. The resulting synergy eliminates unnecessary duplication of effort, maximizes resources, and improves information sharing within and between regions. Intelligence is coordinated at HIDTA Investigative Support Centers, which offer technical, analytical, and strategic support to participating agencies with access to agency databases and supplemental personnel. Currently, 949 local, 172 state, and 35 federal law-enforcement agencies and 86 other organizations participate in 462 HIDTA-funded initiatives.

Counterdrug Technology Assessment Center (CTAC): $20.4 million.—The fiscal year 2001 budget request for the Counterdrug Technology Assessment Center is $20.4 million, a decrease of $11,652,000 from the fiscal year 2000 enacted budget. This request consists of three parts: Research and Development (Technology) ($16 million), Technology Transfer Program ($3.7 million), and United States Olympic Committee Anti-Doping Program ($700,000). Today, scientists and engineers from many disciplines are assisting the Office of National Drug Control Policy in exploiting advances in science and technology to stem substance abuse and stop the illicit drug trade. The Counterdrug Technology Assessment Center (CTAC) technology development programs support the goals and objectives of the National Drug Control Strategy. The Blueprint Update released with the Annual Report provides a report on progress achieved this year.

Research and Development.—The applied technology efforts that comprise the CTAC R&D program address technology for demand reduction in areas such as brain imaging technology, therapeutic medications assessment and addiction treatment, and for supply reduction in areas such as drug detection, communications, and surveillance. Technologies are being developed to advance the capabilities of the medical, academic, scientific and criminal justice communities as they cooperate to solve the drug abuse problem.

Technology Transfer Program.—In 1998, Congress authorized a Technology Transfer Program (TTP) for CTAC to provide successfully developed technologies to State and local law enforcement agencies. Congress continued the TTP program in 1999 and 2000. CTAC organizes its technology program according to five categories or areas of work:

—Non-intrusive inspection,
—Tactical technology for federal agencies,
—Demand reduction,
—Technical assessments and operational test and evaluation of emerging technology, and
—Transfer of federally developed technology directly to state and local law enforcement organizations.

Support for Anti-Doping Programs.—This initiative expands current support for National Commission on Sports and Substance Abuse to identify problematic substances, masking agents, and gaps in current testing procedures. This funding will be used to (1) support the United States Olympic Committee's creation of an independent anti-doping agency for the United States; (2) support anti-doping programs for the Salt Lake Olympic games; and (3) support research on innovative approaches for screening for doping and other performance enhancing substances currently not detectable by urine tests will be investigated. Systems, methods and protocols will be investigated that will assist understanding and detecting the use of performance-enhancing drugs such as anabolic and androgenic steroids by athletes competing locally, nationally, and internationally. This funding will advance the goals of the Strategy for counterdrug use in sports.

CONCLUSION

The National Drug-Control Strategy responds to long-standing congressional concerns over the adequacy of the federal response to the drug problem. It provides detailed long-term plans for addressing domestic and international trends in drug use,

production, and trafficking. This Strategy is national in scope and purpose. The federal government cannot accomplish the ambitious objective of reducing illegal drug use by 50 percent without the support of all states and territories, the thousands of city, county, and local governments threatened by illegal drugs and foreign governments, the private sector, and society at large. This Strategy also recognizes that it is only the federal government that can undertake international drug-control efforts, consequently, it also promotes vigorous international cooperation.

We look forward to working with all the members of this subcommittee and, indeed, the entire Congress to ensure that the federal response to the nation's drug problem is comprehensive, appropriately resourced, and completely supportive of states, cities, counties, communities, families, and all citizens who share our commitment to confronting the cancer of drug abuse.

AUDIENCE RECOGNITION

Senator CAMPBELL. Before I ask you any questions, I have several and I am sure Senator Dorgan does, too, I noticed in the audience today a lot of young people. Would the people that are in the audience under 20 years old stand up for me? I saw a lot of them come in. Very good.

I want to tell you, I, as the chairman of this subcommittee, am very glad you are here. I hope you are listening to some of these numbers that the General has been talking about because a lot of the efforts that he has participated in and that this committee is trying to fund really is going to be directed at your age group, as you probably know. That is what we are really trying to make a big impact on, is the reduction of the use of drugs by our young people because we know that if we can convince young people who are using them that they do not need them and they do not have to have them, we do not have to worry so much about supply. If we can stop the demand for them in the United States, the supply will simply dry up.

So I just want to tell you that I am very happy you are here and I hope that you can stay as long as you can for the hearing today as we ask some questions. Thank you.

Before I ask some questions, Senator Dorgan did come in. Did you have an opening statement, Senator, before I start?

Senator DORGAN. Mr. Chairman, why don't you proceed. I will put my opening statement in the record and then I will ask the General some questions.

Senator CAMPBELL. That is fine.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Thank you, Mr. Chairman. General McCaffery, I am pleased that you are able to join us today and I welcome you to this subcommittee hearing. I appreciate the opportunity to speak with you about the very important issue of drug abuse in our society and I look forward to hearing your testimony about the progress that has been made by your office since your appearance before this committee last year.

Your fiscal year 2001 budget request calls for $496,800,000 in funding. This request is an increase of $35,358,000 over the fiscal year 2000 enacted budget. As you know, the competition for existing dollars is tight and this committee needs to be vigilant in ensuring that these dollars are being spent wisely.

As you are well aware, in excess of $182 billion has been expended in efforts at combating illegal drug use in the past nine years. This certainly demonstrates our commitment to stemming the flow of illegal drugs and reducing drug use. In that light, I hope that you will focus your testimony on showing this committee evidence that the sizable investment made by the Federal Government in combating illegal drugs is paying dividends and that the overall drug reduction strategy overseen by your office is working.

I would like for you to discuss the individual programs that make up our national drug control strategy.

Despite our efforts in combating the problem of drug abuse, the use of certain individual drugs continues to rise. The increase in the use of so called "hard drugs", such as heroin and cocaine, is particularly disturbing. I want to explore with you how we can reverse this trend

As part of your fiscal year 2001 budget, a request was made for $195,000,000 for the third year of the planned five-year national media campaign. Your efforts in developing this program to educate our children as part of your overall strategy are to be applauded. I realize that you have developed a five-year media program, however I would like for you to discuss what success this program has achieved to date, and how you measure success.

I also look forward to hearing your testimony about our efforts on the international front, particularly our current relationships with Colombia and Mexico. As I mentioned in last year's hearing, I still have doubts about the certification of Mexico as a cooperating partner in the efforts to stem the flow of illegal drugs coming across our southwest border. I wonder whether there has been any significant change in Mexico's cooperation with us on this front.

Finally, I would like for you to discuss the issue of drug treatment and rehabilitation and how they fit into the overall national strategy. As you are aware, a tremendous problem exists with repeat drug offenders and the cycle of abuse and its associated crime. These offenders are arrested, sent to jail, released and fall back into a pattern of drug abuse. This cycle is repeated over and over again. In many areas of the country, treatment is almost nonexistent and in other areas, including Washington, D.C., the waiting list to receive treatment is far too long.

I commend you on all of your efforts to address this extremely difficult problem, and look forward to your testimony.

Thank you, Mr. Chairman.

DOPING IN SPORT

Senator CAMPBELL. I am going to just bounce around a little bit here based on some of your testimony. As you know, you mentioned I was a former Olympian and am still very active with the Olympic Committee and have regular meetings with them, and some concerning the use of drugs. I recognize the important involvement you have had with the Olympic team. The last time I met with Bill Hibble, who is the chairman of the USOC, he told me they are going to have a big problem coming up that you probably will not be involved in, but you ought to be aware of, and that is what we call drugs in some countries they call food, as you probably know.

Some of the Oriental countries, for instance, concentrated substances from natural plants, they still determine to be food and not drugs, whereas in this country, depending on how it is processed, how it is used, and so on, we sometimes categorize it as drugs. I do not know how that is going to play out in future Olympic games, but I am sure that you are aware of it.

YOUTH DRUG USE RATES

Let me also ask you a couple of questions about the media campaign, about a number of things. I was looking over your charts and listening to your testimony and trying at the same time to read a little bit in the National Drug Control Strategy booklet. You will have to explain this to me, because something does not jive very well.

I think that your comment, that the attitudes of young people are changing may very well be true, but I am not too sure about the youths based on the charts. On page 14 of this particular booklet, look at the average age of the first marijuana use, in fact, since we have started this national media campaign, it was level for a

couple of years and now it seems to be going back up. In 1997, the last year it shows here, the average age at which somebody started using it was 17.1. It went up slightly there. It stayed level a couple of years before that. The current use in the past month of marijuana looks to be steady in the last three years, pretty much steady.

On the next page, page 16 and 17 under the use of cocaine, current cocaine use, pretty much steady. It was up a little in 1996, dropped a little in 1997, went back up in 1998. The next chart down, it has gone up in 1995, 1996, and 1997. That is first-time users of cocaine. And the bottom chart, the average age for the first cocaine use, it dropped for the first couple of years, 1996, 1997, and it has gone back up a little bit.

Am I seeing some disparity between what is in the book and what you are telling us on the charts? I mean, I can understand you saying that attitudes are changing, but I am not sure the attitudes are translating into less use.

Mr. MCCAFFREY. Trying to make sense out of this is tough. To some extent, there are six major annual federally funded studies, so you have to know which study you are talking about. Is it the Household Survey or Monitoring the Future? They survey different populations. Let me tell you where I come out on it.

What is unmistakable is we have a dynamic drug abuse situation for America's youngsters, and that is the heart and soul of it. If we can get kids from age 10 to 19 reasonably drug-free, statistically they will never become 30 year old HIV-positive chronic addicts.

When you take the youth population, there are new drugs they are facing. This is no longer your daddy's drug environment. They are looking at methamphetamines, MDMA, and high-purity heroin. The use of inhalants has gone up. It is a different drug environment.

The age of initiation is dropping, you are quite correct, and that is scary. It is not college sophomores. We are talking eighth graders.

Finally, I think the good news is what is unmistakable, what is statistically significant for the first time in 5 years is that drug use rates among 12- to 17-year-olds went down last year by 13 percent, and it is even greater by——

Senator CAMPBELL. Say that again, please.

Mr. MCCAFFREY. Last year, Donna Shalala and I released the statistics. Adolescent drug use in America went down by 13 percent. Now, it is too early to get very optimistic.

Senator CAMPBELL. That is all age groups, or youth age groups?

Mr. MCCAFFREY. Age 12 to 17.

Senator CAMPBELL. 12 to 17?

Mr. MCCAFFREY. That is the youth age group. We are looking forward to next year's data. But now PDFA, PRIDE, I have four studies that cluster around the same notion. After several years of going up, it has leveled off. It is definitely moving in the other direction. The challenge to you and I is, can we say that for 5 years in a row?

Senator CAMPBELL. Well, I know things do not happen overnight, and I understand that, and I think that is why Senator Dorgan and I have really been so supportive of the media campaign where we

have had to take money out of other accounts. I recognize they are not going to change attitudes overnight among young people when the draw is so strong and the peer pressure is so strong.

Mr. MCCAFFREY. Mr. Chairman, there are other measures that indicate whether that media campaign is being heard, believed credible, and causing people to act. Some of them are almost unarguable. You put an article in "Parade" magazine, you put down a 1–800 number, and the calls will peak and go off the chart. You start doing it in Spanish—there are 16 million of us who speak Spanish at home at night—and people call into the National Drug Clearinghouse and ask for a pamphlet, "How to Talk to Your Kids About Marijuana," in Spanish, and the mail-outs have gone up dramatically.

Concerning coalition building, the Ad Council is here, represented by Donna Feiner. We are seeing people attracted into their community coalition by these ads.

Senator CAMPBELL. Well, the underlying thesis of all advertising, whether you are selling toothpaste or cars, is that you can change behavior based on image and suggestion and so on, so I certainly hope it is working.

HIDTA AND CTAC

Let me move on a little bit. I was happy to hear what I view as somewhat, your increasing support of the HIDTAs. A few years ago when they were started, I know there was a matter of discussion whether they were going to be effective or not. I know the one we have in Denver has been hugely effective in that all the different agencies are involved in it. They swear by it. They are also becoming community involved. As you probably know, I think that the HIDTAs are good, where they are working with anti-gang groups and things of that nature. So I am glad to see that you are supportive of that.

Let me ask you about CTAC, which I am also a big supporter. I have been to several of their demonstrations out in the field where we have all kinds of different agencies come in, from large agencies, small ones, and so on, where they learn how they can avail themselves to some of this very sophisticated equipment that they would never have the money to develop on their own in the departments.

According to the information provided at last week's law enforcement technology demonstration, CTAC, displayed a very extensive technology display and many of our colleagues came over to see that and I was gratified that they did come and see it. But it appears that the program has experienced significant growth since being initiated by Congress. Based on your numbers during the 24-month period of fiscal year 1998 and 1999, there were 662 requests. During the first six months of fiscal year 2000, there were 641 requests. So the requests are going up, no question about it.

And yet you have a rather large reduction in your request for funding, and I see it as about a 72 percent cut. If we cut that account, how long are those funds going to last at these increased requests?

Mr. MCCAFFREY. Senator, I think there is some budget analyst gamesmanship going on here. There are two numbers I look at to

try and understand this. The $3.7 million, if you look back over the last 4 years, each year, we actually request more money than the last, but it is grossly below what Congress enacts, which also goes up each year. I asked OMB for more than the amount of money I have got on the table. I did not get it and, of course, this is what they have to do by law, try to balance the budget.

I think we obviously would stand intellectually behind a much richer resourcing of this program. Law enforcement in America is benefitting from this in very fundamental ways.

Senator CAMPBELL. There is no question about it, the display that was here the other day that I attended and Senator Dorgan attended, I have to tell you, some of that stuff was really kind of like Buck Rogers. I mean, I had no idea that some of it was so sophisticated, and a lot of it is not related to your office, but the amount of counterfeiting, things of that nature that are going up is just phenomenal.

Let me talk about the recisison a little bit. You have the flexibility to choose where some cuts are going to be, and in the fiscal year 2000 budget, there was a reduction in your budget. It allowed you the flexibility to determine where you were going to cut. As I understand it, you chose to cut the model State drug laws program and a technology program and a HIDTA program, and yet from what I hear you saying, you are very supportive of all three of those. Do you want to comment on that?

DRUG COURTS

Mr. MCCAFFREY. It is one of these least palatable of all decisions kind of operations, and also a factor of where do I have money. Even some programs—model State Drug Laws, at $1 million, it is a tiny amount of money but it is a very significant payoff over time to make sure that States get access. That Model State Drug Law is a pilot document that is about 4 feet high, so even that one is very important to us.

Senator, we just did an analysis on how we could minimize damage to the drug Strategy, and that is the outcome. But I clearly stand behind all those programs.

Senator CAMPBELL. I appreciate that, because I think that the majority of the committee members do, too.

One more, on the National Drug Court Institute, I attended a drug court with you in Denver and was very gratified at the effect that the drug courts are having, as you remember. There was $2 million provided in the fiscal year 1999 appropriations for the National Drug Court Institute. In fiscal year 2000, you requested and Congress funded an additional $1 million. The language included with the funding was modified at your request to make it easier for ONDCP to transfer the funds. The funds have not yet been given to the Drug Court Institute. Is there a reason for that?

Mr. MCCAFFREY. Besides the normal mindless bureaucracy, I do not know why. They are doing a splendid piece. Money will be transferred via OJP. Let me go look into it.

Senator CAMPBELL. All right. If you would look into that and perhaps report back to the committee, I would appreciate it.

Mr. MCCAFFREY. I will do that, because we cannot keep the National Drug Court Institute going unless there is documentation,

training, and structure Judge Tauber has done a brilliant job with a small staff of pulling this together, so that money is a huge payoff.

Senator CAMPBELL. I bet it is. Okay, thanks. I do not want to monopolize the time. We are going to have a vote at about 10:30 or so. We have the choice of either recessing and reconvening and making you stick around for a long time or trying to finish up our questions before then, so I would like to ask Senator Dorgan for his questions.

NATIONAL YOUTH ANTI-DRUG MEDIA COMPANIES

Senator DORGAN. Mr. Chairman, thank you very much.

General, I was delayed for a couple of minutes because of another committee, so I will just put my statement in the record. In the statement, I essentially agree with Chairman Campbell. I think much of what we are doing here cannot be measured in a week or a month or a year, especially with respect to the media program that all of us are involved in. We have committed a substantial amount of money to that at your and the administration's request. I support that. I am glad we have done it and I recognize fully that that is not something that can be measured in the short term. You can try very hard and should try to understand what are you getting for what you are spending, but I think only after a rather lengthier term will we be able to understand what we have accomplished with this.

The reason I supported it going in is that I think it is clear that those who understand how people react to television advertising and the power of advertising on television and radio and in newspapers, the power of it affects the way people think and the way they make purchases and the way they respond and behave and act. So I still remain hopeful that the early signs are encouraging and I remain hopeful that this will have a much more significant impact than even now we can hope to expect. I guess we will know more about that in the next couple of years, but I hope we can continue that program without break and without interruption.

CHRONIC DRUG USE RATES/TREATMENT

I would like to talk to you just briefly about the issue of addiction in the country. We are talking, first with television programs, about trying to talk to kids in this country. Do not do drugs, do not start drugs, here are the dangers and so on.

Let me talk to you just a bit about the people who already are addicts in America. I want to lead to questions about the Break the Cycle program and other related programs. Can you tell me roughly how many addicts in this country are addicted to hard drugs?

Mr. MCCAFFREY. Well, again, I have to show you which study I am using——

Senator DORGAN. I understand, but——

Mr. MCCAFFREY. The quick answer is there are 5 million Americans who are chronically addicted to illegal drugs. Most of those are poly-drug abusers, so they would include alcohol, 5 million people.

Senator DORGAN. And exclude alcohol, if you will, for the moment. Even the chairman and I on the floor of the Senate, in an

amendment last year had to distinguish between what we are doing with respect to drugs and alcohol.

Mr. MCCAFFREY. Right.

Senator DORGAN. Nobody is more insistent on dealing with the alcohol issue than I am. I have lost a couple of family members——

Mr. MCCAFFREY. The answer is five million. There are another 10 to 16 million——

Senator DORGAN. But that includes alcohol.

Mr. MCCAFFREY. Many of them are also using alcohol. There is almost no heroin addict that does not use alcohol, too.

Senator DORGAN. So there are 5 million drug addicts in this country?

Mr. MCCAFFREY. Chronic drug addicts.

Senator DORGAN. Chronic drug addicts.

Mr. MCCAFFREY. They consume two-thirds of all the drugs in America and they are at the heart and soul of the misery that is engendered by this problem.

Senator DORGAN. All right. Five million drug addicts consume two-thirds of the drugs.

Mr. MCCAFFREY. Right.

Senator DORGAN. Do we have any data about the percentage of those 5 million drug addicts who would like to shed their addiction, who search year to year, month to month for ways to shed this addiction?

Mr. MCCAFFREY. There is the key question, because you get into the treatment coefficient, how many are amenable to treatment and what forms of treatment are appropriate, and we have some real experts in the room, Dr. Linda Wolf Jones, among others. I just spent an afternoon with Dr. Mitch Rosenfeld of the Phoenix House, who runs one of the biggest programs in the country.

I do not know what the answer is. I do know some things for sure. If I am in misery as an addict, and I am, and you arrest me, or if I have a serious traffic accident and I end up in a hospital emergency room, or I finally get humiliated because I lost my children to the welfare system, at that point, I will be receptive to effective drug treatment. If it is available then, it is likely to do some good for the community and for me. If it is not available then, you tell me to come back in 92 days, you can forget about it. That is the problem. It is both timing and availability.

Senator DORGAN. Where I am going with my train of thought here, and the question, is the importance of treatment availability when it is needed, at the moment it is needed——

Mr. MCCAFFREY. Yes, sir.

Senator DORGAN [continuing]. Especially as it relates to mandatory treatment in incarceration.

Mr. MCCAFFREY. Absolutely.

Senator DORGAN. One of my concerns is that we worry a lot about the entire spectrum. We are talking about Colombia, production and interdiction and all of these issues, and over on this side of the spectrum we have got the issue of treatment, and you have 5 million people addicted. I have seen data about how many would like to shed their addiction but cannot find treatment facilities because we are woefully short of treatment facilities.

I wonder if I could just get on the record here, on the treatment side of this issue, what kind of capability do we have to provide treatment—and I am not talking about those who are incarcerated, because I am going to ask you about those in just a moment—what kind of capability do we have to fund treatment centers? Are sufficient treatment centers available? I am expecting the answer to that is no. How can we make them available? What kind of resources would be necessary to make sufficient treatment centers available to those that would like to shed their addiction?

Mr. MCCAFFREY. They are pretty complex questions and I would actually like to provide you a response in writing. It seems to me we have 5 million chronic addicts. We think we have a capability of a little over 2 million treatment spaces. It is clearly not adequate. It is not adequate in Baltimore. It is not adequate in rural communities.

You can go down to subsets of the problem. Heroin addicts in America, there are probably 900,000-plus. Next week, I go to the American Methadone Treatment Association meeting in San Francisco and will underscore the fact there are 179,000 who have access to methadone. This is the most widely studied and effective therapeutic tool we have for chronic drug abuse, and we have eight States that will not allow methadone. We have structural inconsistencies. We have inadequate infrastructure. We have inadequate regulation.

We are moving in the right direction. The Federal support, for the first time in history, this year, Donna Shalala has on the table $3,150,000,000 in drug treatment. It is up 32 percent in the last 5 budget years. We are rewriting the regulations, Dr. Wesley Clark and CSAT, to try and more effectively govern buprenorphine and methadone and LAMM.

All these programs are moving ahead, the criminal justice link to drug treatment. We are trying to, without question, move on parity in health care insurance for mental health and drug treatment insurance. We have to do that. Right now, if my 16-year-old boy is chronically addicted and I have Blue Cross-Blue Shield, you, the taxpayer, are likely to pay for his drug treatment after you arrest him. We have got a nonsensical system here. There has to be a no wrong door access to the medical system.

These are hard sells because drug addicts' behavior is so disgusting, reprehensible, and frightening that the medical community and many of us do not want to rationally face up to as a public policy measure what to do about it.

Senator DORGAN. Let me just say that I hope you would work with the experts and give me some quantitative analysis of the amount of resources devoted to treatment capability and opportunity relative to the need. If we had more resources available, what kind of need would we fill that is now unfilled with respect to treatment? If you would do that, I would appreciate that, because I think it is very important as we deal with this continuum that we be pushing very hard on allowing those who are addicted—who desperately want to shed this addiction—to understand that this country will provide treatment opportunities for them.

Now, let me just quickly wrapup, because we do have time constraints and I agree with the chairman, once we run over to the floor and get involved in votes, we would keep you forever here and I do not want to do that. My feeling is that we ought not let people out of prison who have been incarcerated with a drug problem and then leave the same incarceration facilities with the same drug problem.

I visited Oak Hill detention center some while ago here in the District of Columbia and met with these young kids, some of them the toughest criminals you would ever want to meet. Those with drug problems have been put through a program out there that is very impressive. I mean, I came away from that just thinking, what a terrific thing to do for these kids, to take them and give them a chance to shed their addiction to drugs and understand what it did to them and what it did to put them there.

But I know that in many prisons around the country, many facilities of incarceration, people get thrown in and they are back on the streets and no one has done a damn thing about their drug problem. That itself is almost criminal, because we know what is going to happen when that person hits the street. Another crime victim is waiting there for that person to commit a crime.

So where are we with all of this and what do you recommend to us so that we could find a way to force this to happen all across the country? To ensure that people coming out of incarceration who have had drug problems would be expected to have had treatment for those problems in the incarceration facilities?

Mr. MCCAFFREY. We have a lot of people who now understand what you just said. That is the good news, to include here in Congress. We had the national assembly, Attorney General Reno, Secretary Shalala, and I brought in the 800 people from around America who run the corrections and the treatment systems. We brought in State legislators. The central part of the solution is in State government. There are 900,000-plus prisoners at the State prison level, 600,000 at county-city lockup, and 120,000 in the Federal system. The Federal Bureau of Prisons is doing just fine. They are not completed, but all 42 Federal lockups now have some form of drug treatment program.

Senator DORGAN. Mandatory for those who are addicted?

Mr. MCCAFFREY. I do not want to overstate the case. We say drug treatment is in all the Federal prison systems. I do not think we are there adequately, but that is the best of the lot. The problem comes, what do you do about the half-million people a year who are released from incarceration, most of whom have a drug and alcohol problem? Is there a system there to track them back into their community with drug testing, halfway houses, et cetera, and the answer is no.

We are going to try to take the notion of reentry courts. We have the drug court system on the front end, the non-violent, probably non-felony offender, we mandate treatment and have some coercive capability out of the judge. We see the back end of it being done the same way, that you are released out of max security, super max in California. Right now, you come out, there is no legal con-

straint on your behavior at all. Then you have gone back to your community and there is no drug treatment program.

I do think we have made the intellectual arguments that are required. We have a white paper out that I would be glad to share with you. We have to work at this, though. This is a 10-year challenge, I would argue, to build the kinds of infrastructures to do what you are talking about.

CONCLUSION

Senator DORGAN. Thank you very much, and I will not ask further questions. I have a couple others I will send to you. But let me also ask if you would send to me information about the Federal system vis-a-vis the release of convicted felons with drug problems and what you would recommend to make our efforts here more ubiquitous and to have some feeling that at least in the Federal system for which we are responsible, when we are releasing someone who is incarcerated with a drug problem, to ensure that person who is being released has gone through a treatment program? What resources do we have to devote to that? What kinds of approaches do we have to use to accomplish that?

And let me finally say that I appreciate your work. I think you are working in a very difficult area. I think you have brought significant leadership to it. You have been involved in some controversies and will be in the future, but that is because you are working in a very controversial area, but nonetheless a very important one for this country and I appreciate your public service.

Senator CAMPBELL. I second that, too, General. I think you have found that this committee has done everything we can for the ONDCP and will continue to do so.

I have no further questions, but I did want you, I and Senator Dorgan maybe to learn something together here. We still have some young people in the audience, a few of them left, I notice, but we still have some there in their late teens. I want to ask those people here in front of the General something, since you are kind of the experts on what teenagers do. If there is anybody back there among our young visitors who read the editorial page of U.S. News and World Report, Parade magazine, USA Weekend, or magazines, you may pick up the magazines and read them, but do you read the editorial page? Okay, no.

I mention that, General, because we have had some discussion about credits and matches with television commercials in lieu of buying ad space, and I noticed with interest the one article by Daniel Forbes, and this was, I guess it was on the Internet, but in any event, it talks about the ONDCP. The office allowed six magazines, U.S. News and World Report, some of them that I had mentioned, to submit their editorial content to qualify as a substitute for advertising pages owed to the Government under the single-year advertising contracts. We have talked about this in other media, with the television——

Mr. MCCAFFREY. Senator, the problem with Dan Forbes' work, is that it is factually inaccurate.

Senator CAMPBELL. Is it?

Mr. MCCAFFREY. Let me provide you a written response.

Senator CAMPBELL. Okay.

Mr. MCCAFFREY. He is wrong on his facts. Dan Forbes is writing for the Media Awareness Project, which is actually a pro-drug legalization group under a pseudonym. I do not think this fellow's journalism is balanced. In that case, it is factually just not what the situation is.

Senator CAMPBELL. So what you are saying is that the ONDCP did not let them substitute editorial content.

Mr. MCCAFFREY. No. Editorials are out of the question. Whether it is newspapers or magazines, it does not count for pro bono match.

Senator CAMPBELL. Well, I hope not, because I just have a hunch that young people do not read those editorials.

Mr. MCCAFFREY. Right.

Senator CAMPBELL. In fact, I do not read most of them.

[The information follows:]

With respect to factual inaccuracies in Mr. Forbes' articles, attached is the agency's reply from ONDCP's Assistant Director of Strategic Planning, Robert Housman, to Salon.com detailing the errors in Mr. Forbes' characterizations of the matching component of the Campaign as applied to magazines.

The errors in Mr. Forbes' reporting have already been recognized by other widely respected media outlets. For example, the New York Times, which relied on Mr. Forbes' earlier reporting that the Campaign was somehow secret, has subsequently corrected the record at ONDCP's request, and stated that the Campaign was not secret.

With respect to the question about the use of "editorial content" in magazines for matching credit, ONDCP does not allow "editorials" to qualify for match credit. Nor do we allow "hard news" stories to qualify for match credit. However, magazines may submit already published stories (content as opposed to editorials) that are "on message" for Campaign match credit.

EXECUTIVE OFFICE OF THE PRESIDENT,
OFFICE OF NATIONAL DRUG CONTROL POLICY,
Washington, D.C., April 10, 2000.

Mr. DAVID TALBOTM,
Editor in Chief, 22 4th Street, 16th Floor,
San Francisco, CA.

DEAR MR. TALBOT: The purpose of this letter is two-fold. First, I write to once again ask Salon.com ("Salon") to set the record straight with respect to the errors in Salon's earlier reporting, which were set out in my last letter to Mr. Gary Kamiya of Salon. Second, I write to raise factual errors with respect to the latest article in Salon, "The Drug War Gravy Train."

SALON HAS AN OBLIGATION TO CORRECT THE RECORD ABOUT OPENNESS

In my prior letter ONDCP provided you with extensive documentation that proves that, contrary to the reporting of Mr. Forbes and Salon, the Youth Campaign was in no way secret. In fact, well before Salon's focus on the Youth Campaign, as we documented for you, the use of content within the match element of the Youth Campaign had appeared on the front page of the Los Angeles Times and on the pages of USA Today. It was also the subject of opinion editorials by Director McCaffrey in papers across the nation. We had also testified extensively about this element of the Youth Campaign before the Congress. And, it was the Congress that actively voted to require the match requirement of the Youth Campaign and to allow for the use content.

As my earlier letter underscored, based on these facts the New York Times Sunday Magazine, which relied on Salon's reporting in calling the Youth Campaign secret, has had to subsequently correct the record. Moreover, the New York Times' inaccurate comments about the Youth Campaign were far more restrained than those that appeared in Salon.

We must, once again, formally call upon Salon to retract its reporting that the Campaign was secret. As Salon seeks to establish a niche as legitimate journalism on the Internet, it is imperative that your readers have full confidence in the factual basis of your reporting. Allowing such a clear error as this to go unanswered is not only wrong, it will undermine Salon's long-term credibility. Certainly, if the New

York Times, one of the nation's most respected newspapers, felt the obligation to correct the record, Salon, which actually started this false allegation, should do so as well.

Salon has a particular obligation to correct errors of fact in Salon's prior reporting because in his recent column Mr. Forbes writes that ONDCP's relationship with television networks "was revealed in Salon earlier this year." This repeated error of fact, after we have made this error clear to Salon, is completely unacceptable. As we stated in our last letter Salon "no more broke this story or uncovered some trumped up secret than did any reader of the August 20, 1998 Los Angeles Times or the November 2, 1998 USA Today."

SALON'S CONTINUING PATTERN OF FACTUAL ERRORS

In addition to the errors in Salon's prior reporting, your latest article about the Youth Campaign continues to completely ignore the facts. Each of the following factual errors are so clear that they too require Salon to correct the record.

—In your latest article, Mr. Forbes writes that the Office of National Drug Control Policy requested the Sporting News to assign a specific reporter to write stories about drugs. This is completely false. Through hearsay, Mr. Forbes attributes this statement to the editor of the Sporting News, Mr. John Rawlings. However, Mr. Forbes never spoke with Mr. Rawlings to confirm this allegation. Had he taken this most basic reporting step he would have found out that ONDCP did no such thing. I have attached an email from Mr. Rawlings that provides for the record that Mr. Forbes' reporting is false.

—Mr. Forbes directly quotes Mr. Rich Vietri, an employee of an ONDCP contractor, in his article. His article gives the false impression that Mr. Forbes interviewed Mr. Vietri in preparing the article (e.g.: "Vietri noted"; "according to Vietri"; "Vietri stated last year"; "Vietri confirms"). In fact, Mr. Vietri has never knowingly spoken with Mr. Forbes or any other reporter about the program. Unless Mr. Forbes interviewed Mr. Vietri under false pretenses, his technique is a deliberate effort to mislead Salon's readers in order to give his reporting credibility.

—Mr. Forbes' further argues "that the U.S. government is using taxpayer money to, in effect, reward publications whose editorial content matches the government's views on drugs." This is also false. A particular magazine's editorial bent on any given issue has no role in the Campaign's decision as to whether to advertise in that magazine. Such decisions are based upon the ability of any given magazine to effectively reach our target audiences (youth and adult youth mentors). The specific criteria for the purchase of ad space are guided by the professional standards and practices of the advertising business. Additionally, such advertising decisions are not made by the government. They are made by advertising agencies that are experts in the field, without government interference.

—Mr. Forbes refers to ONDCP as a "law enforcement agency." This is inaccurate. As a matter of fact, ONDCP is a policy coordinating office. ONDCP has no operational law enforcement statutory authority.

—Mr. Forbes reports that the magazine Seventeen has been credited $70,000 by the Youth Campaign for published content. Here again, Mr. Forbes is wrong. Seventeen has submitted content for credit. However, as of this date, no decision has been made on these submissions.

—Salon reports that ". . . Family Circle snared the drug control office's second-highest magazine buy: $1,425,000 last year." In fact, between June 1998 and July 1999, the Campaign has bought only $526,138 in advertising from Family Circle. Salon's reporting is off by roughly three-fold or approximately $1 million.

—Mr. Forbes' description of USA Weekend's efforts confuses a paid insert or advertorial (which will clearly indicate ONDCP's sponsorship) with editorial content submitted for match purposes.

—In what he describes as "an unusual example," Mr. Forbes writes that USA Weekend "submitted paragraphs culled from four different articles in an attempt to cobble together enough government-endorsed column inches to physically add up to one full page." This is false. In fact, USA Weekend has only submitted two full stories for possible match credit: "Tackling Tough Topics with Kids," December 3, 1999, and "Mackenzie Phillips: One Day at a Time," August 13, 1999.

—Mr. Forbes also writes that: "When Congress appropriated nearly $1 billion for the anti-drug program in late 1997, it added the stipulation that the drug-control office get all of its advertising at a 50 percent discount." Again, he is wrong. The statutory requirement is not a 50 percent discount on ads. The requirement is that for every public dollar spent, we must get an equal dollar's value of pub-

lic service, which may or may not be ads. In fact, we often buy ads at full market price and receive other forms of public service, such as content, as the public service match. Further, the use of content and other outreach tools by the Campaign was specifically authorized by the Congress. Moreover, the statutory "match" requirement was established in 1998 as part of ONDCP's reauthorization not the Campaign's 1997 appropriation.

That Salon would twice publish error-laced articles by Mr. Forbes calls into question Salon's journalistic standards. In this latest article Mr. Forbes' describes arrangements with six magazines; his description of each contains substantial factual errors.

While no one is above imperfection, it is troubling that so many important factual errors slipped unnoticed through Salon's editorial process. Let me underscore, I have not raised for you judgement calls, but only obvious errors-calling something reported on the front page of the LA Times secret, misrepresenting public laws, attributing a statement to a person without ever checking with the purported source, and the like. Since these clear errors have now made it into your publication, we must ask that you now without delay correct each of these errors for your readership.

Thank you for your review of this situation. I look forward to your reply.

Sincerely,

ROBERT HOUSMAN,
Assistant Director, Strategic Planning.

SUBMITTED QUESTIONS

Senator CAMPBELL. We have additional questions that will be submitted in writing to be answered for inclusion in the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

CTAC TECHNOLOGY TRANSFER

Question. Mr. McCaffrey, according to the information provided at last week's law enforcement technology demonstration, at which CTAC displayed technology used in the tech transfer program, it appears that this program has experienced significant growth since being initiatied by Congress. Based on your numbers, during the 24 month period in fiscal year 1998 and fiscal year 1999, there were 662 requests. During the first six months of fiscal year 2000 alone, however, there were 641 requests. By my calculations, the requests are running approximately four times higher than previous years.

If this program is so effective and so popular, why did you propose a 72 percent cut?

Answer. The President's budget request includes various trade-offs that are necessary to accomplish the mission within the budget ceilings. The ONDCP budget request for fiscal year 2001 submitted to the Office of Management and Budget (OMB) included $20 million to support the Technology Transfer Program. OMB set the ONDCP fiscal year 2001 Technology Transfer Program budget request at $3.7 million. This amount is contained in the President's budget request.

Question. At this pace, how long will the fiscal year 2000 funds last?

Answer. All fiscal year 2000 funds have been obligated and allocated to equipment purchases, training, and program administration costs. The pie chart shows the distribution of the $13,052,000: 84 percent of the funding has been allocated to purchase of equipment, 6.4 percent for training and support, 5 percent for program administration, 2.6 percent for promotion and outreach (workshops and leadership meetings), and 2 percent for program evaluation (includes monitoring 60/180/270 day evaluations by recipients).

Between October 1, 1999 and March 13, 2000 the Technology Transfer Program received 1,954 requests from 670 agencies, which has resulted in deliveries of 593 items to 500 agencies.

Question. How much would it take to cover all of the fiscal year 2000 requests?

Answer. Approximately four regional one-day workshops are held each year to acquaint state and local law enforcement agencies with those technologies available through the Technology Transfer Program. To ensure a continued timely response to the law enforcement organizations seeking support, the planned number of one-

day regional workshops for fiscal year 2000 has been reduced. If workshops had continued at prior year rates, requests would exceed 3–4 times those received in prior years. This amount of requests would correspond to deliveries totaling an estimated $26,000,000 during a single year.

Demand for Technologies.—Local police and sheriffs departments comprise 89 percent (13,578 police and 3,088 sheriffs) of the over 18,000 state and local law enforcement agencies in the United States. The smaller departments have limited budgets and competing priorities making them the prime targets to receive technologies offered by the program.

The figures below show percentage of deliveries achieved by population size and agency type for fiscal year 1998—fiscal year 2000. The program has delivered 80 percent of the total deliveries to population centers less than 500,000.

Deliveries by Population

[Fiscal year 1998–2000]

	Percent
More than 1,000,000	12
500,000 to 1,000,000	6
100,000 to 499,999	21
50,000 to 99,000	15
Less than 50,000	46

Deliveries by Agency Type

[Fiscal year 1998–2000]

	Percent
Police	53
Sheriff	26
Task Force	10
High Patrol/State Police	3
Public Safety	4
Other	4

STAFFING

Question. Mr. McCaffrey, as part of last year's conference report, ONDCP was required to realign your staff from the Office of Legislative Affairs, Office of Public Affairs or the Office of the Director. In your November 1, 1999 response you only address two of the positions realigned.

Can you provide an update on how you have complied with the congressional directive?

Answer. In November 1997, ONDCP created the Financial Management Office (FMO) to oversee all financial matters pertaining to the HIDTA, CTAC, the Special Forfeiture Fund (now housing funds for the National Youth Anti-Drug Media Campaign, the Drug-Free Communities Program, and several smaller programs), the Salaries and Expenses Budget, and the Gift Fund. Establishing the FMO clearly has benefited ONDCP in terms of increasing the efficiency in which it manages the increasing funds appropriated to ONDCP for the programs Congress has entrusted to it as well as internal operations.

ONDCP's fiscal year 2000 request to the Congress for 2 additional FTE for the FMO was a direct result of both the increased amount of funds appropriated to ONDCP for its programs and the tremendously positive impact the FMO had to date on ONDCP's financial management processes.

Likewise, ONDCP's fiscal year 2000 request to the Congress for 2 additional FTE for the HIDTA Program Office was a direct result of the increased amount of funds appropriated to HIDTA, the increased number of designated HIDTAs, and the need to continue quality program oversight.

Just prior to receipt of Conference Report 106–319, ONDCP transferred one FTE from the Office of the Chief of Staff to the Office of Demand Reduction (a second staff person for the Drug-Free Communities Program) ; one FTE from the Office of the Director to the Office of Supply Reduction; and one FTE from the Office of Legislative Affairs to the Office of Demand Reduction (a staff person for the National Youth Anti-Drug Media Campaign).

Subsequent to these FTE transfers to fill critical needs, ONDCP still perceived a need to increase the number of personnel assigned to the FMO and HIDTA program Office.

ONDCP did in fact increase the Offices of Financial Management and HIDTA by two FTEs each. The four slots were achieved as follows:

—Legislative Affairs was reduced by one FTE (in addition to the FTE referenced above);
—Public Affairs was reduced by one FTE;
—2 additional FTEs were realigned within the Bureau of State and Local Affairs to increase HIDTA slots by two FTE. One position was realigned from the Regions Office and the other, an unfilled vacancy, was realigned from the Justice and Law Enforcement Office to an upgraded HIDTA FTE.

ONDCP was able to enact an internal realignment within the Bureau of State and Local Affairs, to focus more staff and attention on HIDTA, where it is most needed. The ONDCP Director's immediate office consists of only six staff members and it was not in the agency's overall interests to reduce their numbers.

Question. Have all four of the FTE positions been realigned and filled?

Answer. All four of the FTE positions have been realigned. Of the two positions realigned to Financial Management, one FTE is filled and a selection has been made for the other FTE. We anticipate the candidate will report for duty mid-May. Both positions realigned to HIDTA are filled.

Question. Were all four FTEs moved from the Office of Legislative Affairs, the Office of Public Affairs, or the Office of the Director to the HIDTA program (2 FTE) and the Office of Financial Management (2 FTE) as mandated by Congress?

Answer. In November 1997, ONDCP created the Financial Management Office (FMO) to oversee all financial matters pertaining to the HIDTA, CTAC, the Special Forfeiture Fund (now housing funds for the National Youth Anti-Drug Media Campaign, the Drug-Free Communities Program, and several smaller programs), the Salaries and Expenses Budget, and the Gift Fund. Establishing the FMO clearly has benefited ONDCP in terms of increasing the efficiency in which it manages the increasing funds appropriated to ONDCP for the programs Congress has entrusted to it as well as internal operations.

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Question. What was the total number of FTEs for the Office of Legislative Affairs prior to the shift and what is the total number of FTEs now?

Answer. There were eight FTEs in the Office of Legislative Affairs prior to the shift and now there are six.

Question. What was the total number of FTEs for the Office of Public Affairs prior to the shift and what is the total number of FTEs now?

Answer. There were six FTEs in the Office of Public Affairs prior to the shift and now there are five.

Question. What was the number of FTEs for the Office of the Director prior to the shift and what is the total number of FTEs now?

Answer. There were seven FTEs in the Office of the Director prior to the shift and now there are six.

Question. What was the number of FTEs for the HIDTA prior to the shift and what is the total number of FTEs now?

Answer. There were 4 FTEs in the HIDTA prior to the shift and now there are six.

Question. What was the number of FTEs for the Office of Financial Management prior to the shift and what is the total number of FTEs now?

Answer. There were five FTEs in the Office of Financial Management prior to the shift and now there are seven.

EVALUATION OF HIDTAS

Question. Mr. McCaffrey: Last year's conference report provided funds for additional staff at ONDCP and the direction by the conference to develop standards and evaluate the performance of the HIDTAS that are currently in existance.

What is the status of this evaluation?

Answer. Last year, Congress directed that we take required additional staff from existing ONDCP staff ceilings. Accordingly, ONDCP hired two additional HIDTA staffers. Unfortunately, one of the new hires has moved on, but active recruitment continues to fill that position.

In fiscal year 2000, each HIDTA Executive Committee comprised of federal, state and local law enforcement agencies, submitted a regional drug threat assessment, a proposed strategy, initiatives and a budget to ONDCP for approval. ONDCP reviewed each of those documents and either approved them or requested modifications. The ONDCP review ensures policy guidelines are followed by the HIDTAs and approves funding for initiatives that support each HIDTA's unique strategy and drug threat assessment. This process allows the local decision-makers at each HIDTA flexibility to determine the initiatives needed to address unique and changing drug threats.

In addition, each Executive Committee submitted an annual report for ONDCP's consideration. ONDCP has in place three performance measures, found in ONDCP's Performance Measures of Effectiveness Report as well as three performance measures in ONDCP's fiscal year 2001 Annual Performance Plan required by the Government Performance and Results Act of 1993 (GPRA). Last year, each HIDTA reported data for those performance areas. ONDCP reported the performance of the HIDTAs in the Performance Measures of Effectiveness Report and ONDCP's fiscal year 1999 Performance Report. The first performance measure involves the HIDTA Developmental Standards to gauge the level of each HIDTA's achievement in 56 areas in order to increase the effectiveness and efficiency of law enforcement efforts.

ONDCP utilizes the first performance measure, using the HIDTA Developmental Standards and data reported by each HIDTA, to gauge and improve the efficiency and effectiveness of law enforcement efforts at each HIDTA. In fiscal year 1999, HIDTAs achieved the performance levels set by ONDCP. This calendar year, the HIDTA Developmental Standards are being adjusted to include the requirements of the President's General Counterdrug Intelligence Plan. New milestones are being added to the HIDTA standards to improve intelligence and information sharing that will lead to an increase in the effectiveness and efficiency of law enforcement efforts. ONDCP verifies results during on-site evaluations.

The HIDTA Program Office has developed a protocol for an internal review program. We have implemented a robust audit/programmatic review schedule of on-site evaluations. These evaluations will help ONDCP verify HIDTA performance reports and assess performance in law enforcement support functions such as intelligence and information sharing.

Finally, the HIDTA Program Office coordinates budgetary and policy decisions through the HIDTA Coordinating Committee, comprised of officials from the Departments of Justice, Treasury and Health and Human Services.

In managing the HIDTA Program, ONDCP adheres to the concerns and guidance of Congress. ONDCP also utilizes a significant amount of advise from local, state and federal law enforcement organizations at the regional level as well as the headquarters offices of federal departments. In doing this, ONDCP integrates several processes to manage the HIDTA Program. The regional HIDTA offices monitor and respond to unique and changing drug threats with customized initiatives that focus on outcomes and the concerns of citizens. ONDCP coordinates budget and policy decisions with federal partners through the HIDTA Coordinating Committee.

Question. Will this evaluation be statistically based?

Answer. ONDCP requires HIDTA regional offices to provide annual reports and performance data to ONDCP. ONDCP published that performance data in the Performance Measures of Effectiveness Report and the fiscal year 1999 GPRA Performance Report. ONDCP will continue to require HIDTAs to provide statistical data in

annual reports. ONDCP will report results annually in ONDCP's Performance Measures of Effectiveness Report and GPRA Performance Report.

Question. For that evaluation, how will you take into account the unique nature of each specific HIDTA and the different programs they use?

Answer. The effectiveness of each HIDTA can only be evaluated in light of its own unique drug situation as documented in the regional threat assessment, proposed strategy and desired goals. HIDTA Executive Committees and ONDCP evaluate each proposed initiative using past performance and future potential to effectively accomplish its objectives. The funding requirements for each initiative are viewed in relation to the initiative's past effectiveness and future objectives, to assess the relative benefits of the financial resources to the mission. In the past, those reviews have then been compared to Congressionally mandated "earmarks" and directions for "level funding."

Although no two HIDTAs have identical threats, strategies or initiatives, they must adhere to the Goals and objectives of the National Drug Control Strategy and ONDCP's programmatic and fiscal policies/guidelines. ONDCP places emphasis on flexibility at the local level, coordinated efforts, sharing resources and information, and requires HIDTA Executive Committees to focus on outcomes and monitor results.

QUESTIONS SUBMITTED BY SENATOR JON KYL

ONDCP DRUG BUDGET

Question. The President's fiscal year 2001 budget request for High Intensity Drug Trafficking Areas (HIDTAs), is $192 million, which is less than the ONDCP's requested $213.7 million. In a time when youth drug usage is at an all-time high, and your office is beginning to make progress in leveling-off youth usage, why did the administration cut your drug budget request by over $21 million?

Answer. The President's budget request includes various trade-offs that are necessary to accomplish the mission within the budget ceilings. The ONDCP budget request for fiscal year 2001 submitted to the Office of Management and Budget (OMB) included $213.7 million to support the HIDTA program. OMB set the ONDCP fiscal year 2001 HIDTA budget request at $192 million. This amount is contained in the President's budget request.

Although drug use among youth remains unacceptably high, ONDCP is proud to report that according to the Department of Health and Human Services' Substance Abuse and Mental Health Services Administration (SAMSHA) 1998 National Household Survey on Drug Abuse (NHSDA), 9.9 percent of youth aged twelve to seventeen reported current use of an illegal drug in 1998—13 percent decrease from 11.4 percent in 1997. This decline was the first statistically significant drop in four years.

METH LAB CLEANUPS

Question. METH is a huge problem in my State of Arizona. Arizona law enforcement is seizing a record number of METH labs—about one lab per day. As you know, METH labs leave toxic waste behind that can cost an average of $4,000 to clean-up.

Attorney General Reno recently sent a request to the Office of Management and Budget (OMB) asking for $10 million in DOJ's budget to "re-program" so that DEA can continue to clean-up METH labs for the rest of fiscal year 2000.

Are you supportive of this?

Answer. The Office of National Drug Control Policy is supportive of re-programming $10 million from an appropriate Department of Justice program so that the DEA can continue to clean up METH labs.

Through the first half of fiscal year 2000, DEA has continued to provide state and local clandestine lab cleanup services on a first come first served basis. These services have been provided through DEA base funding and the use of residual COPS program funding which DEA has carried over from previous years' appropriations. At this time, DEA has completely exhausted its carryover COPS cleanup funding and is no longer able to provide its cleanup services to state and local law enforcement. This represents a funding shortfall of $10 million, which can be replenished through a re-programming.

HIDTA/MISTIC

Question. I am very concerned about the problem of drugs in my State. The drug trade has devastated Arizona, particulary its children. Drug use among Arizona

teenagers is among the highest in the United States—one-third higher than the national average.

High intensity drug trafficking areas (HIDTAs) are a key to stopping the spread of drugs. You have recognized the importance of HIDTAs and I would like to thank you for your continued support of Arizona's HIDTA.

As you are aware, members of Arizona's law enforcement community in the central region of Arizona have submitted a proposal for the Metro Intelligence Support and Technical Investigative Center (MISTIC), which would house various HIDTA task forces. The co-location of task forces in one intelligence support center will help with information sharing and eliminate the duplication of investigative efforts.

Funding for MISTIC is important to giving law enforcement the resources they need to fight drugs. Can I count on your continued support for funding HIDTA activities, such as the proposed intelligence support center in Central Arizona?

Answer. The HIDTA Program provides assistance to Federal, State and local law enforcement entities operating in areas of the United States that are most adversely affected by drug trafficking. Arizona is especially impacted by intense drug trafficking activities across the Southwest border. Nationally, the HIDTA Program has helped improve the effectiveness and efficiency of drug control efforts by facilitating cooperation between drug control organizations through resource and information sharing, collocating and pooling resources, coordinating and focusing efforts, and implementing joint initiatives.

ONDCP enthusiastically supports the HIDTA Program and successful initiatives such as Arizona HIDTA's Metro Intelligence Support and Technical Investigative Center (MISTIC) initiative. MISTIC provides Maricopa County law enforcement agencies the ability to conduct long term, complex investigations to target regional, national, and international drug trafficking organizations that impact areas throughout the United States.

The MISTIC center is currently occupied by 125 representatives from the Phoenix Police Department, Drug Enforcement Administration, and Joint Counter-Narcotics Task Force. The Arizona HIDTA Director informs ONDCP that the current facility is overcrowded and the law enforcement organizations propose to add to the MISTIC center an additional 225 to 275 people from the Federal Bureau of Investigation, Phoenix Financial Task Force, Homicide Task Force, and a National Guard Intelligence Unit. The expanded center would allow HIDTA task force units to focus on the most significant regional and local drug trafficking, money laundering and violent organizations.

ONDCP has increased HIDTA funds to the Southwest border and in particular, Arizona. In fiscal year 1999, ONDCP received $24.47 million in supplemental funds of which $3.5 million was earmarked for the following: $1.5 million for Milwaukee; $0.75 million for Arizona; $0.75 million for New Mexico; and $0.5 million for Washington/Baltimore. Of the remaining $20.97 million provided in discretionary funds: $5 million was used to support the Southwest Border Interdiction Strategy; $5.92 million increased funds for minimally funded HIDTAs; $5.55 million was used to support the unmet needs of existing HIDTAs; $0.5 million was used for a National Methamphetamine Coordination Initiative for the Southwest Border California Partnership; $3.8 million was used to designate five new HIDTAs; and $0.2 million was used to add additional counties to Arizona, Houston and North Texas HIDTAs.

HIDTA Executive Committees make funding decisions. MISTIC is one of 21 Southwest Border-Arizona HIDTA initiatives competing for limited funds. The initiative was HIDTA funded over the past six years and is looking for more money for a new building. For the past two years, the Executive Committee provided baseline funding of $271,603. In fiscal year 2000, the Executive Committee provided $650,000 additional (one time) HIDTA funding for the initiative. The HIDTA Executive Committee will make fiscal year 2001 funding decisions at its next monthly meeting.

QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

FEDERAL PRISON DRUG ADDICTION TREATMENT PROGRAMS

Question. Since last year's discussion on this issue, are you aware of any additional programs which are being utilized at either the Federal or State level which increase the likelihood that addicted drug offenders are getting the treatment necessary to ensure that they leave prison drug free?

I am also interested in two additional programs which fall under your organization, drug courts and the "Break the Cycle" program. The "Break the Cycle" program is a program of testing, assessment, referral, treatment and rehabilitation of

prison inmates. To date, approximately 72,447 drug tests have been performed with over 6,652 treatment referrals having been made.

Answer. Bureau of Prisons has in place a program to treat all eligible offenders before they are released. Its fully documented curriculum is under revision based on recent research related to female offenders, dually diagnosed offenders, and offenders with head trauma. These revisions will foster entry into treatment and retention in treatment for these populations.

The number of drug courts increased from 12 in 1994 to over 700 at the present time. Drug courts actively monitor the defendant's access to and participation in treatment. The interest in drug courts continues to grow steadily—the number of applications received by the Drug Courts Program Office has increased significantly since 1995.

The Break the Cycle (BTC) program sites increased to four (4) in 1999, with a new site in Tacoma, WA (three are adult sites and one for juveniles). This program provides assessment and testing along with treatment for the addicted criminal justice system (CJS) population. BTC programs are based on sanctions for non-compliance and reward for compliance with the treatment and judicial plan.

Question. Do you have any statistics which indicate the success of this program?

Answer. Break the Cycle (BTC) in Birmingham Tested nearly 3,000 drug involved defendants on pretrial release, and has administering more than 23,000 tests.

—Referred over 2,500 drug involved defendants to drug treatment.
—Over 90 percent remained in treatment for at least 90 days.
—Over 400 defendants entered an outpatient drug treatment program. Over 60 percent remained in treatment for at least 90 days.
—About 120 defendants entered residential treatment, most within a week of the placement decision. Over 60 percent of those who entered remained in treatment at least 90 days.
—BTC increased the supervision of drug-using defendants released to the community, but more supervision is needed. Nearly 90 percent of defendants who violated the BTC requirements received a sanction, but sanctions were not certain, swift or severe.
—Developed a new bond condition requiring a screening by the "Treatment Alternatives for Safe Communities" (TASC) of felony defendants and expansion of pretrial services to assist in release, supervision, and treatment of drug-involved defendants.
—Developed review hearings for probationers and BTC clients awaiting grand jury review.
—Used BTC to assist in reducing jail overcrowding through providing the option of drug assessment and treatment plus pretrial community supervision for jail inmates eligible for release.
—BTC was successful primarily in increasing the number of defendants on pretrial release subjected to drug testing and referred to treatment.
—Birmingham, BTC reduced the time needed for identifying drug users from 6 months to 2 days on average. It also lengthened the time in supervision and treatment for most drug users.

Question. What is the impact on this program on the Bureau of Prisons?

The drug courts set up exclusively to handle drug cases with the emphasis on getting treatment and rehabilitation for first time offenders. Last year we had about 500 drug courts in operation. You stated that your goal was to have 1,000 in operation by the end of your tenure.

Answer. Break the Cycle program has no impact on the Bureau of Prison (BOP) programs. BOP provides treatment to every inmate needing the treatment before they are released from the Federal prison. BOP after care services are similar to Break the Cycle programs.

Question. The drug courts are set up exclusively to handle drug cases with the emphasis on getting treatment and rehabilitation for first time offenders. Last year we had about 500 drug courts in operation. You stated that your goal was to have 1,000 in operation by the end of your tenure.

How close are we to attaining that goal?

Answer. We anticipate arriving at the goal of 1,000 drug courts by the end of the year. Currently there are 749 drug courts (adult, juvenile, family, and tribal) operating or in the planning stage in over 400 jurisdictions in the United States today, up from the dozen that existed in 1994. The interest in drug courts continues to grow steadily—the number of applications received by the Drug Courts Program Office has increased significantly since 1995.

Question. How does a drug court differ from the Standard Federal District Court?

Answer. Drug Courts participants appear before the drug court judge on a much more frequent basis than in trial courts. Drug Court participants are required to

appear for status hearing before the judge on a weekly or bi-weekly basis. Participants may appear before the judge more than 20 times during their participation in the drug court program; however, these appearance are for approximately 10 minutes per status hearing. Trial court defendants may only appear before the judge three times—for initial plea, trial, and disposition.

Drug court status hearing are much more informal, and generally much shorter than general trial court hearing. In drug court, a judge will often converse directly with participants. In trial court, the judge generally communicates with defendants through the defendant's attorney, and generally only for the purposes of advising the defendant of his/her rights.

Drug courts use short-term sanctions and incentives to respond to participant progress or non-compliance. Non-drug court dockets use probation revocation or imposition of suspended sentence to respond to defendant non-compliance. For example, a drug court judge may sentence a participant to 2–3 day jail stay for failure to appear or as a result of positive drug test.

Drug court judges often motivate and encourage participants as they progress through the program. Judges in traditional criminal court proceedings generally do not praise defendants for staying clean, or complying with other court orders.

Drug courts actively monitor the defendant's access and participation in treatment. Drug court judges are able to respond quickly to participant non-compliance because dedicated treatment providers are available to respond to judicial orders. In traditional trial courts, judges often rely on agencies such as probation to coordinate referral to treatment services, resulting in long delays before defendants receive any services or non-participation in service.

Question. With the rapid growth of drug courts around the country, from approximately 12 three years ago, to approximately 500 today, has the availability of long term treatment programs grown proportionally?

Answer. No. Drug courts often rely on special funding sources to provide treatment services to program participants. A few drug courts have been successful in accessing mainstream funding for substance abuse treatment (e.g., through medicaid, HMO's, private insurance, state/local assistance, and the CSAT (Substance Abuse Treatment Block Grant Program). Almost all drug courts fund treatment services through non-traditional sources, including criminal justice funding such as the Bureau of Justice Assistance Byrne Grant Program, the Office of Justice Programs Drug Court Grant Program, county commissions, state legislatures, etc. If these non-traditional funding sources for treatment were not available, drug courts would not be able to provide adequate substance abuse treatment for program participants. Further, if drug courts expand to handle all of the substance-abusing population, the non-traditional funding sources would not be able to meet the demand.

Question. Do you have any statistics which indicate the success of this program?

Answer. The statistics listed below are provided by the Department of Justice Drug Courts Program Office and the National Association of Drug Court Professionals.

Adult Drug Courts

Drug courts are able to engage and retain felony offenders in programmatic and treatment services. Only 21 percent of drug court participants had been in prior substance abuse treatment, while 75 percent had been sentenced to jail or prison for drug-related offenses. Drug courts are engaging and retaining felony offender in treatment services for substantially longer periods (12–15 months compared with much shorter and less intensive programs) and at higher rates (over 70 percent compared with 25 percent or lower) than other criminal justice-ordered treatment programs.

Drug courts generate cost savings from reduced jail and prison use, reduced criminality, and lower criminal justice system costs. Outpatient drug treatment can cost approximately $2,000 to $4,000 per year compared with approximately $25,000 to $31,000 to incarcerate a person for one year. Drug courts free up other resources to focus on offenders who present greater public safety risks.

Drug courts have substantially reduced recidivism rates for participants (less than 10 percent compared with over 50 percent for non drug-drug court defendants), with less than one percent of the reported recidivism involving violent offenses.

All sectors of the justice system have noted "cost avoidance" results from reduced recidivism and additionally there are significant social welfare benefits:

—Over 75 percent of participants become and remained employed.
—4,500 parents became current in child support payments.
—750+ drug-free babies were born.
—3,500 children were returned to the custody of their parents.

In Portland, Oregon, the STOP (Sanction-Treatment-Opportunity-Progress) Drug Diversion Program was implemented in 1991. A recent evaluation conducted in 1998 demonstrated:

—Clients who participated in the drug court had 61 percent fewer subsequent arrests over a two-year period compared to those not participating in a drug court.

—The evaluation estimated over $10 million in criminal justice savings to taxpayers (victimization costs, public assistance, and theft costs).

In addition to drug courts now in operation, reentry drug courts for persons released from jail is a relatively new idea developing in many jurisdictions. The potential to expand drug courts through reentry courts is unlimited. Each year nearly 500,000 inmates are released from state prison and returned to the community. Reentry courts present a transition mechanism to monitor, supervise and rehabilitate offenders from the onset of incarceration as they enter a community-based program and are subsequently reintegrated back into society.

Juvenile Drug Courts

Findings indicate that retention for is about the same as for adults (nearly 70 percent) and recidivism to drug use and crime are markedly lower, especially among program graduates.

Participants from a juvenile drug court in Santa Clara County were asked to identify what had the greatest impact on their ability to stay drug-free. Their answers underscore the potent combination presented by the criminal justice and treatment systems acting in concert. They identified: constant monitoring and support by their probation officer; having to face the judge and explain their behavior; urine testing; positive reinforcement from the drug treatment team; expectations from the court; not wanting to let staff down; and a sense of humor by the drug treatment team.

Juvenile drug courts are still relatively young in their development yet much remains to be learned. There is a positive impact since the emergence of juvenile drug courts over the past several years:

—Over 4,000 juvenile offenders have been enrolled in juvenile drug court programs.

—75 percent of juvenile drug court participants have returned to school full-time.

—94 percent of juvenile drug court participants have an improved relationship with their family.

—75 percent of juvenile drug court participants have remained a volunteer in the community after their participation in the drug court program.

—75 percent of juvenile drug court participants have improved academic performance.

—60 drug-free babies have been born to juvenile drug court participants.

HIGH INTENSITY DRUG TRAFFICKING AREAS (HIDTAS)

Question. Under current law, HIDTA funds are approriated for one year. I note in your budget submission that you are requesting that the obligational authority be extended for appropriated funds in this program to a multi-year authority.

Describe for us what advantage a multi-year authority would give you in the disbursement of HIDTA grants?

Answer. Currently, the HIDTA Appropriation has one-year (annual) obligation authority. The timing of the enactment of the Appropriations, coupled with the HIDTA Program review process of the 31 HIDTA proposals and budgets (a four-month process with over 1,300 initiatives/budgets in fiscal year 2000) results in the funds not being available to be transferred to the recipient agencies until the beginning of January. The funds transferred to federal agencies, for use by their field offices in support of the HIDTA Program, are further delayed by their accounting and disbursement policies. The HIDTA appropriation language directs ONDCP to transfer at least 51 percent of the available funds to state and local agencies. Currently, ONDCP transfers approximately 80 percent of the HIDTA Appropriation to state and local agencies and the remaining 20 percent to federal agencies. This distribution ratio is primarily due to the fact the federal agencies have only nine months (at best) to effectively use their available funds. The request to revise the HIDTA Appropriations language to authorize multi-year obligating authority would allow the federal agencies more effective and efficient use of their HIDTA funds.

Most Federal agencies participate in ongoing HIDTA initiatives that continue from year to year. With the current Appropriation schedule and delays necessitated by the HIDTA review process, most federal agencies do not receive their HIDTA funding until the beginning of the second quarter. This delay in the funding distribution often hampers and can curtail Federal Agency participation in HIDTA initiatives, which can severely inhibit major investigations, particularly labor and resource intensive Title III court-ordered investigations (wire taps). Multi-year fund-

ing authority would prevent disruption in investigative activity due to funding limitations.

Question. Since 1990, counties in 31 areas have been designated as HIDTAs. Your budget request for fiscal year 2001 provides support for existing HIDTAs but does not include an increase that might entertain new HIDTA designations.

How many requests for new HIDTA designations are waiting funding?

Answer. Currently, the HIDTA Program is considering six new areas for HIDTA designation. If designated, each area will require a minimum of $2.5 million to reach the funding level needed for a start-up HIDTA. Initial approval of all of these candidates would require $15 million of additional HIDTA funds.

Also, there are eleven existing HIDTAs that have requested consideration for expansion based on an increased drug-related threat; if approved, 69 additional counties would be added to designated HIDTAs. Should all of the 69 counties proposed warrant designation, the ONDCP estimates an additional $7 million would be needed, upon approval.

Question. With nearly ten years of HIDTA funding behind us what lessons are we learning in combating drug trafficking?

Answer. The HIDTA experience over the past ten years has taught us that effective "leveraging" with the ONDCP-HIDTA dollars leads to the development of effective and efficient regional and multi-jurisdictional (Federal, State, and local) collocated and commingled law enforcement efforts. Nationally, the HIDTA Program has helped improve the effectiveness and efficiency of drug control efforts by facilitating cooperation between drug control organizations through resource and information sharing, collocating and pooling resources, coordinating and focusing efforts, and implementing joint initiatives.

Cooperation

With nearly ten years of HIDTA funding behind us, the level of cooperation and sharing information and resources among federal, state and local law enforcement agencies has greatly improved, though we still have a lot more to do in these areas.

The HIDTAs help fund collocated, commingled, multi-jurisdictional law enforcement "task force" efforts that are specifically designed and focused on major regional and national drug trafficking organizations. HIDTA task forces cooperate and share both resources and "real time" intelligence information. HIDTAs' joint initiatives take advantage of specialized technical equipment, training of personnel, and provide case "hand off" procedures.

The HIDTA Program has significantly increased the collaborative and collegial sharing of information between federal, state and local law enforcement. It has accomplished this through development of multi-agency and collocated/commingled task forces where none previously existed. This has directly led to a more effective and efficient utilization of law enforcement resources at the federal, state and local levels.

HIDTA initiatives have also resulted in closer coordination of the prosecutions of drug traffickers between United States Attorney Offices and state and local prosecutors. Drug traffickers who previously evaded prosecution because of threshold guidelines and/or lack of prosecutorial resources are now being held accountable.

Planning

Effective law enforcement requires an overarching intelligence-driven strategy. The HIDTA Program provides an intelligence-driven strategy supported by customized initiatives that are monitored by federal, state and local officials.

The HIDTAs provide meaningful reporting systems, which include the development of a viable Baseline, Mid Year, and Year End threat assessment process by each HIDTA. These are designed to provide a complete and comprehensive dynamic overview of task force enforcement and interdiction efforts.

A meaningful and capable HIDTA strategy follows the regional threat assessment. The regional HIDTA strategies are designed to identify the regional law enforcement "plan" which has been designed to adequately address the unique regional threat. Each HIDTA strategy also includes measurable objectives for the HIDTA.

The Annual Report follows at the end of the year and effectively measures each HIDTA's impact against the identified drug threat. The Annual Report also validates the HIDTA's overall strategy with accomplishments that effectively impact drug trafficking in and throughout the region.

Regional planning is enhanced through the HIDTA Executive Committees, which are comprised of federal, state and local law enforcement executive-level leaders. These committees have improved relationships between law enforcement organizations and led to solutions for law enforcement problems outside of the HIDTA Program.

Innovation

The HIDTA Program has funded initiatives that address national and regional drug trafficking problems in innovative ways. An example is the creation of Law Enforcement Coordination Centers (LECC) in California, Arizona and New Mexico to plan and carry out sustained intelligence driven interdiction operations along the US/Mexican border such as "Operation COBIJA.

Additionally, the HIDTA Program has provided additional funding for the development of the National Clandestine Laboratory database at El Paso Intelligence Center (EPIC). This is significant in that for the first time there will be a central repository for clandestine laboratory information, which can be directly accessed by state and local law enforcement agencies.

Flexibility

Drug traffickers are able to react to law enforcement much faster than law enforcement reacts to the traffickers. Law enforcement continually shifts resources from one mode to the next and from one locale to the next. The traffickers (and money launderers) rarely abandon a particular strategy or locale, once it has been successful. As long as law enforcement continues to uproot defenses and attempts to follow the traffickers, the traffickers will always have a comfortable void to revisit.

Drug trafficking varies from town to town, city to city, county to county and state to state. Therefore, a good strategy must be tailored to the particular locale and should not be a generic approach. No single approach is the answer. The drug epidemic will only be ended through long term, sustained attacks on all fronts. Demand reduction and supply reduction are both essential elements of the long term solution.

The National HIDTA Program can best be described as a true "work in progress." Continual program assessments and adjustments have been made through the years in order for it to remain literally on the "cutting edge" in terms of overall effectiveness and impact. Flexibility in policy guidance to allow decision making at the local level is the best approach. Additional flexibility in funding would likely enhance the effectiveness of the HIDTAs and the HIDTA Program.

Intelligence

The HIDTAs have Regional Intelligence/Investigative Support Centers which provide "real time" operational and tactical intelligence support by tracking, around-the-clock, all federal, state and local law enforcement undercover regional operations. Additionally, on-site analysts are available to immediately research numerous regional and national law enforcement databases, thus enabling officers to conduct enhanced investigations.

Viable intelligence systems with regional and national connectivity greatly enhance success. The HIDTAs establish meaningful regional intelligence support systems for law enforcement in the form of target profiling, case support and post-seizure, Title III/PIN/Toll/and cross case analysis. HIDTA intelligence efforts help ensure that limited law enforcement resources are focused and utilized in the most efficient and effective manner possible.

HIDTA-funded Regional Intelligence/Investigative Support Centers bring together a myriad of databases from federal, state and local agencies. This has not only significantly promoted the sharing of intelligence information, but has likewise led to the enhancement of officer safety through the establishment of event and case deconfliction systems.

Law enforcement officers often operate in a very dangerous and volatile environment. HIDTA deconfliction capabilities help ensure officer/citizen safety. The Intelligence/Investigative Support Centers enhance officer and citizen safety by tracking all "critical events" within a region and notifying various law enforcement undercover operations when they are about to conflict with each other. Until the advent of HIDTA, event deconfliction was non-existent in most areas of the country.

Law enforcement at all levels needs to be information/intelligence driven as opposed to informant driven. In general, law enforcement does not maximize intelligence in the best possible ways. In HIDTA we are doing a better job to make this happen, but we have a long way to go.

Technology

Law enforcement organizations frequently lack up-to-date technology or do not understand how to use available technology to its fullest. HIDTA is helping to rectify this situation by providing technology, offering training, and developing information technology applications specifically designed for law enforcement use.

Training

Law enforcement, at the state and local levels, does not receive sufficient training in intelligence functions and drug investigations. HIDTA is filling this void.

HIDTA funding provided to the National Methamphetamine Chemicals Initiative has resulted in the training of prosecutors as well as criminal and diversion investigators at the national level. This has significantly enhanced the ability of prosecutors and investigators to develop and prosecute cases against precursor chemical violators. Additionally, this initiative has afforded an excellent national information-sharing forum as well as promoted the Drug Endangered Children Program.

HIDTA funding has resulted in the development of a national law enforcement training program focused on law enforcement needs. The HIDTA Assistance Center provides a cadre of instructors and training classes to federal, state and local law enforcement officers. A majority of this training is given in specific regions where the officers are assigned and is provided at no cost to the various departments.

Accountability

Law enforcement at all levels has difficulty in developing and focusing on performance measures that hold them accountable for achieving certain goals and objectives. The HIDTA Program has implemented elements of the Government Performance Results Act (GPRA) and ONDCP's Performance Measures of Effectiveness system. Each HIDTA is required to document and report on an annual basis its successes and failures in achieving specific performance measurements listed as goals and objectives for the previous year. This has led to an extensive self-evaluation on the overall effectiveness of HIDTA funded initiatives by HIDTA Executive Committees and National HIDTA Program managers.

Question. Can you briefly describe for us the mechanisms in place to determine the effectiveness of each individual HIDTA? How often are they evaluated?

Answer. In fiscal year 2000, Congress authorized funds for a comprehensive audit of the HIDTA Program. This audit function will include both a programmatic and fiscal review of each HIDTA. A review team, led by the National HIDTA Program Director, is about to complete a management review of the Southwest Border HIDTAs. Recommendations from this review, on improving the coordination between the Southwest Border HIDTAs, will be forthcoming in the near future. ONDCP plans to review all 31 HIDTAs within the next 18 months. Additionally, it is our policy that all HIDTAs will be reviewed once every 18 to 24 months. These reviews are designed to identify potential management strengths and weaknesses as well as favorable management techniques that can be shared with other HIDTAs. These reviews additionally will enhance the ability of the Director, ONDCP to assess the effectiveness and efficiency of the individual HIDTAs in achieving their targeted goals under the Government Performance Results Act (GPRA) and ONDCP's Performance Measures of Effectiveness (PME) system.

In addition to the on-site HIDTA reviews, each year the National HIDTA Program Office thoroughly reviews each HIDTA's Annual Report, Threat Assessment, Strategy, Initiative and budget for compliance with both programmatic and fiscal guidelines. The proposals must respond to the required PME and GPRA targets and HIDTA funds must clearly benefit the HIDTA Program. The HIDTA's Threat Assessment is reviewed in relation to drug-related threats nationwide to assure that the threat in the area warrants the level of proposed HIDTA involvement and funding. The Strategy is evaluated for its potential to effectively and efficiently address the drug-related concerns defined by the Threat Assessment. Each proposed Initiative is evaluated in terms of its past performance and future potential to effectively accomplish its respective drug mission. The funding requirements for each Initiative are viewed in relation to the Initiative's past effectiveness and future objectives, to assess the relative benefits of the financial resources to the mission. The on-site review process will verify accomplishments/successes, as well as, investigate potential weaknesses identified through these staff reviews.

Additionally, HIDTA Program Guidance emphasizes the requirement of the individual HIDTA Executive Committees to establish an internal self-review of programmatic and financial issues. As the participating agencies are responsible for HIDTA funds and they themselves need to evaluate an initiatives' impact and to ensure that the strategy is addressing the threat, each HIDTA is provided with an internal system of evaluation. Information/issues identified through these internal reviews will also be emphasized during the on-site staff reviews.

Question. If the committee were to provide you with discretionary funds for HIDTAs above your request, how would you allocate these funds?

Answer. With a significant amount of discretionary funding, ONDCP could exercise more flexibility in funding existing HIDTAs. Existing HIDTAs could be reevalu-

ated and the funding prioritized according to drug threats, performance and operational requirements. ONDCP would consider the following funding priorities:

—Provide additional funding to the newly designated HIDTAs. The current funding level of new HIDTAs is well below the minimum requirement ($2.5 million) for a start-up HIDTA. (The HIDTA Program would require an additional $5.473 million to bring each of the new fiscal year 1999 HIDTAs up to $2.5 million). As new HIDTAs mature, they will require additional funding based on the threat and the law enforcement operations they implement to counter the threat. Mature existing HIDTAs receive, on average, $7 million per year.

—Consider designating new HIDTA areas. (Currently, the HIDTA Program has received formal requests from six areas seeking HIDTA designation. Should all these areas warrant designation, an additional $15.0 million would be required ($2.5 million per HIDTA).

—Consider the expansion of existing HIDTAs. (Eleven HIDTAs have requested expansion based on an increased drug-related threat; if approved, 69 additional counties would be added to designated HIDTAs. Should all of the 69 counties proposed warrant designation, the ONDCP estimates an additional $7 million would be needed.)

—Provide additional funding to those existing HIDTAs with various unmet needs due to shifting/increasing drug threats and inflationary/cost of living induced budget erosion caused by many years of level funding.

—Implementation of the recommendations of the General Counterdrug Intelligence Plan within the HIDTA Program.

—Additional innovative/successful initiatives that are achieving significant results towards goals and performance targets.

Additionally, ONDCP would hope that future HIDTA appropriations allow the Director, ONDCP, through the National HIDTA Program Office, to fund existing HIDTAs based on need and past accomplishments; rather than mandating level funding.

Question. At this stage in the life of the HIDTA program (ten years), would having some level of discretionary funding be advantagous to responding to the changing drug threat confronting local, State, and Federal law enforcement?

Answer. Yes, discretionary funding would allow the HIDTA Program to react to changing drug patterns; provide funding to HIDTAs with unexpected and/or unmet needs due to shifting/increasing drug threats and inflationary/cost of living induced budget erosion caused by many years of level funding; provide some performance based funding; and when warranted, designate new HIDTA areas or expand existing HIDTAs.

COUNTER-DRUG TECHNOLOGY ASSESSMENT CENTER

Question. Your budget request for the technology transfer portion of CTAC indicates that you are recommending a significant drop in the funding of this program. After reading your description of the overwhelming success of the tech transfer program, I am a little puzzled. You stated that 631 State and local agencies have benefitted from this effort. Further, you indicate that the "technologies have contributed to improved counter-drug operations". Additionally, you state that the "results have been an increase in drug related arrests with improvements in officer safety".

Why are you recommending a reduction in what appears to be a successful and popular program?

Answer. The President's budget request includes various trade-offs that are necessary to accomplish the mission within budget ceilings. The ONDCP budget request for fiscal year 2001 submitted to the Office of Management and Budget included $20 million to support the Technology Transfer Program. OMB set the ONDCP fiscal year 2001 Technology Transfer Program budget request at $3.7 million. This amount is contained in the President's budget request.

Question. How many requests for technology transfers are presently awaiting fulfillment?

Answer. Between October 1, 1999 and March 13, 2000 the Technology Transfer Program received 1,954 requests from 670 agencies. The $13,052,000 appropriated in fiscal year 2000 can support deliveries of 593 items to 500 agencies. 170 agencies must wait until the next budget cycle to have one of their top three requests fulfilled.

Approximately four regional one-day workshops are held each year to acquaint state and local law enforcement agencies with those technologies available through the Technology Transfer Program. To ensure a continued timely response to the law enforcement organizations seeking support, the planned number of one-day regional

workshops for fiscal year 2000 has been reduced. If workshops had continued at prior year rates, requests would exceed 3–4 times those received in prior years.

Question. How many requests were you able to fulfill last year? And how many do you anticipate completing this year?

Answer. In fiscal year 1999, 667 deliveries were made to 352 agencies. The $13.052 million appropriated in fiscal year 2000 will support 593 deliveries to 500 agencies.

Question. How important is the tech transfer program to advancing the goals of the national drug control strategy?

Answer. The Technology Transfer Program supports Goal 2 of the National Drug Control Strategy: increase the safety of America's citizens by substantially reducing drug-related crime and violence. The Technology Transfer Program seeks to improve capabilities of federal, state and local law enforcement to achieve the outcome of reduced drug-related crime. By transferring mature technologies from federally sponsored research and development programs to state and local law enforcement organizations, agencies from smaller jurisdictions that otherwise would not be able to participate due to limited funds or lack of technical expertise are able to benefit from these developments.

Local police and sheriffs departments comprise 89 percent (13,578 police and 3,088 sheriffs) of the over 18,000 state and local law enforcement agencies in the United States. The smaller departments have limited budgets and competing priorities making them the prime target to receive technologies offered by the Technology Transfer Program. The figures below show percentage of deliveries achieved by population size and agency type for fiscal year 1998—fiscal year 2000. The program has delivered 80 percent of the total deliveries to population centers of less than 500,000.

Deliveries by Population

[Fiscal year 1998–2000]

	Percent
More than 1,000,000	12
500,000 to 1,000,000	6
100,000 to 499,999	21
50,000 to 99,000	15
Less than 50,000	46

Deliveries by Agency Type

[Fiscal year 1998–2000]

	Percent
Police	53
Sheriff	26
Task Force	10
High Patrol/State Police	3
Public Safety	4
Other	4

DRUG-FREE COMMUNITIES PROGRAM

Question. The Drug-Free Communities Act of 1997 authorizes funding for the program through fiscal year 2002. Fiscal year 2001 funding is authorized at $40 million, yet your request in this budget is only $35 million.

With your request of $35 million, can we expect that additional communities will be eligible for the program?

Answer. Yes, we estimate that approximately 106 new community coalitions would be funded if the amount of $35 million is appropriated and $2.5 million is used for program administration, evaluation, and training and technical assistance. This would bring the total number of funded communities to approximately 408, assuming that all previously funded projects reapply and that all new applications are funded at the maximum allowable level of $100,000. The exact amounts will vary slightly.

This estimated number of new community coalitions is based on a funding formula stipulating that communities shall receive grant funds in declining amounts in years three, four, and five of their awards.

Question. Do you have any statistics that show the success of this initiative in the communities that have received grants under this program?

Answer. The DFC Program has awarded grants to two groups of communities so far. The first group of grantees began work on their projects in October of 1998 and

the second group in October of 1999. The evaluation team is Caliber Associates, which works under contract to the Office of Juvenile Justice and Delinquency Prevention. All grantees make periodic progress reports and a core sample of fifteen projects is studied intensively by the evaluation team.

Caliber Associates has completed Profile Reports on both the fiscal year 1998 and fiscal year 1999 grantees. Measures on the 1998 grantees indicate the following:

Objective: Increasing recruitment and involvement of key community leaders and groups

Nearly three-quarters (74 percent) of the coalitions reported increased membership.

Nearly two-thirds (65 percent) of the coalitions reported increased youth membership.

Objective: Promoting the use of community indicator data to identify local drug problems

All coalitions have conducted needs assessment studies to better identify and quantify local drug problems and needs.

Objective: Assisting community groups and agencies to enhance their prevention capabilities

96 percent of the coalitions have engaged in collaborative, data-driven planning with other agencies.

94 percent have engaged in community mobilization activities and formed new partnerships with other agencies.

Objective: Promoting dissemination of information about best practices in drug abuse prevention

97 percent of the coalitions have provided training about research-based prevention approaches.

64 percent have supported media campaigns and events to raise awareness about risk factors and prevention.

Objective: Promoting adoption of "promising" and "proven" prevention programs

96 percent have provided counseling, education, and mentoring services to youth and parents.

62 percent have adapted "promising" prevention curricula for local use in educational settings.

Objective: Promoting brokering of resources to support prevention programming

All coalitions received matching funds equal to or greater than their DFC grant from other non-federal sources.

75 percent received matching funds from two or more other sources.

These are but a few of the early indicators supporting our goal of reducing the use of illicit drugs, alcohol, and tobacco among youth. Of special note is the increasing ability of communities to measure and evaluate data relating to the many forms of drug use. As those measures improve, the communities are also increasingly able to identify and implement better evidence-based programs, interventions, and other strategies that have greater potential to be successful in reducing one of America's greatest public health challenges.

Question. What safeguards are in place to ensure that the individual communities are in compliance with the program requirements and that the money is being spent according to the provisions of the Drug-Free Communities Act of 1997?

Answer. ONDCP has entered an Inter-Agency Agreement (IAA) with the Office of Juvenile Justice and Delinquency Prevention (OJJDP) to administer the day-to-day operations of the Drug-Free Communities Program. The overall program administrator is at ONDCP, however, and he has daily contact with the Special Emphasis Division of OJJDP as it manages operations with the current group of 213 grantee communities. There are five program managers within OJJDP and each is assigned one-fifth of the grantees to monitor. The Office of the Comptroller staff, who oversees the budgets of each individual grantee, supports them, in turn.

The five program managers make 80–90 site visits to Drug-Free Community projects during the year, review each 6-month progress report, review each quarterly financial report, and engage in telephone and e-mail monitoring activities. Whenever there are signs of trouble at any site, program managers contact their supervisor for further consultation. Frequently, a site visit is scheduled if the supervisor believes it to be warranted on either programmatic or fiscal grounds. The ONDCP administrator is notified whenever OJJDP supervisors think there is reason to be concerned about a project. In the rare event of a legal issue, the Dept.

of Justice Office of Legal Counsel is brought into the situation, which, in turn, contacts the ONDCP legal staff.

More typically, the OJJDP program managers make arrangements for specific technical support, training, or other assistance when project leaders run into difficult stumbling blocks. ONDCP and OJJDP have agreed on a guiding operating principal to intervene quickly and appropriately whenever there are signs of problems. Whenever a problem is sufficiently severe that termination of a project is a potential outcome, the matter is brought to the administrator of OJJDP and the director of ONDCP for final decision.

YOUTH ANTI-DRUG MEDIA CAMPAIGN—EFFECTIVENESS OF NETWORK PROGRAMMING IN ACHIEVING CAMPAIGN GOALS—PERFORMANCE/EVALUATION

Each phase of the media campaign has been evaluated to ensure that the proper performance goals are met. However, the use of programming content versus a "hard match" was not a part of the first phase. There is a concern of evaluating the influence of straight advertising when it is possibly assisted by programming content.

Question. Can you describe for the Subcommittee the outreach role of ONDCP, and how this translates into appropriate messages that achieve the aims of the Anti-Drug Media Campaign?

Answer. Long before Congress created the National Youth Anti-Drug Media Campaign, ONDCP conducted outreach and responded to the news media, entertainment industry, and youth and professional sports organizations in an effort to generate accurate depiction and presentation of information about youth drug use issues. Researchers, writers, and producers have traditionally contacted ONDCP seeking research or data, background information on issues or drug policies, expert referral, and other kinds of technical assistance. The Federal government spends more than $730 million dollars annually on illicit drug prevention and treatment research per year.

While ONDCP has always provided expertise and technical assistance whenever television writers and producers have needed it, those efforts have been expanded to enable the Media Campaign to be more proactive.

—In appropriating funds for the Campaign, Congress recognized that two key reasons for increased drug use among youth are: a reduced perception of risk about using drugs, and a belief that drug use was normal and acceptable behavior. To influence these attitudes Congress directed that the National Youth Anti-Drug Media Campaign deliver messages through the full-range of media that influence young people including music, television, movies, the Internet, as well as use of other techniques that affect messages and images youth receive. Thus, the Campaign is a comprehensive public health communication effort that leverages the full range of communication vehicles and strategies to reach young audiences. The National Institute on Drug Abuse oversees the long-term evaluation of the Campaign, through a contractual agreement with Westat and the Annenberg School of Communications. This evaluation includes questions for both youth and parents regarding their source of drug information (such as television programming, Internet, music, and other Media Campaign components).

—The Media Campaign's entertainment outreach goals are to:

  —Encourage accurate depictions of drug use issues—including the consequences of drug abuse—in programming, film and music and the Internet that reaches teens and parents.

  —Dispel myths and misconceptions about youth drug abuse, and where appropriate incorporate strategic drug prevention concepts into popular culture.

  —De-normalize the image of drug use on TV, and in popular music and film.

  —Promote research-based strategies to reduce youth drug use, such as parental communication and involvement with their children, peer refusal skills, negative consequences, etc. Entertainment media can provide accurate drug information and modeling to youth, parents, caregivers, faith community leaders, coaches, teachers, policymakers, and other influencers of youth.

All of these efforts are completely voluntary. The ONDCP does not coerce, request script review, or proselytize the entertainment media. Doing so would undermine entertainment outreach. We believe that informing and educating the entertainment industry's creative community will result in more-informed and accurate portrayal about youth drug use and drug issues. This approach has proved effective in a number of other highly successful public health campaigns (seat belt use, designated drivers, etc.).

Providing Technical Expertise

A key ONDCP strategy is to affect the creative process through a series of briefings, roundtables, and workshops. These events provide a cost-effective way to educate and inspire television writers, film screenwriters, and executives to portray realistic substance abuse consequences and to spur ideas for future storylines or scenes. Sessions conducted last year included briefings in Hollywood for network executives at ABC and Fox Television, and a roundtable for executives who create children's programming. On April 11, 2000, ONDCP hosted a roundtable in Los Angeles in partnership with the National Campaign to Prevent Teen Pregnancy, highlighting the link between substance abuse and teen pregnancy. Attendees included representatives from MTV, VH1, NBC, ABC, HBO, Nickelodeon, and writers from several prime time television shows.

Several more roundtables are scheduled for this year, including separate sessions focusing on Children of Substance Abusers and Drug Treatment, which ONDCP will be hosting in partnership with The Hollywood Reporter, an entertainment trade publication that is widely read in the entertainment community.

Our roundtables are complemented by other briefings and one on one meetings that Director McCaffrey and other federal officials have had with the creative community. ONDCP has met with a broad array of entertainment industry organizations and their leaders including the Writers Guild, Caucus of Producers, Writers and Directors, Screen Actors Guild, Directors Guild, Producers Guild, Academy of Television Arts and Sciences, and other organizations. Meetings were also held with industry leaders in Hollywood including Barry Diller, Frank Biondi, Richard Dreyfuss, Rob Reiner, Chuck Norris, and senior executives of all the major networks. We have participated in entertainment industry events and briefed executives from Hollywood talent agencies, and publicity and management firms. And we've provided information and subject matter experts to writers and producers of individual shows, including Cosby, Chicago Hope, ER, and Beverly Hills 90210.

To support its outreach strategy, ONDCP identifies and provides experts (from a wide range of Federal agencies: NIDA, SAMHSA, DOE) and resources to writers who have contacted ONDCP with questions concerning substance abuse. Such expertise is specifically tailored to meet the needs of the television industry, particularly the time constraints under which writers work. We also provide specialized materials; mailings; handouts; and have begun to develop a web site designed for this unique audience.

While ONDCP works directly with many entertainment industry organizations, we have also retained expert support in Los Angeles to work with the Campaign to assist in developing our core strategies, and provide resources and expertise to creative executives in their own community. Rogers & Associates and Mediascope, working with ONDCP, can refer writers to experts in the field who can answer a specific question or address a particular issues or provide specific information.

Other Entertainment Outreach Activities Include:

Engaging celebrities who are positive role models in extending the reach of campaign messages through participation in such activities as personal appearances and on-line chats. Advertisers and marketers have long used celebrities to make their messages more appealing. The technique is particularly effective with young people, who frequently try to emulate the looks, behavior, and attitude of their favorite stars. An impressive range of celebrities has spoken publicly about campaign themes and goals, including TV stars Eriq La Salle of NBC's ER, Jenna Elfman of ABC's Dharma & Greg, and Lisa Nicole Carter of Fox's Ally McBeal; musicians Lauryn Hill, and The Dixie Chicks; the U.S. Women's World Cup champion soccer team; and Olympic Gold Medallist Tara Lipinski. All have generously donated their services to the American taxpayer—no fees have been or will be paid to celebrities to take part in Media Campaign activities.

Developing public service messages in collaboration with major media outlets. Seven networks have produced public service announcements using celebrities from their most popular shows. These messages have been reviewed by ONDCP to ensure they are supportive of the Campaign's communication strategy.

Conducting content analysis and other research to determine how entertainment media depict substance abuse issues. ONDCP has commissioned two content analyses to date-one examining the depiction of substance use in movies and music, the other looking at prime time television. This research revealed widely varying levels of accuracy in the portrayal of youth drug use issues. The findings help shape the priorities of ONDCP's outreach.

Question. Last year you stated that approximately 84 percent of the total invested by the Government was a "hard match" and that 16 percent was attributable to a

"soft match", most of which was in programming content. Is this a proper balance or should we be more or less focused on programming content?

Answer. ONDCP does not influence or determine the balance, other than limiting programming and other in-kind public service activity to no more than 49 percent of the total public service match requirement of each media outlet. ONDCP, through a process led by the Ad Council, sets broad guidelines which give media vendors associated with the Campaign broad flexibility to meet the mandated match as they see fit. The only requirement is that more than half (51 percent) of the public service match must be in the form of time or space (PSAs). The media vendor decides the makeup of the remaining 49 percent, which can include either additional public service time or space, or other PSA in-kind contributions, including programming. This process achieves several things:

—Increases actual PSA activity and ensures the Campaign does not undermine existing PSA time.

—Generates greater private sector involvement with the Campaign and provides a mix and range of PSA and communication activity.

—Benefits the Campaign by providing additional needed resources, activities or products—e.g., website development, teaching materials, posters, community events, etc.

—Allows ONDCP to include important youth and ethnic targeted media outlets in the Campaign, which otherwise might be excluded. Some media vendors, such as certain cable or ethnic media or Channel One, have formats or limited inventory which preclude them from meeting the match with all PSAs.

While there is no predetermined balance, both programming and advertising play an integral part in meeting the Campaign's goals and objectives. Programming delivers messages within a certain context, using compelling plots by accepted characters making it an effective tool to help the Media Campaign reach its objectives. ONDCP believes accurate on-strategy programming can be even more effective than ads in shaping behavior, building understanding about an issues and in particular in establishing norms. Importantly, advertising is also necessary to build awareness.

Question. Are you aware of any studies which might indicate which method is better to achieve the goals we are attempting to reach? In other words, is an ad which is repeated on several occasions the best method? Or, would our goals be better served by spending more effort in the network programming arena?

Answer. We are not aware of research that breaks out or identifies the specific contribution or values of various media approaches to a media campaign. There are a number of studies which support the value of programming in the kind of comprehensive public health communication campaigns that ONDCP is implementing. Advertising is the foundation of the Campaign effort, however the Campaign is an integrated program that includes a number of other vital elements that work together to achieve the goals of the Campaign. ONDCP remains convinced that for the National Youth Anti-Drug Media Campaign to be most effective, scientifically accurate drug-prevention messages must be conveyed through programming, as well as through advertising and other media vehicles and strategies.

In the 1980s, public-health advocates began to harness television programming to promote public-health issues. Since then, numerous campaigns have sought to communicate prevention messages within programming. There is widespread belief that TV viewers, particularly children and teenagers, are strongly influenced by the attitudes and behaviors they see on TV. An analysis conducted for the Kaiser Family Foundation reports that numerous empirical studies have established a relationship between media content and youths' knowledge, beliefs, and attitudes.

Today, there are a number of national organizations working within the existing structures of the entertainment industry, attempting to shape TV programming. They include the Henry J. Kaiser Family Foundation, the National Campaign to Prevent Teen Pregnancy, Mothers Against Drunk Driving, the Population Communications Institute, the American Lung Association, and the Media Campaign's own partner, Mediascope. Their efforts are complemented by those of federal agencies like ONDCP, NASA, Center for Substance Abuse Prevention, the National Institutes of Health, the Centers for Disease Control and Prevention, as well as all of the branches of our armed forces, who work to ensure that entertainment portrays issues and situations realistically and accurately. Both research and anecdotal evidence support this notion. Examples include:

—Following an ER episode concerning end-of-life issues, Last Acts, a coalition of health-oriented groups aimed at informing the public about end-of-life issues, received more than 4,000 calls for information.

—Martha Williamson, producer of Touched By An Angel, says she is regularly contacted by viewers who say the show helped them make a major life decision, such as quitting smoking. (The American Prospect, 7//1/99)

—Research conducted at UCLA's Health and Media Research Center suggests that up to 70 percent of people admit to relying on TV for health information. News programs, talk shows, daytime soap operas, sitcoms and prime time dramas are among the TV sources cited. (LA Times, 12/13/99)

—A Kaiser Family Foundation study indicates 23 percent of teens say they rely on television and movies for information about pregnancy and birth control. (ibid). This study also revealed that, awareness of morning-after contraception increased 17 percent (from 50 percent to 67 percent) among ER viewers in the week after the show aired an episode focusing on it.

—The National Designated Driver Campaign. One of the best-documented examples of a Media Campaign incorporating entertainment programming is the National Designated Driver Campaign that was launched in 1988. Dr. Jay A. Winsten, Ph.D., Associate Dean and Director of Harvard School of Public Health's Center for Health Communication, notes that the Campaign broke new ground when television writers agreed to insert drunk driving prevention messages in scripts of top-rated shows. Dr. Winsten describes this campaign as "the first successful effort to mobilize the Hollywood creative community on such a scale, using dialogue in prime time entertainment as a health promotion technology." This integrated public-health communications campaign had a marked effect on alcohol-related traffic fatalities. Whereas in the three years before the launch of the designated driver campaign there had been 0 percent change in such fatalities, by 1992 (four years after the Campaign's launch), annual fatalities had declined by 24 percent.[1] Further evidence as to the success of this program was note in a July 1999 article in The American Prospect, as follows:

—67 percent of U.S. adults noted the appearance of designated drivers on network TV just one year after the start of the Campaign.

—Between 1989 and 1991, 8 percent more U.S. adults (29 percent vs. 37 percent) claimed to have served as a designated driver at least once.

—In 1991, over one-half (52 percent) of young adults (under the age of 30) reported that they had been a designated driver at least once.

—1999 Healthstyles Survey. Centers for Disease Control and Prevention analysis of this report reveals that almost half (48 percent) of the people who report they watch soap operas at least twice a week learned something about diseases and how to prevent them from the daytime drama story lines. More than one-third (34 percent) took some action as a result. One in four (25 percent) told someone about it, 13 percent suggested someone do something about it, 7 percent visited a clinic or doctor, and 6 percent did something to prevent the problem.[2]

The Media Campaign's Communication Strategy Statement also highlights programming's potential for communicating public-health messages. Excerpts of the document follow:

—"Research has repeatedly shown that media programs work best in conjunction with other community- and school-based anti-drug programs, when consistent messages are conveyed through a variety of channels and in several different contexts." (Flay & Sobel, 1983; Macoby, 1990; Schilling & McAllister, 1990; Sloboda & David, 1997)—P. 6.

—"Health information, including information about drug use issues, is provided through all forms of media including news, entertainment programming, and advertising. This information is so pervasive that most people report the media as their primary source of information about health issues." (Freimuth, Stein, and Kean, 1989)—P. 7.

—The Media Campaign must "harness a diverse media mix including television, video, radio, print, and Internet and other forms of new media to deliver both general and tailored messages. Within the media mix, messages will be delivered through the full range of media content, including paid and public service advertising, news, public affairs, programming, and entertainment programming."—P. 9.

—"Effective message tailoring involves . . . working with communications professionals who specialize in creating content for particular audiences."—P. 9.

Evaluations of ONDCP's Media Campaign confirm this research

[1] Winsten JA. Promoting Designated Drivers: The Harvard Alcohol Project. American Journal of Preventive Medicine. 1994 May-Jun; 10(3 Suppl):11–14.

[2] The Healthstyles Survey is a proprietary database product developed by Porter Novelli. Its sampling is based on seven U.S. Census Bureau characteristics. The survey is used by organizations such as CDC to shape public-health outreach efforts.

—ONDCP September 1998 report to Congress—(Testing the Anti-Drug Message in 12 American Cities: National Youth Anti-Drug Media Campaign Phase I (Report No. 1)—found:

—Youth asserted that "TV programming promotes drug use and violence."—P. ES–4.

—"Parents' perceptions of the cultural relevance and credibility of anti-drug ads, much like youth's perceptions, focused more on program content and presentation . . ."—P. ES–7.

—"The Internet, television shows, and song lyrics heard on radio frequently condone the use of drugs. Youth are bombarded with these messages on a daily basis. Mothers and fathers frequently work long hours outside the home, leaving their children free during the after-school hours to watch television and be exposed to messages that glamorize drug use. Youth, particularly high school students, are subjected to ever-increasing sources of stress in their daily lives. Future decisions about the design and implementation of the Media Campaign should be made within the context of these issues."—P. ES–13.

—ONDCP June 1999 report to Congress—(Investing in our Nation's Youth: National Youth Anti-Drug Media Campaign Phase II Final Report)—found that:

—"There was a significant increase in the percentages of both youth and teens who perceived that TV shows, news, and movies were important sources of anti-drug information."—P. 5–2.

—The use of TV shows, news, and movies; outside billboards; and posters on buses, bus stops and subways are effective ways of reaching youth and teens with anti-drug messages."—P. 5–3.

Question. Have the goals of the five-year Media Campaign strategy changed?

Answer. The goals remain unchanged.

Question. Can you tell the committee what measure of success has been achieved to date, as a result of the media campaign?

Answer.

Evaluation of Phases I and II Indicate Success of National Youth Anti-Drug Media Campaign in Reaching America's Youth.

In January 1998, the Office of National Drug Control Policy (ONDCP) undertook an historic initiative—the National Youth Anti-Drug Media Campaign, which was then introduced in 12 American cities. In July 1999, the campaign was expanded to the national level. The overarching goal driving this campaign is to educate and enable America's youth to reject illegal drugs. ONDCP achieved its initial objectives in Phases I and II: to increase awareness of anti-drug messages among youth and adults—the critical first key step in changing attitudes and ultimately behavior. This campaign is instrumental in ensuring that we as a Nation achieve the stated goal of reducing youth use of illegal drugs.

One of the unique aspects of this federally funded campaign is that media outlets accepting the campaign ads must match ONDCP's purchases with an equal value of public service time in the form of PSAs, story lines, or other programs or activities related to youth drug use prevention. To date, ONDCP has exceeded its pro bono match requirements. More and more media outlets are coming on board.

In Phase I, not only were significant increases found for specific ads among all target audiences-youth, teens, parents and other adult influencers—-but we also found that public service announcements were not supplanted by the paid campaign. Media monitoring data gathered on ads and PSAs airing in the target and comparison sites indicate that the purchase of anti-drug ads did not affect the frequency with which anti-drug or other social issue public service announcements aired.

The Phase II results confirm the success of the campaign in reaching the target audiences. In Phase II, ONDCP aimed to reach 90 percent of the target audiences (youth, teens, and parents) with 4 to 7 anti-drug messages a week through paid ads. Phase II was evaluated through national school-based surveys of more than 45,000 youth in fourth through twelfth grades and a national telephone survey of about 8,500 parents. Phase II achieved its initial objective: to increase awareness of anti-drug messages among youth and adults at the national level. The paid ads resulted in significant increases in awareness between baseline and follow-up, the first step in changing attitudes and behavior. Increases in awareness of specific anti-drug ads were statistically significant with differences of up to 14 percentage points between baseline and follow-up. The evaluation indicates the ads are influencing youth: There was a 12-percent increase in the percentage of youth who agreed that the ads make them stay away from drugs (an increase from 61 to 69 percent). Also, the percentage of youth reporting they learned a lot about the dangers of drugs from tele-

vision commercials increased from 44 to 52 percent. In addition, while not expected in Phase II, some attitudinal shifts occurred in the intended direction, e.g., between baseline and follow-up, there were statistically significant increases in the percentage of teens who said they were scared of taking drugs as well as in the in the percentage of teens who reported understanding the negative effects of marijuana use.

The National Youth Anti-Drug Media Campaign is the largest and most comprehensive anti-drug media campaign ever undertaken by the Federal Government. Phases I and II have been successful—the campaign is meeting its goals. The campaign, which has entered Phase III, comprises more than 80 different anti-drug messages in a variety of media, from Internet banner ads to television ads to radio ads and book covers. Ads are being developed in 11 languages other than English as part of our strategy to reach the range of racial and ethnic groups in the United States. In Phase III, ONDCP and its partners, such as the Partnership for a Drug-Free America, will continue to work to sustain long-term anti-drug attitudes. Collectively, we will ensure that drug use among young people is reduced.

Question. While we have witnessed a confirmed increase in the use of most illegal drugs in the past few years, what specific criteria are being used to measure the success of this program?

Answer. The task of the evaluation is to determine whether observed changes in drug use or drug attitudes can be attributed to the Media Campaign specifically. A decrease in drug use rates would not be enough by itself to conclude the Media Campaign was effective as it would not identify the forces behind the change. In order to be able to make reasonable claims that the Media Campaign was responsible for change, the evaluation is designed to go well beyond analysis of trends from existing data systems. The evaluation will combine analysis of trends with analysis of exposure of youth and parents to the media campaign and the association between exposure and outcomes. The evaluation is designed to obtain sensitive measures of exposure to anti-drug advertising. The measures are designed to assess changes in knowledge, beliefs, attitudes, and behaviors brought about by the messages in the Media Campaign ads. These measures are quite detailed so the questions in the survey try to capture that specificity.

If evidence of favorable trends in existing time series can be combined with evidence that large number of youth and parents recall seeing the advertisements (and thus were exposed to the Media Campaign) and that the youth and parents with higher levels of exposure had more favorable beliefs, attitudes, and behaviors than those with lower levels of exposure, then it will be possible to build a convincing case that the Media Campaign has had an effect. To strengthen any evidence of an effect, the evaluation includes a longitudinal component in which the same youth and parents will be interviewed once per year over the 4-year period. These repeated interviews will allow measurement of some aspects of adolescent development and will thereby allow a much better sorting through of the causal processes than is possible with a cross-sectional survey.

YOUTH ANTI-DRUG MEDIA CAMPAIGN—NUTS AND BOLTS OF THE PROGRAMMING "MATCH"

Question. Could you briefly describe for the Subcommittee how the concept evolved to include the use of programming conent as a "match?"

Answer. The concept of the match was first developed by ONDCP and contractors in the spring of 1998, as a means of helping ONDCP address two of seven Congressionally stipulated concerns in the fiscal year 1998 appropriation. These concerns included: (1) ensuring the Campaign does not undermine existing anti-drug public service efforts, and (2) ensuring private sector participation in the Campaign.

The pro bono match concept was initially used as a negotiating strategy by Bates/Zenith, the Campaign's advertising and media buying contractors. Bates/Zenith successfully implemented this program by exceeding a dollar for dollar match. The match also allowed media outlets, to use a variety of activities to fulfill match requirements that would be helpful in achieving Media Campaign objectives, including programming that conveyed scientifically-based messages about drug use and its consequences. This flexibility also allowed ONDCP to use important target audience media outlets (such as certain ethnic media, cable networks, and Channel One) that would otherwise have been precluded from participating in the media buy because their format or limitations posed by the availability and inventory of PSAs.

Congress reviewed and judged the voluntary match program as a success in fiscal year 1999 and subsequently mandated the match for Phase III in appropriations language.

Question. Other than network programming what are some other examples of "soft matches?"

Answer. Below are some examples of non-PSA soft match efforts:

—Videos tagged with an anti-drug PSA, which are available for rental and home sales;

—Activities that provide visibility for local coalitions such as community affairs programming. An example is a local hero program that recognizes individuals or organizations making systemic changes in their communities regarding drug or alcohol prevention;

—posting and maintaining banners on websites;

—development and maintenance of web sites;

—in-school programs;

—use of celebrities for message delivery in PSA's;

—teacher guides, posters and other in school materials;

—the CBS "Cosby" home video which is targeted to parents;

—Basketball clinics; community visits in tagged vans conducted by professional sports teams;

—promotional events in malls.

Question. What factors are considered in making the determination that a specific program meets the qualifications for a match? Is this determination normally made after the program airs?

Answer. After TV programs have been broadcast, networks can elect to submit them for consideration for the pro bono match credit to satisfy part of their public service obligation under the Campaign. For a program to qualify for the pro bono match, messages must support one or more of the following concepts or program types which are integral to the Campaign's strategic communications strategy. These concepts were identified with the assistance of the Ad Council. They also serve as the subject areas under which ONDCP allocates the pro bono match PSA time slots it receives to non profit organizations with drug-related messages.

—educate and support the development of good parenting practices;

—encourage greater parental and caregiver involvement in a child's upbringing and effective drug-prevention strategies;

—provide early childhood development programs that strengthen the parent-child relationship;

—provide opportunities for youth through programs and services in school and after school, such as mentoring;

—foster high expectations and self esteem for youth;

—prevent drug abuse, including underage alcohol use;

—emphasize the nexus between drugs and crime and violence;

—emphasize the connection between substance use and AIDS;

—support other drug-related messages and campaigns as determined by ONDCP.

The media vendor voluntarily submits the programming after it has aired to the advertising contractor pro-bono match specialist. The contractor match specialist would forward programs to the Strategic Message Specialist (SMS). The SMS reviews the submission and advises the contractor if it is on-strategy or off-strategy. The determination is made after the program airs.

SUBCOMMITTEE RECESS

Senator CAMPBELL. I appreciate you appearing here. There is one last thing I would like to do. The tape that you showed us, I could see it and Senator Dorgan could see it. Those young people could not. It might interest them.

Mr. MCCAFFREY. Yes, sure.

Senator CAMPBELL. As soon as we recess, would you replay that so that the young people could see that?

Mr. MCCAFFREY. I certainly will.

Senator CAMPBELL. I thought that was a very graphic illustration, using a real life and death of a young man who was fooling around with those drugs. Could you do that?

Mr. MCCAFFREY. Yes, sir, I will.

Senator CAMPBELL. I would appreciate that very much.

With that, this hearing is recessed.

Mr. MCCAFFREY. Thank you, Mr. Chairman.

Senator CAMPBELL. Thank you.

[Whereupon, at 10:29 a.m., Thursday, April 6, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

MATERIAL SUBMITTED SUBSEQUENT TO CONCLUSION OF HEARING

[CLERK'S NOTE.—The following agencies did not appear before the subcommittee this year. Chairman Campbell requested these agencies to submit testimony in support of their fiscal year 2000 budget request.]

MERIT SYSTEMS PROTECTION BOARD

PREPARED STATEMENT OF BEN L. ERDREICH, CHAIRMAN

Chairman Campbell, Ranking Member Dorgan, and Members of the Subcommittee: Thank you for the opportunity to submit this statement for the record and—as the Subcommittee begins its consideration of the fiscal year 2001 appropriations for the Merit Systems Protection Board and other components of the Federal Government's civil service system—to discuss our funding request.

OVERVIEW OF THE REQUEST

Our request is for $31,446,000 in appropriated funds and a limitation of $2,430,000 on reimbursements from the Civil Service Retirement and Disability Trust Fund. This represents an increase of $3,860,000 over our appropriation for fiscal year 2000, with no change in the Trust Fund limitation.

In making this request, we are exercising our budget bypass authority under 5 U.S.C. § 1204(k) to ask that you provide $2,589,000 more in appropriated funds than the amount requested in the President's budget. We do so only because we believe that the requested funding level is essential if MSPB is to continue to fulfill its statutory obligations now and, at the same time, devote the necessary resources to technology investments that will allow us to fulfill those obligations in the future.

In the past seven years, the Board has responded to the increasing pressures on our budget by reducing our staff, changing the way we perform many of our functions, and turning more and more to technology to achieve efficiencies and cost savings in our operations. What we have done to date we have achieved despite the fact that our appropriation has been below the amount of our request to OMB almost every year, with rescissions cutting our funding even further in four of those seven years. There is simply no more we can do. We are at the point where we must maintain our currently authorized staffing level and also complete the implementation of our integrated electronic case filing and document management system. Not only do our reduced financial and human resources demand this, but we also face a statutory deadline of October 2003 for offering our customers the option of doing business with us electronically, as mandated by the Government Paperwork Elimination Act.

WHAT WE NEED TO DO—AND WHAT IT WILL COST

Having recognized several years ago that our hope lay in using information technology to achieve significant efficiencies in the adjudicatory process, we began our planning for an integrated electronic case filing and document management system. When completed, the system will support electronic filing of appeals and other case-related documents, electronic case files that can be accessed immediately by Board employees, electronic legal research, automatic generation of certain standard wording and documents used in decisions, electronic distribution of decisions to the parties and others, electronic storage of closed case records, and integration between the document management system—used to create case documents—and the case management system—used to record essential data about cases and to produce statistical reports.

To understand what a revolution this system promises for the Board's adjudicatory process, you must understand how the present system works. An individual

files an appeal, either on the MSPB Appeal Form or in another written form, such as a letter. One of our employees creates a paper case file in which she places the appeal and any attachments. She then enters data from the appeal—name, address, agency, action being appealed, date filed, etc.—into the case management system. A written acknowledgment order is prepared and mailed. As the case proceeds and documents are filed by the parties or generated by the judge to whom the case is assigned, more paper is added to the case file. Each transaction requires another manual data entry in the case management system. When the judge completes the adjudication of the case, she writes a decision, which is copied and mailed to the parties. Data regarding the decision then is entered manually into the case management system.

If a party petitions the 3-member Board to review the judge's decision, the paper file is sent to headquarters, more data entries are made in the case management system, and the whole labor- and paper-intensive process continues at headquarters. When a case is closed, either at the regional or headquarters level, it is then sent to a records storage center, where we pay for its storage until it can be disposed of in accordance with the NARA records schedule. If other cases develop from the original case, such as a request for attorney fees or a petition to enforce the Board's final order, the original case file has to be retrieved from storage and returned to the adjudicating office.

Imagine the process now under the integrated electronic case filing and document management system. An appellant answers questions on-line and transmits the appeal electronically to the appropriate MSPB office. The electronic appeal starts a case file that will be made up of electronic documents, and data needed for case-tracking and statistical purposes flows to the case management system. An electronic acknowledgment order appropriate to that case is generated, using data recorded in the case management system, and is transmitted electronically to the parties.

The judge to whom the case is assigned can access the electronic case file anytime, anywhere—at work, at home, or on the road—and can research issues presented in the case using the electronic legal research system. When the judge is ready to issue her decision, she creates an electronic document with the help of the document assembly system and using data recorded in the case management system. The decision is then transmitted electronically to the parties and others, and data on the closing action flows to the case management system, where it can be used to generate reports.

The electronic case file is stored in digital form and can be retrieved at any time should it be needed again. If a petition for review of the judge's decision is filed with the Board, headquarters staff can immediately access the electronic case file and the data recorded in the case management system, and the electronic processing of the case continues at headquarters.

Of course, there will continue to be appellants—at least for the foreseeable future—who cannot file electronically. For this reason, scanning technology is a critical component of the integrated system. Appeals and other case-related documents that are received on paper can be scanned into an electronic file. From that point on, they can be processed in the same way as cases that are filed electronically.

Under this system, costs for postage, paper, duplicating, and records storage are reduced dramatically. More importantly, far less employee time is expended on data entry, accessing case files, and moving those files from one point to another.

The most important thing to remember about the system is that it is an integrated system. It requires all of its components to work as intended. To leave the system incomplete would be like assembling a car with the chassis, engine, gears, brakes, and almost all the other essential parts—but stopping before you put on the tires. You have an impressive-looking machine, but it doesn't go anywhere.

The Board has followed a carefully thought out, step-by-step process in implementing the integrated electronic case filing and document management system. We studied electronic processing systems in various legal environments, selected contractors with the necessary expertise to help us develop and implement the system, examined various off-the-shelf software for the components of the system, involved our employees at every step of the project, and established pilot projects to test the system components.

With most of last year devoted to testing the document management, document assembly, and legal research systems, we are ready to implement those systems this year. We will also begin testing and implementation of the new case management system this year. Our plan for 2001 calls for implementing the next phases of the system, electronic filing, scanning of paper files into electronic form, and electronic publishing and distribution. In order to do this, we need the full $2,173,000 included in our fiscal year 2001 request to OMB. Because the OMB passback—as reflected

in the President's budget request—allows only $673,000 of that amount, we must use our statutory bypass authority to ask that you provide the other $1,500,000.

That amount accounts for more than half of our total bypass request. As detailed in our budget justification, the remainder will allow us to fund the other items denied by OMB—full funding of our authorized 250 FTE ($389,000), rent increases and relocation expenses ($600,000), and inflationary increases in the costs of such basic items as legal services, necessary travel, postage, and express mail services ($100,000).

We have intentionally operated with fewer than our authorized number of FTE last year and this year. Rather than filling vacancies, we have used contractors where special expertise was needed and temporary services to meet short-term needs. While a portion of our saved FTE funds went to pay for these services, the remainder was redirected to the integrated electronic case filing and document management system, which has been only partially funded. The fact that we have operated with fewer than 250 employees, however, does not mean that we no longer have work for 250 employees. We continue to need funding for the full authorization of 250 FTE so that we can continue to use contractors and temporaries where needed to supplement our full-time permanent staff.

We are relocating our headquarters in downtown D.C. this year. Our current headquarters space is no longer adequate for our needs, particularly with our planned information technology improvements, and necessary renovations to the building would force us to move to temporary space even if we stayed there. We would face a rent increase if we stayed, and the rent we have negotiated at the new location is extremely competitive, especially when compared both to what GSA was paying for it previously and what other agencies are paying in the same area. We also will be paying increased rent under the renewed lease for our Boston Field Office, reflecting the high rental costs in that area. The lease for our Washington Regional Office is expiring, and we face increased rent there whether we renew the lease or relocate the office. Because current GSA policy requires moving agencies to bear their relocation costs, we have no choice but to request the funding needed to cover these costs.

As to the final item comprising our bypass request, inflationary increases in the costs of goods and services used in our operations are a fact of life. We cannot avoid them, and we cannot redirect funds to cover them without damage to our other needs. Therefore, we ask you to provide the modest amount included in our request to cover them.

WHAT WE HAVE DONE SO FAR

To put our needs for fiscal year 2001 in perspective, let me review briefly what we have done so far to maintain our ability to fulfill the Board's statutory mission despite reduced resources.

In compliance with the Administration's Reinventing Government initiatives and workforce reductions mandated by Congress, MSPB has reduced its staff by 23 percent since I came to the Board in July 1993. We have made judicious use of buyouts and, when no more reductions could be achieved by voluntary action, we conducted a RIF affecting administrative positions at the Board's headquarters.

In 1998, we entered into a contract with USDA's Animal and Plant Health Inspection Service for the provision of human resources management (HRM) services, enabling us to reduce our HRM staff from 14 to 1. We continue to contract with USDA's National Finance Center for accounting and payroll services. In certain areas where we need special expertise, such as information technology and audits, we are using contractors on a temporary basis rather than hiring full-time permanent employees.

We have cut costs by closing one regional office and converting five others to field offices, allowing us to redirect resources from the administration of those offices to their adjudicatory functions. At headquarters, we have reduced the number of offices, eliminating Senior Executive Service and middle management positions.

We have relied increasingly on information technology in our administrative and communications operations. Such administrative processes as purchasing and recording time and attendance have been automated, reducing considerably the employee time and paperwork expended on those processes. We have launched a World Wide Web site where Board decisions, a form for filing appeals, reports of the Board's merit systems studies, annual reports and other publications, and other useful information are immediately accessible 24 hours a day, 7 days a week. We have also established a 24-hour toll free telephone number for our customers.

The Board's application of information technology has not been limited to its administrative and communications operations. We also have applied it to the adjudicatory process by conducting hearings in an increasing number of cases by video-

conference. This initiative not only saves money for MSPB, but for the parties to the case as well. Productivity is improved for all concerned because travel time to a hearing location is eliminated.

Also in the adjudicatory area, we have expanded our efforts to promote alternative dispute resolution (ADR). Successful ADR programs can save money both for the Board and for the parties, as settled cases take less time to complete, often avoid the expenses associated with a hearing, and only infrequently result in further litigation.

We have continued the Board's successful ADR program at the initial adjudicatory level, with the regional offices settling about half of all appeals not dismissed. We initiated a program at Board headquarters to attempt settlement at the second level of the adjudicatory process, where a party files a petition for review (PFR) of the regional-level decision with the 3-member Board. That program has now been made permanent, with 27 percent of the PFRs selected for the program settled in our most recent fiscal year.

We are increasingly focused on promoting ADR in personnel disputes while they are still at the agency level—before an appeal is filed with MSPB. Last year, we amended our procedural regulations to provide an automatic 30-day extension of the time limit for filing an appeal where the parties mutually agree in writing to submit to an ADR process to try to resolve their dispute. We have also launched a training program for agency personnel aimed at developing a cadre of knowledgeable and skilled specialists who can intercept and resolve personnel disputes before an appeal is filed with the Board.

Through these initiatives—and the extraordinary efforts of MSPB employees—we have been able to maintain our record of timely and fair adjudication of Federal employee appeals and other civil service matters despite the loss of almost one-quarter of our staff. In fiscal year 1999, the Board processed cases, on average, through two levels of adjudication in just under 11 months.

We have reached the limit, however, of what we can do with our current staff and systems. We have concentrated our staff cuts so far in the area of administrative support services. If we are forced by inadequate funding to make further cuts, there is nowhere else to go but to the staff performing direct mission-related functions. Our current information technology systems—put in place more than a decade ago—are capable of only minimal improvements to our adjudicatory process. Our best hope at this point is to extend the use of information technology much further into the statutory program that consumes most of our human and financial resources—adjudication.

MSPB'S ROLE AND FACTORS INFLUENCING OUR WORKLOAD

Congress has determined that certain serious personnel disputes in the Federal workplace warrant resolution through adjudicatory proceedings before the Board. The Board's adjudicatory workload, therefore, is the result of appeal rights granted by Congress, actions taken by agencies that implicate those rights, and the choices made by Federal employees and other appellants to exercise those rights before the Board. The Board has no control over any of these factors.

Unlike many components of the Federal Government, MSPB will never come in direct contact with most American citizens. Our adjudication function, however, is critical to the effective operation of Federal agencies. Personnel disputes arise in every organization, public and private, and systems must be put in place to resolve them so the organization can get on with its business. Otherwise, productivity suffers and the organization's cost of doing business goes up.

Although we cannot predict in any given year precisely what our workload will be, we know from our historical trend data that our caseload has remained steady—at about 10,000 cases per year—for the past decade. The caseload has remained at this level despite a significant reduction in the number of Federal employees. In fact, downsizing itself can contribute to an increase in the Board's work, as was the case with the Postal Service restructuring in the early 1990s—which led to a peak workload of more than 13,000 cases in fiscal year 1995.

Congress has extended the Board's jurisdiction several times in the 21 years of our existence. While our first decade was marked primarily by legislation that extended an existing right to appeal certain personnel actions to additional groups of employees—such as excepted service employees and Postal Service supervisors and managers—the years since 1989 have been marked by laws that provide wholly new bases for bringing a case to the Board. The Whistleblower Protection Act (1989), the Uniformed Services Employment and Reemployment Rights Act (1994), the Presidential and Executive Office Accountability Act (1996), and the Veterans Employ-

ment Opportunities Act (1998) all extend the Board's jurisdiction to new kinds of actions.

MSPB cases are increasingly complex. Many appellants are raising not just an allegation of wrongful removal or suspension, but also claims of disability, sex, race, and/or age discrimination, Family and Medical Leave Act issues, claims of reprisal for whistleblowing, and claims of violations of USERRA and other veterans' rights. More issues raised means more time spent in the administrative process before the Board—longer hearings are necessary, decisions must address multiple claims, and review is more complicated.

In short, the Board has virtually no control over the intake side of the workload equation. Our efforts, therefore, must be focused on finding means to handle the incoming work more efficiently and at lower cost. The alternative is an increasing backlog of cases—an alternative that has negative repercussions throughout the Government as final resolution of personnel disputes is deferred and productivity suffers.

CONCLUSION

My 7-year term as Chairman of MSPB is coming to an end, and I will be leaving the Board on March 2, 2000. In parting, I want to say that I appreciate the courtesies you and your staff have extended to me and my staff during my tenure and the support you have provided for our essential statutory programs. I urge you to continue that support so that MSPB can continue to perform its critical functions.

I recognize fully the budget pressures on the Subcommittee and the competing needs that you must reconcile. But I firmly believe that in my time at the Board, we have done the planning that will lead to a 21st century agency that not only maintains but improves upon its enviable 20th century record of performance. With your support, MSPB can use new technology to offer better service while costing the taxpayers less.

Thank you for the opportunity to submit this statement for the record. My successor and MSPB staff will be happy to provide you with whatever additional information you require as you proceed with your consideration of the fiscal year 2001 appropriations.

OFFICE OF PERSONNEL MANAGEMENT

PREPARED STATEMENT OF HON. JANICE R. LACHANCE, DIRECTOR

Mr. Chairman and Members of the Subcommittee: I am pleased to have this opportunity to submit for the record a statement discussing the appropriations request for the Office of Personnel Management for fiscal year 2001.

Before reviewing the President's request for appropriations for OPM, I would like to provide some context for that request by outlining briefly the challenges we see facing us in the near term and the priorities we have established to meet those challenges.

Clearly, at OPM, because of the government-wide nature of our Human Resources Management (HRM) work, the challenges we confront have implications beyond our agency. While maintaining our consistent emphasis on the protection of merit system principles and Veterans preference in Federal employment, we must position agencies to succeed in the rapidly changing, highly competitive, and increasingly global labor marketplace. We plan to work closely with agencies to help them strategically align their human resources to support agency goals.

Winning the "war for talent" will require not only aggressively competing for highly skilled new employees, but also retaining and developing our current workforce. We intend to meet these challenges by refining our existing policies, systems, and services, as well as introducing a series of creative new initiatives.

We recognize that, despite some commonalities, agencies have differing objectives, concerns, and needs, particularly in areas such as staffing and compensation. Our goal is to ensure agencies' effective use of existing options, while developing additional flexibilities to address both government-wide and particular situations.

In addition, we will focus attention on the significance of strategic human resources management. Our vision for agencies is simply that they be able to get the right people with the right skills in the right jobs at the right time. We will lead agencies as they analyze their needs through workforce projections and skills gap assessments, and practicing succession planning, and by being attentive to all facets of effective workforce management, including the use of effective labor-management strategies to empower workers and managers.

We also will emphasize that the responsibility for strategic human resources management is not the exclusive province of HRM professionals, but is most appropriately shared throughout the organization by agency heads, executives, line managers, supervisors, and employees. We will seek to assist agencies in developing their HRM staff members, who then will be able to provide strategic assistance to others throughout the agencies.

Of course, as we strive to provide HRM leadership government-wide and support other agencies, we will be addressing our own internal management challenges such as improving our financial management systems and developing the infrastructure needed to participate in critical government-wide information technology initiatives.

We have eight priorities for fiscal year 2001.

First, we will complete the development of a workforce planning model and accompanying automated system. By providing agencies with the tools to analyze their workforce needs, we will enable them to address those needs through the creation of a succession planning strategy. Not only will agencies be able to view data from various systems to determine inconsistencies in diversity or assess occupational needs and skill demands, they will also have the capacity to anticipate changes in attrition, and make workforce projections.

Second, we will continue our work to make the Federal hiring process simpler and more effective. As we complete work on our new qualifications standards development process, we will move from a rigid system which emphasized quantitative requirements, to a competency-based model which focuses on the "whole person." Beginning this fiscal year and moving into fiscal year 2001, we will be integrating the model into tools enabling managers to more effectively support targeted recruitment, streamlined application procedures, and valid assessments of employees for all occupations.

Third, to parallel the personnel flexibilities delegated to agencies or established as part of an agency's statutory reorganization, we will be expanding our oversight activity. Our increased visibility in monitoring the use of these flexibilities and our work in helping agencies to develop internal accountability systems will encourage adherence to merit system principles and compliance with veterans preference. Our vision includes not only getting the right people in the right job at the right time, but also doing it in the right way.

Fourth, critical to our effort to work more efficiently, both within OPM and government-wide, is our more effective use of information technology. We are modernizing our systems and processes, not only to support the programs we administer, but also to better serve needs of external users such as the Office of Management and Budget, the General Accounting Office, and the Congress. Coupled with the broader vision of a federal human resources data network, this effort has the potential to significantly reduce the Government's human resources operations costs by using modern technology to minimize our dependence on hard-copy documents.

There are several significant components of this priority. For example, we will continue to enhance the electronic transfer of data from agencies to our redesigned central personnel data file, while improving the accessibility of data, without sacrificing privacy protections, for users via the internet.

In addition, our retirement systems modernization effort is central to our pursuit of our long-term retirement-related customer service, financial management, and business goals. By reengineering our business processes, in consultation with our strategic delivery partners, we will be able to reduce processing times for the Federal Employees' Retirement System as we have for the Civil Service Retirement System.

Our most far-reaching technology-related initiative is our work on the Federal cyber service program, which is designed to ensure an adequate supply of highly skilled federal information systems security specialists. We are contributing to this significant administration effort by developing a plan for recruiting, developing, and retaining staff for the Federal cyber service, to protect national computer data and data exchanges, and to staff related hard-to-fill occupations.

Funding will be critical to ensuring that we are able to complete our study of information technology occupations which is essential to the work of the multi-agency effort to address the increasing threats to the nation of cyberterrorism.

Fifth, our continuing support for agencies in their effort to recruit, manage, and retain a diverse and highly-qualified workforce will be evident in our work on a strategic compensation policy. In working toward our long-term objective of developing a performance-based pay and benefits system appropriate for the diverse missions, structures, workforce, and technologies represented in the Federal Government, we will continue our research and outreach to stakeholders that we began in fiscal year 1999.

An important step in that effort will be changing the Government's position classification system to provide flexibility in support of recruitment, hiring, and management concerns that could not have been foreseen 50 years ago when that system was established.

Another critical aspect of our compensation policy agenda is maintaining our leadership position in the design and delivery of employee benefit programs. In the Federal employees health benefits program, we have not only implemented the patients' bill of rights, but have also initiated efforts to reduce medical errors and enhance patient safety. In addition, we have begun working to implement, no later than the beginning of fiscal year 2001, a premium conversion plan, enabling Federal employees to pay health benefits premiums with pre-tax dollars.

Legislatively, we will develop a proposal to leverage the Government's purchasing power by contracting directly for dental benefits. Of course, we will continue to pursue vigorously the enactment of a group long-term care insurance program.

Sixth, we will continue our efforts to support agencies in creating model workplaces for their employees. Adopting a variety of family friendly policies will help employees to strike an appropriate balance between their personal and professional lives. By addressing such topics as telecommuting, alternative work schedules, job sharing, and elder and child care, we will foster higher morale and greater productivity.

In addition, we will provide leadership to agencies in maximizing the use of learning technologies to develop workers able to meet the challenges of the 21st century. We will promote the integration of training and technology by agencies and the use of innovations such as the individual learning account to involve employees directly. These efforts are critical to our vision of strategic human resources management.

Of course, in our view, there can be no model workplace without an array of collaborative labor-management programs. We will continue to urge the development and growth of labor-management partnerships in the Federal Government, and we will be researching what makes the best partnerships work so well. As we identify specific strategies and tactics that lead to good working relationships and bottom line improvements, we will share them throughout the Federal community.

Seventh, we also recognize that without exceptional leaders with the ability to design and implement strategies to maximize employee potential and foster high ethical standards, the Government will be unable to serve the American people effectively. We will seek to select and develop executives and managers who can lead and motivate people, who are results-driven, and who have a keen business sense about using their resources, particularly their valuable human resources, to get results for the taxpayers. This will be especially crucial in fiscal year 2001, as we facilitate government-wide transition efforts following the Presidential election.

Finally, we remain committed to continuing the improvement in all of our financial management operations. Working cooperatively with the office of the inspector general and the independent public accountant, we have made significant progress in correcting previously identified management control weaknesses. As a particularly important example, in the past year, we achieved, for the first time, an unqualified audit opinion for all three of our multi-billion dollar trust fund financial statements. The additional resources we are seeking for this purpose will enable us to build on that progress and to update or replace our aged financial systems.

We are absolutely committed to removing any obstacles to obtaining unqualified audit opinions on our revolving fund and salaries and expense accounts and to resolving any remaining difficulties in the five financial statement audits. The funding we seek in this budget is crucial to our success.

Turning to our request for resources to support these priorities, it is important to note that the total OPM budget request of $14.6 billion includes appropriations which are 99 percent mandatory and only 1 percent discretionary. The increase over fiscal year 2000 is $0.6 billion. The request for our three mandatory payment accounts is an estimated $14.4 billion, while we are seeking a total of $213.7 million for our two discretionary appropriation accounts containing general funds and trust funds. Our administrative accounts will support 2,984 full-time equivalent (FTE) employees. That is the same level as fiscal year 2000.

The request for basic operating expenses from general funds totals $100.6 million, an increase of $10.3 million over fiscal year 2000. That request will support 769 FTE's. It includes $7 million for the Federal cyber service program. That represents an increase of $6.2 million over fiscal year 2000. As discussed earlier, the money will be used to address the shortage of skilled information security professionals in the Federal Government. OPM will continue to work with agencies to recruit, develop, and retain an expert cadre of information technology and computer security specialists, both by using existing authorities and by coming up with new approaches to appeal to the dot com generation.

A supplemental request for an additional $1 million to permit OPM to expand and accelerate cyber service activities in fiscal year 2000 was transmitted in the President's budget. Thus far, the House Committee on Appropriations has denied the request, without prejudice, stating the belief that the request is more appropriately considered in the fiscal year 2001 process.

Our basic request also includes an increase of $1.9 million to support our work to improve our administrative financial systems in an effort to eliminate material weaknesses and earn unqualified audit opinions on all OPM accounts.

In addition, we are seeking an increase of $1 million for agencywide information technology support. That increase is largely offset by a decrease of $0.8 million in funding for modernization of the central personnel data file.

Our final significant increase under our general fund request is for $1.6 million for human resources initiatives. The five components of that increase include $0.5 million for an expansion of OPM oversight activities to ensure adherence to merit system principles, $0.4 million to simplify hiring and assessment by developing a new qualifications standards process, $0.3 million each for a workforce planning model and improvements in the compensation rate-setting process, and $0.1 million to implement strategic compensation system planning design and improvements.

With regard to the administration of our retirement and insurance programs, OPM is requesting transfers from the trust funds totaling $102 million and supporting 1,328 full-time equivalents. Included in that request is $10.5 million for the retirement systems modernization project, to remain available until expended. That represents an increase of $6.5 million for that project.

It is important to note here that a significant portion of the funding for the Office of the Inspector General in OPM is derived from trust fund transfers too. That office will outline its request in greater detail, but I can say that the overall request totals $11.1 million and 112 FTE's. Of that total, $1.4 million would come from general funds and $9.7 would represent transfers from trust funds.

Of course, OPM also provides a variety of services financed by other agencies through our revolving fund. In addition to our management of the investigations program and the professional development and continuous learning for federal executives and managers, OPM conducts testing of potential military inductees for the Department of Defense. We also provide a range of services for agencies including examining for vacancies, assessment services, automation of staffing systems, and the selection and development of Presidential management interns.

For fiscal year 2001, the budget includes an estimated $267.1 million in obligations and 677 FTE's for these ongoing programs.

The OPM budget request includes, as always, mandatory appropriations to fund the Government's contributions to the Federal employee life insurance and health benefits programs for annuitants. This is because OPM serves as "employing agency" for these individuals relative to these benefit programs.

Given the mandatory nature of these payments, we are requesting a "such sums as may be necessary" appropriation for each of these accounts. We estimate that, for the 280,000 annuitants electing post-retirement life insurance coverage and for whom we are responsible, $35.0 million will be needed, while an appropriation of about $5.4 billion will be required to pay the Government's contribution toward the cost of health benefits coverage for the 1.9 million annuitants who participate in that program.

In addition, as mandated by the financing system established in 1969 by Public Law 91–93, liabilities resulting from changes since that year which affect benefits, principally pay raises, must be amortized over a 30-year period. We are requesting a "such sums as may be necessary" payment for the civil service retirement and disability fund for that purpose. We estimate the amount needed to be $8.9 billion.

Finally, the President's budget for fiscal year 2001 proposes a pay increase for white-collar Federal employees of 3.7 percent, to be distributed between an across-the-board raise and locality pay as determined following discussion with employee organizations and other interested parties. We have, once again, included in the general provisions in the budget the appropriate legislative language to ensure that blue-collar Federal employees remain parallel to their white-collar colleagues in terms of the pay adjustments they receive.

Along with a pay raise that exceeds the recent wage growth in the private sector, the administration has proposed to put more money in the pockets of Federal employees in other ways. As mentioned earlier, the President's budget provides a premium conversion plan that will save money for Federal employees by allowing them to pay their share of health benefits premiums with pre-tax dollars. In addition, the budget contemplates a repeal of the higher retirement contributions required of Federal employees by the Balanced Budget Act of 1997, as well as a reversal of the ac-

tion taken last year to delay into fiscal year 2001 the last paycheck of fiscal year 2000.

When the previously noted efforts to maintain an affordable health benefits program and to establish a new long-term care insurance program are factored in, this budget offers significant and well-deserved rewards for Federal employees.

Thank you for the opportunity to discuss our request. I would be pleased to provide the Subcommittee with any additional information you require.

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on the Treasury and General Government for inclusion in the record.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule separate hearings for nondepartmental witnesses.]

PREPARED STATEMENT OF BERNARD H. BERNE

I am a resident of Arlington, Virginia. I serve the Food and Drug Administration (FDA) as a Medical Officer and as a reviewer of medical device approval applications. I am submitting this statement as a private individual.

I ask you to reject a proposal in President Clinton's fiscal year 2001 Budget that would make a total of $544,640,000 available to the General Services Administration's (GSA's) Federal Buildings Fund through four appropriations in the Treasury and General Government Appropriations Act, 2001. GSA would use funds from the appropriations to award contracts to design and construct an FDA consolidation at the former White Oak Naval Surface Warfare Center in Montgomery County, Maryland.

The President's Budget proposes that, of the above total, $101,239,000 would be made available to GSA in fiscal year 2001. The remainder would become available to GSA in fiscal years 2002, 2003, and 2004. The President's Budget does not provide the total cost of this costly and unjustified project.

White Oak is a very poor site for this massive "consolidated" federal administrative and laboratory facility. Metrorail is three miles away. Nearby highways and roads are congested.

An FDA facility at White Oak would increase the Washington Metropolitan Area's traffic congestion, air pollution and urban sprawl. Further, the new construction would require Congress to appropriate additional funds to "improve" the highways and roads that serve the White Oak area.

No legislation authorizes the requested appropriations. Because of this, no Senate authorizing Committee is monitoring the need, cost and location for this project.

The FDA Revitalization Act (Public Law 101–635; 21 U.S.C. 379(b)), which amended Chapter VII of Federal Food, Drug, and Cosmetic Act by adding a new Section 710 (21 U.S.C. 379(b)), only authorizes appropriations that the Secretary of Health and Human Services (HHS) can use to enter into contracts to design, construct, and operate a consolidated FDA laboratory and administrative facility. Public Law 101–635 does not authorize any appropriations that GSA can use to enter into any contracts of any kind. Public Law 101–635 clearly and specifically restricts the role of GSA in the FDA consolidation to "consultation" with the Secretary of HHS.

Specifically, Section 101(d) of Public Law 101–635 authorizes appropriations only to "carry out this section". "This section" (Section 710 of the Federal Food, Drug, and Cosmetic Act) states "(a) Authority.—The Secretary, in consultation with the Administrator of the General Services Administration, shall enter into contracts for the design, construction, and operation of a consolidated Food and Drug Administration administrative and laboratory facility." "This section" does not authorize GSA to take any actions. Congress cannot appropriate any funds to GSA under the authorization in Public Law 101–635.

Further, the FDA Revitalization Act authorizes appropriations for only one FDA consolidated facility. Despite this, GSA has used funds appropriated for an "FDA Consolidation" to design and construct three separate FDA administrative and laboratory facilities in Beltsville, College Park, and White Oak, Maryland.

GSA's actions have contradicted the intent and language of the FDA Revitalization Act. GSA will not use the proposed appropriation to consolidate all FDA headquarters facilities in a single location. Therefore, the FDA Revitalization Act is irrelevant to the proposed appropriation.

GSA often claims that the FDA Revitalization Act authorizes appropriations to both the Secretary of HHS and to the Administrator of GSA to design and construct the FDA consolidation. This self-serving claim is incorrect.

According to Section 7 of the Public Buildings Act of 1959, as amended, Congress can only legally appropriate funds to GSA to construct any public building whose cost exceeds $1.5 million if the GSA Administrator transmits a prospectus to Congress and if the Senate Committee on Environment and Public Works (GSA's Senate authorizing committee) passes a resolution that approves this prospectus. GSA has never transmitted a prospectus to Congress that describes any part of the FDA consolidation.

GSA has illegally used $55,000,000 appropriated in the Treasury, Postal Services, and General Government Appropriations Act, 1996 (Public Law 104–52, 109 Stat. 482), to award contracts to construct a so-called FDA "consolidation" in College Park, Prince George's County, Maryland. GSA is further now illegally using $35,000,000 appropriated in the Treasury and General Government Appropriations Act, 2000 (Public Law 106–58, 113 Stat. 450) to award contracts to design and construct another so-called "FDA consolidation" at White Oak in Montgomery County, Maryland.

Provisions in both appropriations acts (Public Law 104–52 and Public Law 106–58) specifically prohibited GSA from expending any funds appropriated therein for the design and construction of any project for which a prospectus, if required by the Public Buildings Act, had not been approved. The Public Buildings Act requires a prospectus because, (1) the FDA "consolidations" will cost more than $1.5 million, and, (2) the FDA Revitalization Act does not authorize any appropriations that GSA can use to award design or construction contracts.

GSA is therefore clearly misusing appropriated funds. Congress has never enacted any legislation that has authorized GSA to construct the College Park and White Oak FDA facilities.

Paragraph 7 of Senate Rule XVI requires that Committee reports on general appropriations bills identify each provision "which proposes an item of appropriation which is not made to carry out the provisions of an existing law, a treaty stipulation, or an act or resolution previously passed by the Senate during that session." On June 24, 1999, your Committee issued Senate Report 106–87, which proposed an appropriation of $35 million to GSA for the FDA consolidation.

Senate Report 106–87 did not comply with Senate Rule XVI. Your Committee Report failed to identify the appropriation to GSA for the FDA consolidation as one that was not being made to carry out the provisions of a law or a Senate resolution. Your Report failed to state that the appropriation lacked authorization.

Your Committee should not repeat the error that you made last year. If you propose to appropriate any funds to GSA for the FDA consolidation in the Treasury and General Government Appropriations Act, 2001, your accompanying Committee Report must identify the appropriation as one that lacks authorization.

Executive Order 12072, which President Clinton reaffirmed in Executive Order 13006, requires all federal facilities and federal use of space in urban areas to "serve to strengthen the Nation's cities and to make them attractive places to live and work", and to "encourage the development and redevelopment of cities". When he issued this Order, President Carter stated that the Order was intended "to strengthen the backbone of our major cities and to build up jobs and further investments there." (Public Papers of the Presidents: Jimmy Carter, 1978, p. 1429).

White Oak is not in or adjacent to any city. An FDA consolidation at White Oak would draw jobs and investments out of Washington, D.C. The requested appropriation serves to further weaken this economically troubled major city.

Section 12(c) of the Public Buildings Act states: "The (GSA) Administrator in carrying out his duties under this Act shall provide for the construction and acquisition of public buildings equitably throughout the United States with due regard to the comparative urgency of the need for each particular building."

Despite this requirement, GSA is requesting an appropriation to construct a major federal facility in affluent Montgomery County, Maryland. Unlike Maryland in general and Montgomery County in particular, the District of Columbia is economically depressed. The District has a far greater "comparative urgency of need" for the FDA consolidation than does Montgomery County, Maryland.

Thus, GSA is violating Executive Orders 12072 and 13006, as well as Section 12(c) of the Public Buildings Act, by proposing this appropriation. Your Committee should not endorse these violations by appropriating further funds for this project.

It is important for your Committee to recognize that no law directs or requires GSA to consolidate FDA in Montgomery County. In 1992, Congress appropriated funds to begin constructing an FDA consolidation in Montgomery County, Maryland. However, in 1995, Public Law 104–19 rescinded all of these construction funds. Public Law 104–19 removed any requirement for FDA to consolidate in Maryland.

The Treasury and General Government Appropriations Act, 2000 (Public Law 106–58) appropriated $35 million for an FDA consolidation in Montgomery County. However, as noted above, Public Law 106–58 contains a provision that states (113 Stat. 451): "Provided further, That funds available to the General Services Administration shall not be available for expenses in connection with any construction, repair, alteration, or acquisition project for which a prospectus, if required by the Public Buildings Act of 1959, as amended, has not been approved, except that necessary funds may be expended for each project for required expenses in connection with the development of a proposed prospectus."

No prospectus has ever been approved for this project. Since the Public Buildings Act requires prospectus approval for all GSA construction projects costing more than $1.5 million, GSA cannot legally use the $35 million to construct anything at White Oak. Therefore, the FDA consolidation can still occur in the District of Columbia rather than in Montgomery County, Maryland.

In a letter dated January 5, 1999, Mr. William Hoffman, NEPA/404 Program Manager, U.S. Environmental Protection Agency (EPA), Region III, informed GSA that GSA's Environmental Impact Statement (EIS) for the White Oak project did not comply with EPA regulations. The letter stated that GSA had not adequately compared an FDA consolidation at White Oak with a consolidation at alternative locations on public and private lands.

The federally-owned Southeast Federal Center and St. Elizabeth Hospital sites in D.C. can accommodate the FDA consolidation. Congress should not appropriate any funds for the FDA consolidation until GSA evaluates these alternatives and until the Senate Committee on Environment and Public Works approves a prospectus for the project and certifies the project's need.

FDA does not need to consolidate at White Oak. The budget request violates laws, executive orders, and EPA regulations.

PREPARED STATEMENT OF THE NATIONAL TREASURY EMPLOYEES UNION

Chairman Campbell, Ranking Member Dorgan, and distinguished Members of the Subcommittee, my name is Colleen Kelley, and I am the National President of the National Treasury Employees Union. The NTEU represents more than 155,000 federal employees, including employees at the Department of Treasury and several other federal agencies. I appreciate this opportunity to present testimony to you today on behalf of these dedicated men and women. The actions of this subcommittee directly affect their lives and the livelihoods of every American.

Many Americans take for granted the outstanding work done by Treasury Department employees and they fail to realize how this work helps the world's premier democracy continue to flourish. I am hopeful that Treasury Department employees can count on this subcommittee to provide the staffing and resources necessary to help them carry out their mission.

I would like to highlight some of NTEU's priorities and concerns contained in the President's fiscal year 2001 budget request for the Department of Treasury. Below is just a sampling of some of the most important issues facing the Treasury Department workforce. I would welcome the opportunity to provide additional views at a later date.

INTERNAL REVENUE SERVICE

Since 1993, staffing levels at the IRS have been reduced by 17,000 FTEs. Yet, during this period, IRS toll free phone services and web-based services for taxpayers have improved, taxpayers can visit IRS officials at more convenient locations during longer hours of operation, and taxpayers have more options for filing their returns. Meanwhile, it is projected that the IRS will collect $1.767 trillion in revenues for fiscal year 2000, will receive 213.1 million returns, and will issue over 93 million individual refunds.

I am pleased to report to you that IRS employees are taking very seriously the new mandates imposed by Congress in the IRS Restructuring and Reform Act. Our employees have made great strides in improving customer service at the IRS while continuing to perform the necessary functions of ensuring that the taxes that are due to the Treasury are paid. Yet the 71 new taxpayer rights established in RRA 98 have created new procedures in handling cases, which has led to some confusion

among IRS employees and has increased the time it takes to close current cases. Additionally, Congress has made hundreds of changes to the tax code in the past three years: in fact the Taxpayer Relief Act of 1997 alone made 801 tax law changes. Next, continued record economic growth in this country has led to an increased number of tax returns and more complexities in taxpayer and business filings. For example, IRS Commissioner Charles Rossotti pointed out in testimony presented to the Congress this year that since 1993, the number of individual tax returns with over $100,000 in reported income, which are generally more complex returns, has increased by 63 percent. These and other demands being put on IRS employees have contributed to a significantly increased workload at the IRS. Plain and simple the IRS workforce is being asked to do considerably more work with fewer resources. And while I applaud advances in the use of technology at the IRS, and I commend this subcommittee's commitment to these improvements, technology alone cannot possibly manage the increasing workload at the IRS.

For this reason, I wish to express NTEU's strong support for increased funding for staff training and for the new IRS initiative, "Staffing Tax Administration for Balance and Equity" (STABLE). With regard to training, we at NTEU very much want the taxpayers to be guaranteed the rights they are entitled to. We want the RRA 98 provisions to work for the taxpayers and for the IRS. And we want the taxpayers to be able to take full advantage of the recent changes in the tax code. Our employees are up to these challenges, but if taxpayers and the IRS are to benefit from these changes, then we need to dedicate more resources to training our employees about these complex changes.

The STABLE initiative will support the hiring of approximately 2,800 new employees at the IRS. Specifically, the budget requests an increase in funding for fiscal year 2001, which would allow for the hiring of 2,534 new employees at the IRS beginning October 1, 2000. The President has also requested a supplemental appropriation of $39.8 million to allow the IRS to hire 301 new staff in the current fiscal year, so that they will be trained and ready for fiscal year 2001.

The number of revenue agents has declined by roughly seventeen percent since 1995, and will decrease an additional four percent during the current fiscal year. And as a result of RRA 98, many IRS examination staff, revenue agents, compliance officers, auditors and others have been detailed to help improve customer service, answer taxpayers' questions, and provide walk-in assistance to the taxpayers. I strongly believe that the IRS should continue to expand the hours of service and convenience of the walk-in service, which in turn will lead to reduced waiting times and improved quality of service for the taxpayers. However, increased emphasis on customer service should not come at the expense of collecting unpaid taxes and ensuring that taxpayers are complying with our tax laws when it comes to reporting the correct amount of income received.

In order to continue to make improvements in the level of customer service while simultaneously processing a growing number of tax returns and stabilizing collections and examinations of cases, we need to reverse the severe cuts in IRS staffing levels, and approve the STABLE request. The President's request for additional staffing is a modest increase over current levels and if fully implemented would still mean fewer IRS employees than the agency employed in 1997.

One final issue which this subcommittee should be aware of is that IRS employees continue to work in fear of section 1203 of the RRA, which lists ten infractions, known as the ten deadly sins, for which IRS employees face mandatory dismissal. These infractions, which range from IRS employees not paying their taxes on time, to harassing taxpayers, to violating the civil rights of taxpayers, have always subjected employees to discipline, including dismissal, and rightly so. However, RRA's requirement for mandatory dismissal of employees who violate these infractions, is having a chilling effect on collections and morale at the IRS. I am hopeful that in the interests of allowing the IRS to carry out its mission, this subcommittee will work with NTEU, the IRS, and the authorizing committees to address this issue.

Since 1992, the IRS workforce has declined by more that 16 percent. In the meantime, demands on IRS employees have increased significantly. Without more resources for staff training and additional staffing at the IRS, our entire tax system will be threatened.

U.S. CUSTOMS SERVICE

The President's budget requests a funding level of $1.86 billion for salaries and expenses and 17,544 FTEs for fiscal year 2001 for the United States Customs Service. This represents an additional $160 million and 273 additional FTEs from last year's appropriations. NTEU feels that this budget is woefully inadequate to meet the needs of this country's oldest law enforcement agency.

The workload of the Customs Service employees has dramatically increased every year including more commercial entries that must be processed, more trucks that must be cleared and more passengers that must be inspected at the 301 ports of entry. In 1999, Customs Service employees seized 1.5 million pounds of illegal narcotics—200,000 pounds more than in 1998. Last year, Customs employees processed $1 trillion worth of trade. This number continues to grow annually, and statistics show that over the last decade trade has increased by 132 percent. Yet in the last ten years, there have not been adequate increases in staffing levels for inspectional personnel and import specialists—the employees who process the legitimate trade and thwart illegal imports.

In the immediate wake of the December arrest of suspected bomb smuggler Ahmed Ressam in Port Angeles, WA, the Customs Service operated in a status of heightened alert. More than 700 Customs inspectors were transferred to the Northern Border from all over the country. Obviously, this action was necessary to secure our border and to ensure a safe holiday season for American citizens. But, now that the alert status has ended, we are once again vulnerable to suspected bomb carriers, drug smugglers and money launderers.

It is the view of NTEU that the Customs Service needs at least an additional 900 Customs Service inspectors and canine enforcement officers and an additional 75 import specialists to adequately perform its mission. The President's budget calls for an increase of 98 inspectors and no additional import specialists.

Funding for the additional inspectors should be earmarked for that purpose only. NTEU recommends deploying the new hires to our nation's ports of entry along the busy Southwest land border where wait times hinder trade facilitation and drug smuggling is at its peak, and in the busy area ports on the Northern Border where ports are unmanned, while the trafficking of "B.C. Bud" marijuana and the threat of international terrorism has changed the landscape. In addition to the busy land borders, NTEU recommends focusing attention on the bustling seaports. The understaffed and overworked inspectors at the U.S. seaports currently contend with corruption, theft and safety issues that are a direct result of the lack of staffing. As one Southwest Border Senator aptly phrased it: "U.S. seaports are under siege by smugglers, drug traffickers and other criminals, yet law enforcement agencies that regulate them are understaffed and outgunned."

It has become increasingly more difficult to recruit the best and the brightest into the ranks of Customs Service employees including inspectional personnel and import specialists. Import specialists have yet to be recognized for their increased responsibility for determining the classification, appraisal value and admissibility of products coming into the United States. In response to the recent explosive growth in trade, and the enactment of the Customs Modernization Act in 1994, the responsibilities and necessary technical abilities of Customs' import specialists have increased tremendously, yet their salary structure and position description have not reflected the GS–12 graded workload they must perform regularly. Customs conducted an a pilot audit of import specialists' work that showed the higher graded work that they perform, yet Customs has not provided the resources to effect these upgrades. NTEU will continue to pressure legislators and the agency to comply with the classification standards and provide GS–12 journeyman levels for the Customs Service's import specialists.

President Clinton's budget proposes pay reform and position upgrades for Border Patrol agents and INS inspectors. This funding request of almost $70 million is aimed at recruiting and retaining these employees by upgrading their salaries. I strongly request that appropriators consider funding these upgrades for Customs inspectors as well. There are many Customs officers who deserve recognition for the increased workload, additional time away from their families and exposure to physical dangers and emotional stress. Considering that these men and women do not receive the benefit of law enforcement officer retirement, they deserve to be treated as their fellow officers of the INS and upgraded commensurate with their jobs and responsibilities.

Last year, Congress acknowledged the shortage of staffing and resources in its appropriations by earmarking $25 million for staffing and other resources for the ports on the Southwest Border. Although the funds have yet to be used for that purpose, the Agency recently decided to spend the money over a two year cycle. We hope that this Congress will again earmark funds for additional inspectors and equipment in those areas around the country that are experiencing the most severe shortages.

The Customs Service employees assigned to the Customhouse at the Los Angeles Seaport (Terminal Island, CA) have endured years of environmentally unsafe working conditions, including exposure to particulate matter from the nearby petroleum coke facility, asbestos, noxious fumes and other air pollutants. The current health and safety conditions are absolutely intolerable, and I urge the appropriators to en-

sure that the General Services Administration (GSA) permanently move these employees as quickly and efficiently as possible. NTEU has worked with Customs and Members of Congress on this permanent solution, but immediate interim steps are also needed. Customs Service should be provided the resources to move the remaining 242 employees to temporary work sites pending the final permanent move.

NTEU believes that is it also important for Congress to focus its attention on the failing computer system currently operated by the Customs Service—the Automated Commercial System (ACS). The ACS is a 17 year old, outdated system that is subject to brown outs and freezes that wreak havoc on trade facilitation and employees' ability to do their jobs. Although a system upgrade is necessary for Customs to meet its modernization efforts, NTEU would oppose funding a new system by shifting funds away from the front line employees who currently facilitate the volumes of trade growth and enforce our laws at the borders.

FEDERAL EMPLOYEE PAY

In this era of budget surpluses and record economic growth, now is the time to once and for all close the pay gap between public and private sector salaries. The pay gap between federal and private sectors, as measured by the Bureau of Labor Statistics, is approximately 30 percent. Although the Federal Employees Pay Comparability Act was enacted to close the pay gap for federal employees, no federal pay raise since FEPCA's enactment in 1990 has provided the full amount called for under its formula.

President Clinton has requested a 3.7 percent pay increase for civilian and military federal employees in fiscal year 2001. NTEU believes that this falls far short of what our employees deserve, and we hope that this subcommittee will take bolder steps to close the gap between public and private sector workers. Federal employees are facing rising health care costs, housing costs, child care expenses, and other living expenses. Like those who work in the private sector, federal employees should have an opportunity to enjoy the fruits of our nation's economic prosperity.

CHILD CARE

NTEU applauds this subcommittee's efforts last year to include in the fiscal year 2000 Treasury Appropriations bill a provision that for the first time permits federal agencies to subsidize child care expenses for lower-graded employees. This is an important family-friendly measure for federal employees. I would urge you to continue to support this program and to carry over this provision in the fiscal year 2001 bill.

I would like to thank the Subcommittee again for the opportunity for our Union to present its views on the Treasury Department budget for fiscal year 2001. As you continue your subcommittee's deliberations, I hope you will give special consideration to the hard work and dedicated service the men and women at the Treasury Department provide our nation.

PREPARED STATEMENT OF THE SIERRA CLUB

I am writing to present the comments of the New Columbia Chapter of the Sierra Club regarding the consolidation of FDA laboratories and administrative offices in Montgomery County as proposed in the General Services Administration (GSA) 2001 budget appropriation. The New Columbia Chapter of the Sierra Club opposes approval of this proposed appropriation on the grounds that it makes bad economic and environmental sense for the taxpayers of the Washington Region and indeed for the nation as a whole. Furthermore, it is our understanding that the GSA has not complied with existing statutes, regulations, or executive orders in choosing a location for the consolidated facility. The GSA continues to present misinformed or misleading information in this regard to the congressional committees in which this project has been considered.

BAD POLICY

The Washington Region has the second worse traffic congestion in the nation. In order to alleviate this problem and replace aging infrastructure, the Congress has been asked to appropriate almost unprecedented sums for highway construction and improvements in the region. At the same time, the federal government is being asked to contribute greatly to the revitalization of the nation's capital. Therefore, does it make any sense for the federal government to place over 6000 jobs beyond the already overburdened Beltway and over three miles away from the nearest Metrorail station? Such a move would not only destabilize the District's job base further, removing over 800 current jobs, but also increases the pressure on interstate and

suburban roads, increasing congestion and air pollution. There will also be considerable environmental impact on the site itself, 32 acres of the proposed site are forestland, and there are two streams and 8 tributaries on the property. The proposed project will also do nothing to maximize the benefits from our nation's investment in Metro, nor will it help the region come into clean air compliance.

Thus, the nation's taxpayers are being asked to not only subsidize the growth of Montgomery County, one of the nation's richest suburbs, but they are then being asked to pay for the roads and other costs that this sort of growth necessitates such as the proposed Wilson Bridge and Beltway expansion. Federal sprawl truly does cost us all. This project alone will cost us more than $500,000,000 in development costs alone.

But what is galling about the proposed FDA consolidation in White Oak, MD is that there is currently no approved prospectus for the project and the GSA did not properly review alternative sites and localities as required by the National Environmental Protection Act of 1969, as amended and the Public Buildings Act of 1959, as amended.

NO PROSPECTUS

Despite GSA's claims to the contrary, the FDA Revitalization Act of November 28, 1990 does not authorize GSA to appropriate funds for the FDA consolidation. In adding Section 710 to Chapter 7 of the Federal Food, Drug and Cosmetics Act, this act clearly states (paragraph a) the "Secretary, in consultation with the Administrator of the General Services Administration, shall enter into contracts for the design, construction and operation of a consolidated Food and Drug administration administrative and laboratory facility" (italics added). In other words the FDA revitalization act authorizes the Secretary of Health and Human Services to appropriate the necessary funds, not the Administrator of GSA.

The Administrator of GSA is bound by the Public Buildings Act of 1959, as amended. Section 7 of this act requires the GSA to transmit a prospectus to Congress for all proposed public buildings whose costs exceed $1,500,000. Section 7 also provides that no appropriation shall be made until the Committee on Public Works and the Environment of the Senate and the Committee on Transportation and Infrastructure of the House of Representatives have approved the buildings prospectus. Indeed, the proposed language in last year's budget expressly made the appropriation conditional on the approval of a prospectus. GSA has never transmitted such a prospectus for this project to Congress.

GSA WAS NOT DIRECTED TO LOCATE THE FDA IN MONTGOMERY COUNTY, MD

The GSA has repeatedly claimed that it was directed by Congress to consolidate the FDA in Montgomery County. This appears to be patently false. First, the reference to Montgomery County that does appear is non-binding and appears in the Conference Report for the 1992 appropriation for FDA consolidation. Second, the appropriation itself was rescinded in 1995.

ALTERNATIVE SITES WERE IMPROPERLY EXCLUDED

Since, GSA was not directed to locate the FDA in Montgomery County, MD their failure to consider sites throughout the National Capital Region is in violation of the National Environmental Policy Act of 1969 (NEPA), as amended. In fact, EPA Region III sent a letter to GSA in 1999 informing the Administration that it had failed to adequately compare alternative public and private lands in the region. According to a report to the District of Columbia Council that accompanied District of Columbia City Council Resolution 12–834, the "Location of Federal Facilities in the District of Columbia Sense of the Council Resolution of 1998," city officials were never consulted about the project or asked to suggest suitable sites within the District in further violation of the act.

INEQUITABLE DISTRIBUTION OF FEDERAL FACILITIES

The Public Buildings Act of 1959, as amended, also states in Section 12 that the GSA Administrator "shall provide for the equitable distribution of public buildings throughout the United States with due regard for the comparative urgency of need for each particular building." Clearly, the District's need outweighs that of Montgomery County, MD Maryland. From 1969 to 1997, the Districts share of federal employment fell from 83 percent to 55 percent. The National Capital Planning Commission estimates that between 1993 and 1997, the District of Columbia lost 27,000 federal jobs. Over 70 percent of the jobs lost in the District economy in this decade were federal jobs. At the same time over 60 percent of the District's land is Federal

land, untaxed and largely undevelopable without federal participation. Furthermore in not considering sites in the District, the GSA further went against the policies set forth in Executive Orders 12072 and 13006, which direct federal facilities to serve and to strengthen our nation's cities.

CONCLUSION

To recapitulate, the GSA has failed to follow proper procedure in appropriating funds for consolidating the FDA in White Oak, MD. It has failed to provide a prospectus and no prospectus for the project has been approved. It has misrepresented or deliberately misled Congress and the public about its being directed to locate the consolidated FDA in Montgomery County, MD. No such direction exists. The GSA has failed to comply NEPA, by restricting its search to Montgomery County and not considering sites throughout the National Capital Region. Finally, the Administrator of the GSA has failed in our estimation to ensure the equitable distribution of federal facilities in the region and has not considered need contradicting both its own mission and various executive orders. Even today the GSA resists meeting the necessary requirements and has not officially consulted with District officials on the project. The extreme costs for the region and the United States taxpayer, necessitate that this project proceed in a manner that is correct and equitable. This is not the case today and the proposed appropriation for this project should not go forward.

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