

**TREASURY AND GENERAL GOVERNMENT  
APPROPRIATIONS FOR FISCAL YEAR 2000**

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**HEARINGS**  
BEFORE A  
SUBCOMMITTEE OF THE  
COMMITTEE ON APPROPRIATIONS  
UNITED STATES SENATE  
ONE HUNDRED SIXTH CONGRESS  
FIRST SESSION

ON

**H.R. 2490/S. 1282**

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, 2000, AND FOR OTHER PUR-  
POSES

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**Department of the Treasury  
Executive Office of the President  
Nondepartmental witnesses**

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# CONTENTS

THURSDAY, FEBRUARY 25, 1999

	Page
Department of the Treasury: Internal Revenue Service .....	1
THURSDAY, MARCH 4, 1999	
Executive Office of the President: Office of National Drug Control Policy .....	53
THURSDAY, MARCH 25, 1999	
Department of the Treasury: Office of the Secretary .....	111
THURSDAY, APRIL 15, 1999	
Department of the Treasury .....	159
U.S. Customs Service .....	183
Bureau of Alcohol, Tobacco and Firearms .....	213
U.S. Secret Service .....	239
Federal Law Enforcement Training Center .....	253
Financial Crimes Enforcement Network .....	269
Material submitted subsequent to the conclusion of hearing:	
General Services Administration .....	283
Office of Personnel Management .....	284
Office of Management and Budget .....	288
Merit Systems Protection Board .....	291
Nondepartmental witnesses .....	295

**TREASURY AND GENERAL GOVERNMENT  
APPROPRIATIONS FOR FISCAL YEAR 2000**

**THURSDAY, FEBRUARY 25, 1999**

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

The subcommittee met at 10:02 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell and Dorgan.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

**STATEMENT OF CHARLES O. ROSSOTTI, COMMISSIONER**

**ACCOMPANIED BY:**

**JOHN LAFAVER, DEPUTY COMMISSIONER, MODERNIZATION**

**BOB WENZEL, DEPUTY COMMISSIONER OPERATIONS**

**JOHN DALRYMPLE, CHIEF OPERATIONS OFFICER**

OPENING REMARKS

Senator CAMPBELL. The Treasury Subcommittee will come to order. This will be the first fiscal year 2000 budget hearing for the Subcommittee on Treasury and General Government.

Commissioner, did you bring all those notebooks with you.

Mr. ROSSOTTI. Yes, just a few props.

Senator CAMPBELL. We will not be here long enough for you to go through all of them.

Mr. ROSSOTTI. I do not intend to review them in any detail.

Senator CAMPBELL. You are well-prepared. First, I would like to take this opportunity to welcome a colleague and friend, Senator Dorgan, as a member of the subcommittee. Senator Dorgan and I came in as freshmen together on the House side, as I remember, and served on several committees together on both sides of the Hill, and I certainly welcome you to this committee.

Senator DORGAN. Mr. Chairman, thank you.

Senator CAMPBELL. I might also mention, we both just came from a hearing where there were so many opening statements, we ran out of time and never did get to ask any questions of the people that were making the presentation, Secretary Richardson. We will not go through that lengthy opening here, but I would like to say a few things.

This morning we will be discussing the fiscal year 2000 budget for the Internal Revenue Service, and the current status of changes at the agency. Appearing before us today, of course, is Commissioner Rossotti. I certainly appreciate the new energy you have brought to the IRS, and your personal commitment to get around the country to talk to people who have felt, for all kinds of real or imaginary reasons, about the behavior that they feel they have received at the IRS. I know that you are making some rapid and good changes. That is not the kind of thing that gets turned around overnight, but I know you have put your best energy toward it and I certainly do appreciate that.

As one of the largest Government users of computer technology, the IRS is faced with a huge task of correcting the year 2000 recognition problem. Emergency funding was provided last year for the IRS Y2K conversion costs, \$483 million in fact. The fiscal year 2000 budget requests a little more than half as much again. Hopefully, that will be enough to finish the job before the clock changes. We are certainly interested in knowing how that process is going.

So I think with that, in the interest of time, Commissioner Rossotti, I will ask Senator Dorgan if he has an opening statement and get right to your comments.

#### SENATOR DORGAN'S STATEMENT

Senator DORGAN. Mr. Chairman, thank you very much. I appreciate your work on this subcommittee and I am pleased to join you. You do know that I was a tax administrator in North Dakota for a good number of years, so I understand some of the job that the commissioner has in administering a tax code that seems at times quite complex, and trying to make sure that administration is fair and collects the revenue for this country that it expects to get from the system.

I would expect that I speak on behalf of the chairman and myself, that we want the Internal Revenue Service to succeed. We want the Internal Revenue Service to have the resources and the capability to succeed.

I would say, as I have told Commissioner Rossotti, I was disturbed by the hearings last year. I think everyone understood that those hearings disclosed some practices that had occurred with some people in the Internal Revenue Service. And I know the Internal Revenue Service was disturbed as well by some of those disclosures, and the Service has taken action to respond to it. We think that, Mr. Commissioner, your stewardship of this agency is refreshing, and I know that you bring a reform-minded notion of wanting to do the right thing, and to make changes in the Internal Revenue Service to see that the Service does what it is supposed to do for this country.

Especially because I was a tax administrator at one point, I understand, as you well do, any time anyone alleges inappropriate or improper behavior on the part of those who have the enforcement capability, especially in the tax area where we deal with people's most sensitive information, it is very serious. I know that you have taken it that way and have taken immediate steps to respond to it, and for that I am appreciative.

I want to mention a couple of items that are of special concern to me. Obviously one is that one of the words in the Internal Revenue Service is service. I have spoken to you, Mr. Commissioner, and many of your predecessors about that. Notwithstanding the Code that we create here in Congress, the Tax Code, whether it is more or less complicated, notwithstanding that, one way or another the Internal Revenue Service must be involved in providing service. Not just enforcement, but service. Because part of compliance with the Tax Code for the taxpayers is to be able to understand and take reasonable steps on their own behalf to comply with the code.

I have made the point to many commissioners that the Internal Revenue Service, like the rest of the world, seems intent on consolidating. You take folks out of the rural parts of the country and move them into the big city someplace. We have seen a steady stream of folks going from North Dakota to St. Paul. It is all under the name of centralizing and improving services. Regrettably, it has never really improved service. It has simply taken services away from folks in the more rural States.

If I might just show a chart, it shows that in our part of the country there are very few areas where people could get taxpayer assistance. This is an Internal Revenue Service chart. You can see the large white areas. Up in North Dakota you have got three little dots. There is where people can reasonably expect to show up and get assistance. But most of the other folks cannot.

Now I understand that you are not able to, because you do not have the staff, put people in every little small town, and every shopping center, and extend yourself to say, service means that we are going to reach out and help everybody. I understand that.

By the same token, I think service means not just folks in the big cities. It means reasonably covering the rural States as well with some modicum of service and helping people comply with their tax responsibilities. That is something that I will be working with the chairman on, and working with you and the Service on as well, to see if we cannot reverse the fortunes of some of the less-populated areas, at least to extend on a temporary basis from time to time, better service.

#### TRANSFER PRICING

Finally, I am going to submit a statement for the record, but I do want to state for the record that one of my special concerns is the issue of transfer pricing. I have discussed that with you as well. I remain convinced that at a time when we say to the working men and women of this country who pay a very significant payroll tax—in most cases their payroll tax is higher than their income tax. They pay a payroll tax, they pay an income tax, and we say to them, you do not have any choice. We have payroll tax and then we have withholding on your income tax, and you do not have any flexibility.

At the same time that we are telling working folks that message—and it is appropriate—we are also allowing large multinational and international corporations to avoid their tax responsibility. Some 70 percent of the corporations, foreign corporations doing business in this country, pay zero in Federal income taxes—zero. And those would all be brand names that everyone in the au-

dience would recognize if I mentioned the corporations that do billions and billions of dollars of business here and pay zero in corporate income taxes.

My feeling is, you do business here, you make profits here, you should pay taxes here. And through transfer pricing incredibly sophisticated schemes are developed by which wholly-owned subsidiaries and parents can sell and buy things from each other, charging \$15 for toothbrushes, and \$7.50 for tractor tires, either underpricing or over-pricing, and just move profit wherever they want to move profit, especially away from the tax collector.

There are a couple folks who have done some studies that say that the loss to this country is perhaps \$40 billion a year. Some tax professionals scoff at that. I, frankly, scoff at the tax professionals who scoff at that. I think the tax professionals are wrong. I think this is massive tax avoidance to the tune of perhaps \$10 billion, maybe \$15 billion a year at least.

In the meantime, you have folks down in the enforcement division who are trying to use buggy-whip, antiquated approaches to connect in effect, as I have described it, connecting the ends of two plates of spaghetti on individual transactions to see if they can put together the relationship between parents and subsidiaries to determine at what price they sold each other goods, and how did they transfer, if they did, profits, either in or out. And the fact is, it does not work at all. It is a miserable failure.

Some advance pricing agreements have been done, of course, in secret that I think represent themselves an admission that the current system does not work at all. Our tax courts are clogged with all this nonsense.

I want to work with you. I know I do not serve on the Finance Committee, but I served on the Ways and Means Committee for 10 years in the other body, and I am determined and have been determined for some long while to get my hands around this and do something that addresses it. I want to work with you on the enforcement side of this so that we understand exactly what is the size of this problem, and how do we change tax law, if necessary, to get at it, or how do we add enforcement muscle to your agency to get at it.

I am sorry to take a little extra time to do that, but it was therapeutic for me, even if it does not resolve anything in the future. [Laughter.]

But I will be a thorn on this issue just because I feel so strongly about it. I want you to have the muscle and the capability to say to those people that make \$2 billion in profits doing business in America, that all the folks out there who work for you are paying taxes because they have no flexibility, and you make \$2 billion of income and then transfer it out with \$15 toothbrushes to inflate the price so that you do not have to pay taxes here. This country will not accept that, and will not put up with it any more.

So that is a thumbnail sketch of a long story that I hope to work with you on in the future.

#### PREPARED STATEMENT

Mr. Commissioner, thank you. I will put the rest of the statement in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR DORGAN

Thank you Mr. Chairman. This is my first hearing as ranking member of the Treasury General Government Subcommittee and I want to take this opportunity to say that I am looking forward to working with you, Mr. Chairman, on the critical issues decided by this important subcommittee.

Today let me welcome Commissioner Rossotti. Mr. Commissioner, as we discussed when you came to my office I am very interested in the Internal Revenue Service. As a former tax commissioner of North Dakota, I know that the mission of the Internal Revenue Service is to collect the appropriate level of taxes while providing America's taxpayers the highest level of assistance to understand their tax liability. Last year, Congress passed the Internal Revenue Service Restructuring and Reform Act of 1998. From my conversations with you Mr. Commissioner, and others in the tax community, I believe that important changes are occurring—changes that will make the Internal Revenue Service the first class organization our taxpayers deserve.

Let me take this opportunity to say the vast majority of Internal Revenue Service's employees are hard working, honest people trying to do a good job. Rather then vilify them as a group, we should commend them as hard working individuals. But let me also say, I have no tolerance for IRS employees who have no regard for taxpayer's and their privacy. Mr. Commissioner, I want your assurance that you will take swift and direct action if an IRS employee has abused their position, violated our taxpayer's privacy or if a supervisors employ polices that are convenient for them but are damaging to taxpayers rights.

While we are discussing customer service, I would like to address an issue that impacts my state, North Dakota and I expect other rural communities. I am aware of the changes being proposed for the IRS—redesigning the services along taxpayers rather than geographic lines. However, I am concerned that face to face tax service has been reduced, particularly in rural states. Why, in Minot, North Dakota alone, nine IRS positions were lost. I hope you are willing to look at this issue and make adjustments as necessary, to ensure all taxpayers are able to receive the same level of service whether they are in an urban area or in a rural location 50 miles from the nearest walk-in service centers. This is an issue we can explore further during the question and answer portion of this hearing.

While I am eager to see the IRS focus its resources on efforts to improve customer service, I am concerned that we may not be providing the appropriate level of attention to other important aspects of the IRS and revenue collection.

Let me give you an example. The General Accounting Office did a study that indicated that 73 percent of foreign controlled multinational firms are transacting hundreds of billions of dollars of business in this country and are not paying taxes. In fact 46 percent of the largest corporations—firms with more than \$100 million in assets—are not paying taxes. And, it is not only the foreign-based corporations. U.S. based companies fair little better. Many corporations doing business around the globe are finding ways to avoid paying any taxes through the use of transfer pricing which allows them to move their profits outside the United States. Mr. Commissioner, we are losing billions of dollars annually because the IRS is forced to respond to transfer pricing and other complicated tax issues with resources that cannot compete against the private sector. I hope we can work together to plug this and other tax loopholes.

One other area I would like to address today is the need to examine the status of tax exempt organizations. More than one million organizations are approved for tax-exempt status because of their charitable, educational, social welfare or member benefit purposes. Most charities are working hard to get help to individuals that in many cases the government cannot provide. But I continue to see reports, such as the GAO report "Tax Exempt Organizations—Additional Information on Activities and IRS Oversight", about abuses within some of these organizations. And, at a time when we have seen a phenomenal growth in tax exempt organizations the IRS has not had a similar growth in resources dedicated to ensure these organizations are operating as intended.

Again, thank you Mr. Commissioner for joining us this morning to discuss the improved Internal Revenue Service. I welcome the opportunity to work with you to ensure that the IRS has the resources and direction to carry out its mission effectively and appropriately.

## STATEMENT OF CHARLES ROSSOTTI

Senator CAMPBELL. I do not feel any need of therapy, so maybe we can get right to this. I notice you have Deputy Commissioner John LaFaver with you, and Deputy Commissioner Bob Wenzel. Will they have comments too, or do you want them to come to the table?

Mr. ROSSOTTI. I think in response to specific questions I think I might ask Mr. LaFaver to actually, later on, respond to your comment about the service in the rural areas, Senator Dorgan.

Senator CAMPBELL. Why do you not go ahead and proceed, Commissioner.

Mr. ROSSOTTI. Thank you very much, Senator Campbell and Senator Dorgan. I think I would like to just give this brief overview statement, and then I think as we get into the questions I would like to try to more specifically say a few things about the two points that you raised in your opening comments, Senator Dorgan.

But first let me just summarize by saying that I think the fiscal year that we are currently in, 1999, and fiscal year 2000 coming up, really represent a crucial period and almost a turning point in the long history of the IRS. It is because this is the period in which we are really aggressively trying to address the problems that were identified over the last few years by the Congress and the people.

As we know, as was mandated in the Restructuring and Reform Act, we know that our agency is expected to do a much better job in serving the taxpayers based on an actual understanding of the taxpayer's point of view. That is really the mandate that we are attempting to deliver on in the fiscal year 2000 budget.

I believe that the many problems that were identified can be solved. They will require fundamental change in order to modernize, really, almost all aspects of the IRS. I do want to be honest and say that this process carries with it not only some costs, but some risks. We may have to change our plans from time to time, make adjustments. We may make some errors. But I think the important point is, I do not think there is any low risk plan to do the massive job we have.

I would just like to mention some of the things that are currently underway. They are kind of listed in brief form on this chart. Of course, we are in the midst of carrying out our 1999 filing season, which is made particularly challenging because of all the technology change and tax law change that we are encountering. We are also completing our year 2000 compliance program to make our computers compliant, which is over a \$1 billion job.

We are implementing at the present time 157 near-term initiatives to improve service and treatment of taxpayers, of which about half are mandated by the Restructuring Act. At the same time we are implementing about 1,260 changes in the tax code from the last two years' worth of tax bills. Many of these, or at least some of them, require rather significant interpretations to guide our employers, and our taxpayers, of course.

## MODERNIZED ORGANIZATION

We are completing the planning for a fundamental reorganization of the IRS, which is specifically designed to improve account-

ability for serving taxpayers, particular kinds of taxpayers with particular needs. We are taking the first steps to modernize and redesign and actually replace our antiquated base of technology.

We are implementing a completely new system for measuring performance of people and organizations within the IRS, throughout the whole organization. Then, of course, we are doing a great deal of training that is related to all of these other changes for, or actually affecting all of our 100,000-plus employees.

We plan to complete the planning for our new organizational structure this year, but we have already begun implementing parts of it, and much more implementation will be occurring during fiscal year 2000. We have also, under the authority granted to us by Congress, really put in place a new top management team and we are actively recruiting to fill top leadership positions as we establish our new operating units.

Updating our business practices for dealing with taxpayers will require almost a complete replacement of our IRS information technology systems, which are today built on a 30-year-old, fundamentally deficient foundation which cannot do two of the main things it needs to do, which is provide accurate, up-to-date information about taxpayer accounts, and as the GAO has repeatedly reported, it really cannot provide reliable financial information for managing the agency. Those are very serious problems.

#### PRIME SYSTEMS CONTRACT

In December of last year we awarded a prime systems integration contract with Computer Sciences Corporation and other vendors, and we are currently working with them to update our strategic systems plan, which is a long term plan. We will also begin to implement some near term projects which focus on improved phone service and electronic filing.

Now, Mr. Chairman, despite the fact that we have got a lot of these changes ahead, in preparing our budget request for fiscal year 2000 we, of course, are well aware of budget constraints that exist. Therefore, we have requested, we believe, the bare minimum that is necessary to continue progress at least at a steady pace. Without this funding, we think that progress could be stalled and the risks would increase.

#### FISCAL YEAR 2000 BUDGET REQUEST

Specifically, the request for fiscal year 2000 is \$8.105 billion, which is essentially level with the resources we received last year, which were \$8.103 billion. Last year that included \$483 million from the year 2000 emergency fund.

Now on the face of it this seems to be an unlikely combination in that we are having a lot of major changes that require investments, but at the same time we have essentially a flat budget. We think we can do this in fiscal year 2000 for three particular reasons. One is that simply because of the stringency of the fiscal constraints we are carrying out many of the changes by diverting or reallocating resources from ongoing programs such as compliance.

Secondly, the Congress did advance fund our Information Technology Investment Account in a level that will sustain us through

fiscal year 2000, but we will need additional funds for fiscal year 2001.

Thirdly, based on our currently known requirements for the year 2000 program for fiscal year 2000, they are less than the cost for fiscal year 1999.

So when you put these three together, it did enable us to include in our budget request, even though overall it is level, some essential items for moving forward. These include \$40 million for implementing the Restructuring and Reform Act's customer service and electronic filing initiatives, \$17 million for some additional training to train our employees in the tax laws that Congress has passed, and \$140 million for implementing the overall modernization plan which is also called for in the RRA, and particularly for retraining and reallocating our employees.

#### TRAINING

I just want to make one last point and talk about training so our employees can learn what they need to learn to deliver on the mandates that Congress has given us. About 70 percent of our 100,000 employees deal directly with taxpayers in their everyday jobs. We believe that taxpayers have a right in every encounter that they have with an IRS employee which could be from just answering a phone call about how to fill out a tax return, to meeting with a revenue agent about an audit, to know that the IRS employee should be expected to understand the current tax law and also have the skills to understand the particular facts and circumstances of that taxpayer's case.

Frankly, when I took office a little over a year ago it quickly became very clear to me that we had a very major deficit in this area. Of course, since then we have had even more tax law changes, and of course, a mandate to restructure the whole way we do business with taxpayers. And I know that training sometimes seems a little abstract so I did bring some examples. I do not intend to go through them in detail, but there is a long list of changes. I just want to mention three of them.

This one is what is called Section 3401, which is called due process in collections; a very important one to give additional rights to taxpayers who are in collection situations. But what it means is that we have about 11,000 people who are involved in collection activities that really have to be retrained significantly in the whole way that they have done business for many, many years.

This is a book that gives just the first version of the training that we are giving to these people. We have given it to them, and we know that it is really not even yet sufficient. We are going to have to do another round of training this year.

This one is called Section 1203, which our employees take very seriously because this one lists what are referred to inside the agency as the 10 deadly sins. This gets at the point that Senator Dorgan made. These are 10 specific kinds of violations or offenses for which the penalty is mandatory termination for any employee. So our employees take this very, very seriously. There is a lot of anxiety about this. Over 100,000 people have to go for either a half a day, to a day initially, of familiarization training with this. We are working on this.

Then finally this one here, which I am not going to lift because it is too heavy, is known inside the IRS as IRM 21. This is the set of manuals which is constantly being updated which is given to our 21,000 employees who deal with taxpayers and are called customer service representatives. They deal with taxpayers.

If you call in on the phone and you have a question about your account or taxes, or you write in, these are generally people at the GS-8 level, which means they make about \$35,000 a year. This is the documentation that has just been updated to indicate the information that they have to be familiar with to answer these kinds of calls.

So I think you can see, when I say that we are really seriously in need of money for training, we really, really mean this. I think it is really essential, the money we have both in the modernization account and in the base account, in order to begin to rectify this deficit.

So let me just summarize by just making one last point, which is that with the budget that we have requested, it will continue the trend of the last six years in which the IRS workforce will actually be shrinking in relation to the size of the economy. In fiscal year 2000 we are going to have, of course, a growth in workload.

The economy is growing. Tax returns are growing, and we have all these new provisions in the acts. But the workforce size by this budget will be about the same or just slightly declining. I think we can achieve this trend, but it will only be possible if we do make the investments that are proposing in organizing, training, and technology.

#### PREPARED STATEMENT

So Mr. Chairman, just to say, I recognize the risks and challenges ahead, and it is a long road, but with the continued support of Congress, this committee, and the American people, we are confident that we can succeed.

Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF CHARLES O. ROSSOTTI

The year 2000 represents a crucial turning point in the modernization of the IRS. We are systematically and aggressively addressing the problems described by Congress and the American people—problems that include antiquated systems and a workforce inadequately trained and inadequately equipped. We now have the opportunity to turn that situation around and achieve meaningful change at the IRS and provide better service to America's taxpayers.

The bipartisan IRS Restructuring and Reform Act of 1998 (the Restructuring Act), which overwhelmingly passed Congress, points the IRS in the right direction. The IRS was told that it was expected to do a far better job serving the public based on a much better understanding of the taxpayers' point of view. Our fiscal year 2000 budget represents the Agency's commitment to deliver on the sweeping congressional mandates contained in that landmark bill.

That new course is expressed in the new IRS mission statement we released last fall, in response to the mandate in the Restructuring Act. It is: "Provide 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." The mission statement sets a higher performance standard for the IRS.

If we are successful, millions of taxpayers and thousands of IRS employees will benefit for years to come: taxpayers because they will have a tax agency providing the service they expect and deserve; employees because they will work for an IRS that is trusted by those both within and outside the Agency.

Rising to the challenge is not a simple task. Our efforts thus far represent only a beginning. Modernizing the IRS will require fundamental change in almost all aspects of the IRS and will affect the way employees work with taxpayers and with each other. This process also carries with it considerable risk. Our plans may need to be revised and operational problems may occur. However, there is no low risk plan for the massive job we must do at the IRS. Specifically, today we are in the midst of major activities:

- carrying out a 1999 filing season that is extremely challenging because of the massive amount of technology changes made to ensure that our systems will meet the Year 2000 challenge and numerous tax law changes;
- completing the Year 2000 compliance program, including the installation of our Integrated Submission and Remittance Processing System and Mainframe consolidation, and conducting our full scale end-to-end test of all of our renovated technology;
- implementing 157 near-term initiatives to improve service and treatment of taxpayers, of which 82 are mandated by the Restructuring Act;
- implementing 1,260 tax code changes from the Taxpayer Relief Act of 1997 and the Restructuring Act of 1998, many of which require significant and complex interpretations to guide taxpayers and employees;
- completing the planning for a fundamental reorganization of the IRS to increase accountability for meeting taxpayer needs;
- taking the first steps in a long-term effort to redesign and replace our business systems and supporting information technology;
- implementing a completely redesigned and balanced system for measuring performance throughout the organization; and
- providing essential training related to these many changes to nearly every one of our over 100,000 full time and seasonal employees, including technical and procedural changes in the tax law, changes in business process and technology related to service improvements, and changes in performance standards related to our new goals and mission.

These changes all represent steps along the way to implement the specific mandates and the intent of the Restructuring Act. The Act, together with the concepts I presented to the Congress last January, which we broadly refer to as modernization, form the basis for the most significant changes to the IRS organization, operations and culture since the last major reorganization of the Agency in 1952. We are on a path to revamping our business practices in all areas in which we interact with taxpayers, including filing, customer service, collections and examination—all aimed at understanding, preventing and solving problems from the taxpayers' point of view.

Some of our changes will improve service to the public this year through a series of initiatives such as providing 24 hour a day/7 day a week phone service; rewriting some notices; expanding walk-in service; making it easier to get forms and information from our web site and by fax; and improving service to small businesses.

Many other changes will take several years to complete, but important progress will be made during this fiscal year and fiscal year 2000. We will complete the plan for our new organization structure this year and have already begun implementing parts of it. Much more implementation will occur in fiscal year 2000. Using the authority granted by Congress, we put in place a new top management team and are actively recruiting to fill leadership positions in our new operating divisions.

Updating our business practices for dealing with taxpayers requires almost a complete replacement of IRS information technology systems, which are built on a 30-year old fundamentally deficient foundation that cannot provide accurate up-to-date information about taxpayer accounts. On December 9, 1998, the IRS awarded a Prime Systems Integration Services Contract (PRIME) to Computer Sciences Corporation (CSC) and their partners. We are currently working with CSC in an intense planning phase which we expect will result in award of work orders in mid-1999 for the first releases of the new technology blueprint, which will focus on improved phone service and electronic filing options.

Mr. Chairman, the stakes at the IRS are high and fiscal year 2000 will be a crucial test. If we succeed, the IRS will: fix one of the most massive Year 2000 computer problems in the U.S., complete a filing season involving many complex changes, and launch lasting changes to improve service to America's taxpayers. Despite these many challenges, in preparing the budget request for fiscal year 2000, we are well aware of funding constraints and have therefore requested the bare minimum. Without this funding, the entire reform and restructuring program demanded by Congress and the public could stall and the risks increase.

## FISCAL YEAR 2000 BUDGET REQUEST

The fiscal year 2000 resource request of \$8.105 billion will enable steady progress on the many changes needed to deliver on the reform and restructuring program and the Year 2000 Conversion. This request in total is essentially flat with resources provided in fiscal year 1999, which totaled \$8.103 billion including \$483 million from the Y2K emergency fund. This unlikely combination—a flat budget while carrying out major changes requiring investment—is only possible for three reasons: first, because of fiscal constraints many of the changes are being carried out by diverting resources from on-going programs such as compliance, potentially imposing long term costs and revenue losses; second, the Congress “advance funded” the Information Technology Investments account to a level that will sustain us through fiscal year 2000; and third, our current estimates of specifically identified and known Year 2000 costs are less than the costs for fiscal year 1999.

Overall, this budget will continue the trend of the last six years in which the IRS workforce has been shrinking in relation to the size of the economy. In fiscal year 2000, while the workload grows as a result of the growth in the economy and the additional demands of the Restructuring Act, the total workforce size will remain approximately constant.

Although we are asking for only a very small increase, funding at the level that I am requesting is crucial in order for us to implement the Restructuring Act and to continue the Year 2000 Conversion.

*Modernizing the IRS as Required by the IRS Restructuring and Reform Act of 1998*

Implementing the Restructuring Act is the IRS's top priority in the fiscal year 2000 budget request. Our many initiatives and programs, including employee training on the provisions of the Act, implementing taxpayer protection provisions, expanding electronic filing, and modernizing the IRS, all support our efforts to deliver on the mandates contained in the Restructuring Act. The IRS's fiscal year 2000 budget request is critical to carrying out this landmark legislation on behalf of America's taxpayers.

*Enhancing Customer Service Through Improved Training*

About 70 percent of IRS employees deal directly with taxpayers on matters that affect the taxpayers' tax situation. Taxpayers have every right to expect that in every such encounter with an IRS employee, whether it is a phone call asking a question about how to fill out a return, or a meeting with a revenue agent in an audit, the IRS employee understands current tax law and has the skills needed to understand the facts and circumstances of the taxpayer's situation and to help the taxpayer address promptly any issues that may be identified. In order to meet this fundamental expectation of the public, the IRS must provide regular and on-going training to employees on a wide range of matters, including current tax law, IRS procedures, and technology needed to get essential information, all of which are complex and constantly changing. In addition, the major change in focus to provide improved service can only be achieved by training employees how to serve taxpayers effectively in a wide range of situations.

Regrettably, a major gap in this area developed over the past years. This was due to divergent and contradictory trends of increasingly rapid change of both tax law and public expectations, on the one hand, and reduced and inadequate training resources on the other hand. Given the massive and pervasive change taking place in the IRS, we cannot succeed without a major and sustained increase in the quality and quantity of training, a fact which is recognized and mandated by the Restructuring Act.

For fiscal year 2000, we are requesting \$17 million for tax-related technical training. This will provide funding for the first phase of a several year effort to provide essential training to increase competencies of IRS employees as mandated by the Restructuring Act. Given the gap between the public's expectations and our current performance, we are requesting in fiscal year 2000 a permanent adjustment of \$17 million to the IRS training base to support development of training materials. This level will restore the base funding levels for employee technical and proficiency training.

Additional training resources to support the modernization effort and the new performance management system are required to support these major transitions, and are included in the budget request for modernization.

*Implementing Taxpayer Protection Provisions and Expanding Electronic Filing*

The IRS operational organizations estimate that they will spend over \$200 million in fiscal year 1999 to implement taxpayer protection provisions of the Restructuring Act. This money will come largely from the curtailment of compliance activities and

could result in reduced direct compliance revenue. Full implementation of the Restructuring Act in fiscal year 2000, and thereafter, including implementation of the taxpayer protection provisions and expanding electronic filing, is dependent upon receipt of the requested funds. The two program areas for which we are requesting funds in fiscal year 2000 are:

*Taxpayer Protection and Rights.*—\$27 million and 500 FTE to implement major taxpayer protections and rights provisions of the Restructuring Act. Of the \$27 million, we are requesting 500 FTE and \$18.6 million for the Processing, Assistance, and Management appropriation to support staffing costs. The 300 FTE in Submission Processing are needed to meet increased notice activity and processing for innocent spouse relief [Section 3201] and due process in collection actions (pre-levy notices) [Section 3401]. The 200 FTE in Telephone and Correspondence are required to provide Spanish language taxpayer assistance [Section 3705]. Other support costs include \$4 million to fund additional grants for Low Income Taxpayer Clinics [Section 3601], included in the Tax Law Enforcement appropriation, and an additional \$4 million to fund toll-free circuitry and equipment costs and enhanced Internet access [Section 2003], included in the Information Systems appropriation.

*Electronic Filing.*—\$13 million for Electronic Tax Administration (ETA). Of this, \$5 million would be used to better inform and educate taxpayers and practitioners about the benefits of electronic filing and the Electronic Federal Tax Payment System; \$5 million would be used to deliver enhanced ETA products and services through partnership with the private sector, including such critical areas as signature alternatives and electronic payments; and \$2.5 million would be used to provide incentives to the more than 90,000 IRS-authorized Electronic Return Originators (EROs), who provide electronic filing services to taxpayers [Sections 2001 and 2002]. The plans for this initiative are directly aimed at meeting the Restructuring Act goal of 80 percent electronically-filed tax and information returns by the year 2007.

#### *Modernizing the IRS*

A major part of the reorganization of the IRS will take place in fiscal year 2000. This reorganization will affect the jobs of nearly every IRS manager and nearly all front-line employees. \$140 million is required for a series of organizational investments to restructure, reorganize, and retrain the IRS workforce. This covers all aspects of organizational change that will complement the Service's systems modernization efforts and implementation of the Restructuring Act reorganization mandate. The requested resources build on \$25 million provided by the Congress in fiscal year 1999. The funding will support realigning and shifting the focus of the IRS from its own internal operations to an agency with greatly increased accountability for meeting the specific needs of each taxpayer.

The modernization blueprint plans call for establishing four main operating divisions based on customer segments: wage and investment, small business/self-employed, large and mid-size business, and tax exempt. This will require an additional investment of \$140 million in fiscal year 2000 to realign, revise, and retool certain occupations through buyouts, relocations, and retraining of IRS staff. We anticipate that base funding will have to be spent to deliver on other aspects of the modernization concept. These include: contract support, continued support of the IRS teams and facilities modifications, computer support, and other expenses for establishing the four new operating divisions while also realigning the other divisions (Appeals, Chief Counsel, Information Systems, Criminal Investigation, Shared Services, Taxpayer Advocate, and the National Office).

Given the enormity of the organizational changes, it is absolutely essential that they be implemented promptly with the greatest part of the change occurring in fiscal year 2000.

#### *Funding for Year 2000 Conversion*

We are requesting \$250 million and 239 FTE to assure continued operation of IRS's information systems into the new century. This includes staffing, telecommunications, and related support to convert and ensure Y2K compliance of the programming code operating IRS tax administration systems, including acquisition of new software or hardware when appropriate. The funding also supports resources for consolidation of mainframe computers in the data centers, replacement of the antiquated systems used to enter tax return data into IRS's automated systems, and management of tax payments with an Integrated Submission and Remittance Processing System.

The CIO is planning multiple activities that will be required to ensure that all measures are taken to reduce risk and ensure a successful Y2K implementation. This funding represents our estimate of specific needs *known at this time and is*

*\$200 million less than was spent in fiscal year 1999. We must emphasize that the current 1999 filing season is a high-risk period for Y2K problems.*

*Information Technology Investments (ITI) and the PRIME*

In fiscal year 2000, we are not requesting any additional funds for the ITI Appropriation. This is possible because Congress "advance funded" the Information Technology Investments account to a level, \$506 million, that will sustain us through fiscal year 2000. However, we are requesting fiscal year 2001 advance funding of \$325 million.

The IRS, in partnership with the PRIME, has begun to develop the detailed processes needed to manage this large undertaking and to update the business and technology plan to reflect the overall modernization concept. In early January 1999, the Core Business Systems Executive Steering Committee was established to provide IRS-wide strategy planning and budgeting for core systems replacement, to oversee core business systems modernization, and to review and approve major core systems projects at initiation and key points in the systems life cycle. In mid-July, we plan to submit for Congressional approval an expenditure plan, as required by the 1999 Appropriations Act.

*The Earned Income Tax Credit Funding Outside the Discretionary Caps*

We are requesting \$144 million and 2,095 FTE. This is the account's third year. The account is funded outside the spending caps and is shown separately in the overall Treasury request. It provides for expanded customer service and public outreach programs, strengthened enforcement activities, and enhanced research efforts to reduce overclaims and erroneous filings associated with EITC.

CONCLUSION

Mr. Chairman, the \$8.105 billion is requested to implement the IRS Restructuring and Reform Act of 1998, continue the Year 2000 Conversion, maintain current services, and invest in critical systems projects. While recognizing the enormous challenge and the long road ahead, we are nevertheless convinced of the necessity and value to America's taxpayers of reaching the higher level of performance for the IRS. With the continued support of the Congress and the American people, we are confident we can succeed.

TRAINING

Senator CAMPBELL. Thank you, Mr. Commissioner. I have some questions that Senator Kyl submitted, because he cannot be here. He is in another hearing. I would like to send them to you and have you answer them in writing for him, if you would.

Mr. ROSSOTTI. Sure.

Senator CAMPBELL. Let me ask a little bit about this training. I was looking at your chart. You have 157 new near-term initiatives to improve service. Is training one of those initiatives?

Mr. ROSSOTTI. Training is what we need to do in order to deliver on the initiatives. The initiatives are things like, for examples, opening up more hours of service for walk-in sites on Saturdays during the filing season, longer hours on the phone, some of the taxpayer rights provisions such as I just mentioned; the due process in collections. It goes on and on. Those are the kind of things—

Senator CAMPBELL. Is this training primarily for the employees that are there?

Mr. ROSSOTTI. Yes.

Senator CAMPBELL. Does this include something for new hires, too?

Mr. ROSSOTTI. We do not have very many new hires, but yes, it would include entry level training. But mostly it is training for the people who are already there. As I mentioned, you have got due process in collections as an example, which is really a fundamental reform in the way collections is done in the IRS. So everybody that

is involved in collections really has to understand this, and it is rather complicated. That is what we mean by training.

Then you have just the ordinary tax law.

Senator CAMPBELL. Yes, I remember a few years ago somebody made a study and they made a half dozen or 10 calls to different IRS agents to get some information on what they would owe on a tax return and they got 10 different answers.

Mr. ROSSOTTI. Well, I would have to say, this book, which is the book that the people you call have to know to refer to, many of the people I saw when I went around to these sites personally, did not even have up-to-date copies of the law. It was not because—you know, it was just because the system of getting them out there was not very good.

It should not even be on paper. It should be on computers. This is the first year that we are starting to put some of it out there to the people in any volume on computers.

Senator CAMPBELL. Of that 100,000 employees, 21,000 are customer service people, the ones that would be dealing actually with the customers?

Mr. ROSSOTTI. Yes.

#### COSTS OF ORGANIZATION MODERNIZATION

Senator CAMPBELL. Let me ask you about funding a little bit. Do you believe the funding contained in your fiscal year 2000 request is going to be enough to cover all the costs, or are we going to have to have a number of outyears of funding in addition to that?

Mr. ROSSOTTI. Beyond fiscal year 2000? Oh, yes, we will definitely have additional costs in the outyears beyond fiscal year 2000 for a number of these things. I think in terms of the organizational part of what we are doing, we will complete most of that in fiscal year 2001. But beyond that, of course the really long term, the biggest part of the cost is going to be for the technology. That is going to be many years.

#### YEAR 2000

Senator CAMPBELL. And you are currently completing your end-to-end testing for Y2K?

Mr. ROSSOTTI. We are in the middle of doing our end-to-end testing.

Senator CAMPBELL. When will you finish that?

Mr. ROSSOTTI. That is the biggest job we have for the rest of this year.

Senator CAMPBELL. The rest of the year? By January 1st it should be done?

Mr. ROSSOTTI. The rest of the year.

#### TAXPAYER ADVOCATE

Senator CAMPBELL. As part of the Restructuring and Reform Act last year we created the Office of Taxpayer Advocate, and they are primarily responsible for managing taxpayer advocates across the country. How do you get along with them? How would you characterize your working relationship?

Mr. ROSSOTTI. I think that has been one of the things on which we have put the first emphasis. First of all, as you might have heard, we recruited a new national Taxpayer Advocate from outside the agency. He is actually from the State of Utah, Mr. Val Oveson. He had his first testimony before Ways and Means just a few weeks ago. I think it was well-received.

We have, as you indicated, implemented the first phase of the reorganization so that those taxpayer advocates around the country, including the one out in your State, and all the States, reports up directly to Mr. Oveson. So they no longer report, as they used to, to the local district and the compliance functions. We are in the process now of going to the second step where we are going to move a lot of the casework directly under him.

This has already had an effect. I think we had some very good comments. Yesterday I was at the Ways and Means Committee and the House Appropriations Committee and several members said that they have already seen an effect of this directly in their States. I think this is a very important initial step to deal with these particularly difficult kinds of cases that—some of the ones such as we encountered out in the hearing that you had, Senator. I think it has had an effect already. I think this is one of the near term steps that we have taken.

Senator CAMPBELL. Have you had any real major hurdles in dealing with it though?

#### TRAINING

Your fiscal year 2000 request includes \$17 million for the customer service training. This year as we move into the tax season in just a short period of time, are we going to see any kind of a significant change as a result of spending that \$17 million?

Mr. ROSSOTTI. This is for fiscal year 2000, of course. But I think that that part of it is basically to deal with this basic kind of training in the tax laws provisions, and the procedural changes that have been mandated. That is what the purpose of that is. I think that really, while it says that it is \$17 million, in reality we have been spending some money by diverting it from other sources. So it is not really as much of an increase as it might seem.

I think that what we will see over time—and I do not want to make the claim that it is going to be instantaneous, but I think what we will see over time is simply that the people who are dealing with taxpayers will have a more accurate knowledge of the current tax law, and be able to give more accurate responses, number one.

Number two, as we know, we are trying to change the way that people interact with taxpayers in terms of being more sensitive to the specific needs of taxpayers, and there is a certain amount of training that is required to make that kind of change.

So I think if we sustain this over a period of several years, yes, we will see an impact in the sense of getting better information quicker, resolving taxpayer's problems quicker, and less chance of cases dragging on and resulting in the kinds of stories that none of us like to hear.

Senator CAMPBELL. The training program that you initiated, is that all done in-house?

Mr. ROSSOTTI. A good deal of it is done in-house, but we are starting to use some outside sources. Actually, that is one of the things, over time, that we want to take a harder look at, because there are many good sources for, even in some cases, tax law training. Right now almost all the tax law training is done in-house, but we do use outside sources for things like customer service training, and leadership training, and those kinds of things.

As a matter of fact, one of our new recruits is a new Assistant Commissioner for Human Resources who has come in with a great deal of experience from the Defense Department mainly, and they use a wide range of training resources. So we are counting on him to help us.

Senator CAMPBELL. So you use training from other agencies as well as the private sector too, and contractors?

Mr. ROSSOTTI. I think this is where we are going to be going.

#### IRS REORGANIZATION

Senator CAMPBELL. You have announced your intention to reorganize the IRS in four main operating divisions. Will that impact your budget?

Mr. ROSSOTTI. I think that we have included in here the money that we need to make the transition. In terms of the long term budget, it will not impact the budget because we are basically doing that with the idea that it has to stay within our budgetary resources. But there is a transition cost any time you change, and that is what—

Senator CAMPBELL. Will that affect retirements or buyouts or anything of that nature?

Mr. ROSSOTTI. In the \$140 million that we have got in the budget, that is part of what that money is intended for. As we begin to change the structure and we change people's jobs there will be some people—we are trying to avoid relocation as much as possible—but there will be, inevitably, some relocation. But mainly there may be some people whose jobs are changed sufficiently that they prefer to not adapt, in that way, and we want to have the flexibility to do the buyouts.

So retraining is the key item. Buyouts may happen in some cases, where people, either for various reasons cannot make the transition, and for a relatively small number of people, relocation. Those are the three ways that we have to do it.

Senator CAMPBELL. Personally, before I turn it over to Senator Dorgan, I have to tell you, I think you have done a terrific job and I appreciate that. I sometimes think though, the way bureaucracies get so institutionalized back here, that when we get new people in that have really great ideas and they really want to make some changes, that some of the old guard simply waits them out until they go home again, and they just go back to the same old thing. So I hope that some of the changes you are implementing really stay with us and mean something.

When you came out to Colorado, I remember you talked personally to some of the people that expressed some of the real problems they had: the lady that lost her home, and the fellow who has a brother that committed suicide, those kinds of things. It is my understanding, from my own staff in Colorado that of all the different

cases that we were dealing with that came before the committee and they testified, that only one of them has been cleared, but all the rest seem to be stalled somewhere.

I do not know exactly the reason, but I would appreciate it if you could have somebody report back—

Mr. ROSSOTTI. We will.

Senator CAMPBELL To the subcommittee or to me personally before April about why or what is the reason this cannot be resolved. Could you do that?

Mr. ROSSOTTI. Certainly.

Senator CAMPBELL. I'll appreciate that.

Senator Dorgan, do you have some questions?

#### RURAL TAXPAYER ASSISTANCE

Senator DORGAN. Mr. Chairman, thank you. Let me just explore a couple of the areas. Perhaps first we could explore the area of taxpayer assistance in the less populated States in the country. Mr. Commissioner, would you want to comment?

Mr. ROSSOTTI. Yes. I am going to ask Mr. LaFaver to join me here just to say what we are doing. In almost all these things, in terms of improving service there is one basic point which I just want to make which is, we are trying to approach this in what we can do quickly and what is going to take long. I mean, that is just fundamental. With resources and other changes, we cannot do everything.

In the short term, what we are doing is we are simply opening up the sites that we have for Saturday hours, for example, for longer hours, and we are adding a few sites. But basically we are primarily just extending the hours and making it more convenient for people.

But the longer term strategy is exactly what Mr. LaFaver's main job is right now. It is rethinking our whole structure. The chart that you showed actually, I believe, came from the work that his team was doing, where we are trying to go back to fundamentals, and what should it be. And of course, we have limitations of resources, but I will just ask John to comment on some of the ideas that we hope to do longer term.

Mr. LAFAVER. Thank you, Mr. Chairman and Senator Dorgan. Let me start and make it very clear that, the effort that we are involved with now in terms of restructuring contrasts with the consolidation effort that I am sure the senator remembers from three or four years ago where a significant number of offices were closed and staff moved to the more populous areas. That is not what this effort is all about. We are committed to providing top level of service in every State.

As someone who has had many of the same responsibilities that you had in North Dakota, I have run the tax agencies in Montana and Maine and Kansas. And from the vantage point of those States, when you are in the State capital trying to make the tax agency work, it is a very different task and a very different challenge to, for example, provide service in Topeka as it is in Ulysses. It is a very different task, as you know, to provide it in Fargo than it is in Williston.

Thankfully, here in the last few years technology has given people access to tax information and tax filing at an unprecedented rate. Certainly in terms of Telefile, in terms of being able to phone in and get tax issues resolved, that is an important asset. There is no way that, for example, the State of North Dakota or the State of Montana could put people in every rural site. But now with the real magic of technology, you can provide virtual assistance in very powerful ways that simply were not available when you and I started in the tax business. So that is an important asset that we are going to continue to utilize.

At the same time, we realize that there is a need, an imperative, to have face to face help. While that is not always going to be possible when you look at the map, again, to have face to face assistance with someone who works for the IRS, a revenue agent as an example, there are people in many rural areas whether they are AARP, whether they are enrolled agents, whether they are other tax preparers, whether they are officials of State tax agencies. A very important part of the effort that we are involved with is to provide very specific responsibilities to IRS people in the field to develop those partnerships.

So both from the partnership standpoint, from the use of technology that is now available, as well as from the commitment to utilize the sites that we have now and, if possible, strengthen them, I do not believe that you are going—I certainly hope and pray that as we roll this out you will not have anything like the concerns that I am sure that you had in 1995. That is not what this effort is all about.

Senator DORGAN. I am trying to understand the effort. Can you sharpen the pencil a little bit for me to tell me what will we see a year, two years, or five years from now that is different than what now exists? What now exists is the use of existing resources to provide much more substantial assistance to those in the urban areas.

My notion some years ago with then-Governor Dukakis and some others who put together a plan called the IRS Across America, in which the Internal Revenue Service would, with a smile, provide service moving out in teams to shopping centers, and with mobile vans and so on to say, part of the service here is to say we understand you have an obligation. We want to help you meet that obligation.

So can you just provide a bit more grist for me so that I understand what it is you are talking about.

#### IRS REORGANIZATION

MR. LAFAVER. From a structural standpoint, we are talking about four units. One that focuses on the needs of wage and investment taxpayers. Those are, of course, by far the most numerous, that have generally the most straightforward tax forms.

Second, we are talking about a structure that handles small business issues. Those are, by and large, the most complex. Most of the issues that were raised by the Senate Finance Committee comes from that group of taxpayers. A staff that from top to bottom would focus on the unique needs and issues and problems of those taxpayers.

The third unit is large and mid-sized. Those are the firms, the very large firms—who, of course, pay a very large amount, a very large percentage of total revenues, but there are relatively few of them: about 180,000. Again, a staff that from start to finish focuses on the unique issues and unique problems that arise with that group.

Then the final group is the tax-exempt. While there is not a lot of tax money that comes from there, there are a host of tax issues that are extremely important.

In terms of looking at where those units would be, for example, in North Dakota, without looking and auditing exactly all of the people there, my hunch is that most of the field staff there now would be assigned to the small business area. Likewise though, there would be staff from the wage and investment unit whose primary purpose would be to form the partnerships and alliances that I was speaking about.

So from a national standpoint, that is the type of structure that we will be rolling out, and most of it will be rolled out by the end of 2000.

#### SERVICE AND COMPLIANCE

Mr. ROSSOTTI. I would just like to add one point because I think it is relevant, I think directly to your point about service versus compliance. Right now if you just look at the relative balance of resources, and we can divide it in a simple way to everything we do to help taxpayers get their return right, and just the filing and then what we call post-filing, which is compliance. Only about 9 percent of the budget resources go to the front end, the service part of it to help them get it right. Over 70 percent goes to the back end in the form of compliance.

Now we cannot change that overnight. But a big part of the strategy in terms of the structure is, for example, as John mentioned, the small business and the wage and investment—especially in the wage and investment and small business. That is where we need to put more emphasis on the service element. Over time—and this may take three to five years as we move this.

Once we get the structure in place, a part of this is to specifically put people in charge of what we call the front end, the pre-filing, the actual service to taxpayers to help them get it right. Right now that is, frankly, somewhat of an afterthought. I mean, it is kind of—you have a compliance function and then they have secondary responsibilities to provide service.

So a big part of this is to put people directly in charge. They would be in charge in each area, in each geographical area as well of not just the compliance—that is certainly very important—but also the taxpayer education, the outreach, and the assistance. Much of it we can do with partnerships.

I was out in Utah, for example, and we had a cooperative site that we established with the State tax agency, and other agencies. We called it a one-stop tax shop where people could come in and get service from the IRS, as well as the State agency, as well as motor vehicle and other things.

Those are the kinds of things, as John says, with a partnership that we hope to do over time in ways that are appropriate to each

State. Some of it may be mobile vans. I mean, we are right now doing a little bit of this in terms of opening up shopping center locations on Saturdays, for example. As we roll this out, we hope we can do more of that.

#### TELEPHONE ASSISTANCE

Senator DORGAN. Where do you do your phone servicing?

Mr. ROSSOTTI. We have about 25 phone sites around the country that do phone service of different kinds. As a matter of fact, that is one of the other major issues. They have been managed in a very fragmented way until very, very recently. This is one of the reasons that the phone service has not been up to par. We are now beginning to manage them as a nationwide network so that—you know, when you call an 800 number, you expect to get service. It really does not matter too much where the call goes as long as you get good service.

So we are now beginning—and this is where part of the technology comes in, to be able to manage these as integrated networks, which every big company does, and thereby, over time, gradually be able to provide basically what people want. They want to get through to somebody who knows the answer to their question and can solve the problem for them on the first try, if at all possible. We have made progress in that in the last year, but none of us would claim that we are anywhere near up to a level that is what you would expect, for example, in a commercial environment.

#### AUDITS OF TAX—EXEMPT ORGANIZATIONS

Senator DORGAN. I would like to get information—I will just seek information later about your phone servicing and the resources for that.

Let me ask a couple of other questions, if I might. One is about tax-exempt organizations and audits and so on. I recall a year or two ago about tax-exempt—more than that actually, three or four years ago, and the explosion of tax-exempt organizations in our country. A literal explosion. Everybody starts a tax-exempt organization for their own deal, and then sends out mailings trying to get contributions, tax-exempt contributions, and so on.

One of the things that I recall from those previous initiatives was that almost never had the Internal Revenue Service revoked the tax-exempt status of an organization, despite the fact there were tens and tens and tens of thousands of them, and the number of new tax-exempt organizations just exploded. Has that changed at all? What is the enforcement in that area, and what kind of situation exists with revocation?

Mr. ROSSOTTI. I would have to get back to you on the numbers. I really do not have those numbers. But there is a compliance program for tax-exempt organizations that has a field staff that does auditing throughout the country, and they do review the compliance of tax-exempt organizations. I do not have the exact numbers, and I will get them for you, Senator.

[The information follows:]

The Service's responsibility in the Exempt Organizations area is to apply, evenly and fairly, the Federal tax rules that govern tax-exempt organizations.

Given the large number of exempt organizations, and that many exempt organizations are small and run on a voluntary basis, we believe that the most effective way to achieve compliance is through taxpayer education and assistance, and by working individually with organizations to bring them into compliance with the Federal tax laws.

The enforcement program begins with the determination letter process, a careful review of an organization's application for tax-exempt status. The determination letter process serves as a vital up-front check on compliance. In 1997, the Service processed over 75,000 applications for exemption. Of that number, less than 55,000 were finally approved. The balance either received denials for exemption, or were never completed because the Service questioned some aspect of the application, or the applicant, for whatever reason, declined to pursue the matter.

Education and determination letter programs are not the entire answer, however, and so we also have an active examination program. In fiscal year 1995, we conducted examinations of approximately 10,497 returns; in fiscal year 1996, 11,020; in fiscal year 1997, 10,700; and in fiscal year 1998, 10,353.

Generally, we view the revocation of an organization's tax-exempt status as the least desirable enforcement technique available to us, due to its draconian nature. We believe that working with an organization to correct errors, thereby bringing it into compliance with the Federal tax laws, is usually a much more effective approach. Nonetheless, where necessary, we will, and do, revoke tax-exempt status.

#### TAX-EXEMPT SECTOR

Mr. ROSSOTTI. But here again with the organization, this is a very interesting, specific point because right now, as you say, this tax-exempt sector is extremely important, and it is growing. There is actually, if you add up everything, about \$5 trillion of assets that the IRS has the responsibility of regulating in the tax-exempt sector, of all types. That function, because it is not really a revenue-generating function, tends to be a little bit buried underneath the big structure that we have throughout the country.

Specifically, the point you mentioned about compliance is handled through four, what are called key districts, around the country. There are people, for example, in the Los Angeles district who have responsibility for the Western part of the country.

But what we are going to do in this new structure is really, I think, have a much greater focus on that. We are going to have a whole unit at the top level that will be responsible for all functions related to the tax-exempt sector. They will have both the initial approval authority to grant tax-exempt status, for example, but they will also have people throughout the country that will be directly responsible for checking up on compliance. We have that now, but the responsibility is very fragmented.

So I will get you the specific numbers that you asked in terms of revocations and audits and so forth.

Senator CAMPBELL. Would you yield for an additional question along that line?

Senator DORGAN. Yes.

Senator CAMPBELL. I understand you have some pretty well-defined criteria for tax-exempt groups that are nonprofits.

Mr. ROSSOTTI. Yes.

Senator CAMPBELL. One of the really complicated ones, as I understand, are how you define a religion or church that is tax-exempt. Are you trying at all to deal with that?

Mr. ROSSOTTI. I am afraid that that gets into a highly technical area, Senator.

Senator CAMPBELL. It really has nothing to do with your budget, but since Senator Dorgan opened that line, I would be interested—

Mr. ROSSOTTI. I would be happy—I cannot honestly say that I know enough to respond to you—on that topic to respond very intelligently to your question. I would have to get some help from some experts on that topic. There are defined criteria, but of course, it is also a sensitive kind of an area and it requires a great deal of application of judgment to that.

[The information follows:]

Under the Internal Revenue Code, a church need not approach the Service seeking tax-exempt status. Many do, however, in order to assure themselves that they meet exemption requirements, and that the contributions they receive are tax-deductible by the donors. When a church does apply for recognition, the Service recognizes the sensitive nature of the process of determining what is or is not a tax-exempt “church.”

However, consistent with the First Amendment, neither the Internal Revenue Code nor the Internal Revenue Service defines “religion.” Nor do we examine or question the validity of the religious beliefs of any individual or organization.

The standards the Service uses to define a church are those determined by the Federal courts. For example, in *American Guidance Foundation, Inc. v. U.S.*, 490 F. Supp. 304 (D.D.C. 1980), the court said that, at a minimum, a church must include a body of believers that assemble regularly in order to worship. A church must also be reasonably available to the public in its conduct of worship, in its educational instruction, and in its promulgation of doctrine.

The court identified fourteen criteria used to determine if an organization is a church. These criteria are as follows: A distinct legal existence; A recognized creed and form of worship; A definite and distinct ecclesiastical government; A formal code of doctrine and discipline; A distinct religious history; A membership not associated with any other church or denomination; Ordained ministers ministering to its congregations; Ordained ministers selected after completing prescribed studies; A literature of its own; Established places of worship; Regular congregations; Regular religious services; Sunday schools for religious instruction of the young; and Schools for the preparation of its ministers.

We also consider any other relevant factors.

Senator DORGAN. It is sensitive and obviously most of these organizations are wonderful organizations doing wonderful work. In 1985 a colleague and I had the GAO do an analysis for it and it showed this growth of 140 percent, 45 percent, 47 percent, in these categories. The point is, these tax-exempt organizations are just exploding.

Mr. ROSSOTTI. Yes. I actually have some numbers here that I have gotten now and I can give you. They verify your point. In 1981 there were 862,000 exempt organizations. Today there is 1.4 million, and our staffing is about level. So clearly we have had a decline in—

Senator DORGAN. In 1992 and 1994, according to the GAO, 2/100ths of 1 percent lost their tax-exempt status—2/100ths of 1 percent. The point is that it happens very rarely.

The reason I asked the question is, just yesterday on my desk I received two letters from constituents in North Dakota who had gotten very interesting, fancy, wonderful mailings that cost a great deal, by organizations neither of which I knew anything about that had—they clearly had a political agenda. They had a tax-exempt capability. And this happens on all sides of these issues.

So the constituents wrote and said, what is this organization? Can you tell me anything about it? Frankly, I cannot. I do not know anything about either organization. But they are soliciting

tax-exempt contributions from my constituents and others around the country.

As I thought about that and thought about the GAO report, I just wanted to ask questions. Perhaps you can submit, have your staff submit some information about what has happened since the GAO report with respect to compliance in this area. How aggressive is it?

Mr. ROSSOTTI. Yes.

[The information follows:]

GAO Report GAO/GGD-95-84BR, dated February, 1995, entitled "Tax-Exempt Organizations Information on Selected Types of Organizations," stated, at page 44, that in fiscal years 1992, 1993, and 1994, the Service revoked the tax-exempt status of 17, 27, and 23 organizations (social welfare organizations, labor and agricultural organizations, and business leagues) respectively.

The Service revokes the tax-exempt status of relatively few tax-exempt organizations, preferring, as previously stated, to work with organizations to bring them into compliance with the Federal tax laws. This is reflected in the number of organizations that have lost their tax-exempt status. For example, in fiscal year 1997, 17 charities (501(c)(3)s) lost their tax-exempt status, and, in fiscal year 1998, 38 charities lost their tax-exempt status.

For other types of tax-exempt organizations, the Service's management information system tracks revocations by return rather than by entity. In fiscal year 1997, 72 returns were closed by revocation, and, in fiscal year 1998, 59 returns were closed by revocation. In some instances, several revocations may be attributable to a single organization, so the number of organizations that lose their tax-exempt status in a given year may be less than the number of returns closed by revocation for that year.

Most recently, Congress has recognized the draconian nature of the act of revoking the exempt status of an organization, and has provided alternative remedies—so-called "intermediate sanctions"—in the form of excise taxes in the case where the earnings of an organization inure to the benefit of those with influence over the organization (see, IRC section 4958), and in the case of political activity (see, IRC section 4955) and excessive lobbying (see, IRC section 4911) by certain tax-exempt organizations.

Senator DORGAN. Even as I say that, let me say, as you will say, that many of these organizations are wonderful organizations. I am not suggesting in any way that there is anything untoward about them. But there are some, clearly on the edges, that grow up only for purposes of harvesting that tax-exempt contribution for their own interest. It is very important, that in order to preserve this for the wonderful groups that do great work, that we make sure it is enforced properly.

Mr. ROSSOTTI. Sure. We agree, and that is why we are trying to put more emphasis on this area by the organization. But we will get you the numbers in terms of what has happened. And there have been some new initiatives, which we will get back to you on, to try to deal with the compliance issue in a more practical way.

[The information follows:]

The Service is well along in the process of designing a new organizational structure under which we will be reorganized into four Operating Units, each of which will focus on a distinct group of related taxpayers. One of the four is the Tax Exempt Operating Unit, which will have full responsibility for exempt organizations, as well as for employee plans, tax-exempt bonds, and state and local governments. Indeed, we expect the Tax Exempt group to be one of the first of the four Operating Units to begin operating in the new configuration.

Responsibility for all aspects of exempt organizations will be vested in the management of the Tax Exempt Operating Unit. The placement of exempt organizations and other tax-exempt taxpayers in one of only four Operating Units assures high visibility within the Service for this important sector of the economy. Moreover, we expect the concentration of responsibility for the entire tax exempt program in the

management of the Tax Exempt Operating Unit to bring about a more focussed and effective program.

In addition, a number of changes and initiatives have occurred in the area of Exempt Organizations enforcement.

We have developed plain-language publications, such as the recent "Gaming Publication for Tax-Exempt Organizations" (Pub. 3079, April, 1998).

We have realigned and refocussed the Exempt Organizations field staff. The processing of applications for exemption has been centralized in Cincinnati; the processing of Forms 990 has been centralized in Ogden, and Exempt Organizations examination agents now have a broader array of enforcement tools as result of Congressional enactment of IRC sections 4911, 4955 and 4958.

The Exempt Organizations' examination program is focussing on assessments of particular segments of the exempt community. A good example of this is our Coordinated Examination Program (CEP) that focuses on large, complex tax-exempt organizations, such as hospitals and universities.

Further, in recognition of the significant enforcement effect of public disclosure, Congress recently expanded the requirement under IRC section 6104(e) that exempt organizations make their Forms 990 publicly available. We are currently completing the regulations that implement the new statutory requirements.

Senator DORGAN. I would like to ask about transfer pricing, but I would be happy to yield if—

Senator CAMPBELL. I have no further questions except the ones submitted for the record by other senators.

Senator DORGAN. Might I just ask then briefly about transfer pricing?

Senator CAMPBELL. Sure.

Senator DORGAN. I do not know if you have someone on your staff available to—

Mr. ROSSOTTI. Yes. Let me just make some general comments and I might ask Mr. Dalrymple to come up for a second and make some more comments. But clearly, as you indicated, this is one of the more important compliance areas or compliance issues, one of the more difficult ones, especially in the large business sector.

#### TRANSFER PRICES

There has been one significant initiative that was taken in the last few years, prior to my arrival but it is beginning to play out now. With the help of some legislation, and some regulations from Congress, a significant change occurred in that there was a requirement for contemporaneous justification by taxpayers for submission of justification of transfer prices.

One of the more difficult points, as you indicated, is simply getting accurate and complete information on what actually these transfer price arrangements are, under the existing laws. When you are auditing something that was two or three or four or five years ago, and trying to find out what happened, just the process of getting to the bottom of it is very difficult.

Now this requirement went into effect in about 1995, I believe, and by the time the regulations came out and we began to audit, we are just starting to get to, to find out what the results of this initiative are. So we do not really have yet, I would say, a good handle.

But I would like to ask Mr. Dalrymple, who has been instrumental in some of this, to make some comments.

Mr. DALRYMPLE. I guess I need to reiterate a couple of things. Prior to 1994 there was no requirement for taxpayers to document their transfer pricing methodology. So because of that we had to lit-

erally construct a methodology during the examination, and that extended the audit for quite a while. It led to controversy and a lot of disagreements between our examination people and, of course, the tax representatives for these large companies, and frankly, even in our appeals organization.

The law changes in 1994 gave us—required taxpayers to contemporaneously document their transfer transactions or pricing transactions. And the other significant thing is it required them to provide us the documentation within 30 days of request, which was a major difference.

That really gets to a couple of questions you asked earlier also, Senator, and that was how many people do we have involved in this operation, and what have they been doing? We have about 650 international examiners, and frankly, about half of that is spent on pricing agreements. So that is somewhere in the neighborhood of 375 examiners. We have been able to leverage their time much more over a much larger number of these issues since the regulation went into effect because of the requirement now, and the fact that they do not have to construct the documentation that has to be provided to them.

Senator DORGAN. The chairman has another responsibility this morning and I want to be attentive to that, so let me do this. Let me submit some questions to you, and then with two other points. You are required under last year's appropriation to make a report to us on this area and I expect that is coming soon?

Mr. DALRYMPLE. It is underway.

Senator DORGAN. But is it coming soon?

Mr. DALRYMPLE. I do not have a date that we expect to finish now. I think the language in the appropriation said March—

Senator DORGAN. Underway is a term of art. I am just trying to—

Mr. DALRYMPLE. You are correct, it is a term of art. I am not trying to be evasive, but I do not have a date that we expect it. We have joined with Treasury tax policy to put this report together. But we will get back to you with literally the date that we expect the report to be completed.

[The information follows:]

The Service expects to complete the report no later than May 31, 1999.

#### TRANSFER PRICING

Senator DORGAN. I appreciate that.

Mr. Chairman, I am going to meet with the IRS and suggest something with respect to this appropriation. I am going to suggest that we take a group of taxpayers, perhaps 20, perhaps 10, and on current filings, sanitize them if we need to, and do a real test on a contemporaneous basis of what is there and what is not. I understand the three-year cycles and all that sort of thing. I am interested in getting at what is the level of enforcement here or lack of compliance. And that relates to what we might want to invest in the Service in this particular area versus other areas.

So I will talk to you all about that on just a pilot basis that we could do on top of the study that you are now going to report to us on.

Mr. DALRYMPLE. Absolutely.

## SUBMITTED QUESTIONS

Senator DORGAN. Then I will submit a list of questions, and I thank you for being attentive to this. I will get with you at some other point.

Mr. Chairman, thank you very much.

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

## QUESTIONS SUBMITTED BY SENATOR CAMPBELL

## INTERNAL REVENUE SERVICE

## Y2K

*Question.* Do you believe that the funding contained in your fiscal year 2000 request for Y2K conversion will be sufficient to cover those costs?

*Answer.* At this time we believe that the \$250 million in our fiscal year 2000 request will meet our needs. However, as we complete our independent validation and verification (IV&V) and end-to-end integration testing efforts, we may identify additional Y2K issues that need to be addressed.

*Question.* How many outyears of funding do you anticipate having to request for Y2K conversion costs?

*Answer.* The IRS anticipates completing its Y2K conversion activities in fiscal year 2000. Resources will need to be realigned to operations and maintenance (O&M) costs in fiscal year 2001 to support ongoing costs of Y2K-compliant systems and products such as software licenses, and operations of the Integrated Submission and Remittance Processing System (ISRP) and the Service Center Mainframe Consolidation program. There is, however, a small chance that some additional Y2K funds will be needed in fiscal year 2001.

## TELEPHONE ASSISTANCE

*Question.* Will Taxpayers be able to receive accurate and timely answers to their questions on the first telephone call they make concerning a problem?

*Answer.* The Service's focus on improving customer service includes enhancing our assistors' ability to provide accurate and timely answers to taxpayers on their first telephone call. Early in fiscal year 1999 Customer Service commissioned a task group to redesign and improve employee reference materials. The Internal Revenue Manual was revised and includes a user-friendly index, glossary and a comprehensive table of contents; job aids were developed to ensure consistency and accuracy, and to expedite resolution of a taxpayer's inquiry; training was provided to each employee on how to use the new reference materials; and extensive training was provided on new tax laws. Also, the primary Customer Service quality review system was modernized and centralized. This improved system maximizes independence of the review process and reliability of the data and provides diagnostic information on quality, customer satisfaction and courtesy, providing the organization increased ability to evaluate organizational performance as well as focus on improvement opportunities, such as training.

*Question.* What specific actions has IRS taken or does IRS plan to take to improve the Telephone Routing Interactive System?

*Answer.* The Telephone Routing Interactive System (TRIS) represents the automated portion of the IRS toll-free telephone service. TRIS consists of two components: First, the Master Customer Service Script which is the basic telephone script a caller hears when calling the toll-free assistance line that routes all touch tone callers to the appropriate assistance—either an interactive application or a customer service representative. Second, TRIS also provides callers the opportunity to receive assistance via several automated, interactive applications.

To enhance assistance to customers, this filing season we implemented two new automated applications: (1) The Refund Release application which allows callers whose tax refunds are being held by IRS due to name or SSN mismatch to resolve the discrepancy and have their refund released and (2) The Refund Trace application which allows callers to file a claim for a lost, stolen, or destroyed current year refund. (Callers NOT eligible to file a telephonic claim are sent the appropriate form (Form 3911) to mail in a claim.)

Additionally, two of the existing TRIS applications were made available on the account and refund toll-free lines in addition to the general tax assistance toll-free

line. And, we added the Location application to the account product line (previously it could only be accessed via the 1040 line). The Location application provides callers with the appropriate IRS mailing address depending on caller's ZIP code, what form is being filed, and whether a payment is being made. We determined that many callers to these other toll-free lines were requesting refund status or location information and could easily be serviced in automation—thereby freeing time for Customer Service Representatives to address more complex issues.

System improvements were implemented which will make it easier to add and delete from the TRIS script time-sensitive messages required to address specific hot issues. For example, to include messages (1) routing callers needing locations/times of Saturday service or other walk-in assistance during filing season; (2) routing callers with questions regarding our electronic filed return and credit card payment options pilot; and (3) routing callers with innocent spouse issues. The TRIS hardware and software were upgraded to increase capacity and provide Y2K compliance. Also, TRIS is now available nationwide.

For January 2000 we plan to implement a Spanish version of the Master Customer Service Script and automated TRIS applications. Also, the eligibility criteria for the Voice Balance Due (Installment Agreement) application will be adjusted to allow eligible callers to set up streamlined installment agreements of up to \$25,000 (up from \$15,000). This will allow more callers to complete business in the application. The Refund Trace and Refund Release applications will be enhanced to service callers who have data at more than one service center, thereby increasing the number of callers who can complete business in these applications. Additionally, in fiscal year 2000, we plan to remove the "touch tone callers, press one" prompt from the beginning of the script. According to the contractor currently working with us on an assessment of TRIS, industry practices show that the prompt encourages callers to opt out of automation.

*Question.* Please provide the number of taxpayers who accessed, abandoned, and completed the different applications.

*Answer:* We are continually looking at ways to enhance the effectiveness and responsiveness of service to our customers. In fiscal year 1999, we procured consultant services to conduct an assessment of TRIS and recommend improvements to make the automated applications more user friendly thereby encouraging callers to take advantage of the automated applications. In fiscal year 2000 we plan to solicit direct feedback from customers on the effectiveness of TRIS via an automated voluntary, survey offered to a sample of taxpayers who complete TRIS applications. The chart below reflects the usage of the TRIS applications for fiscal year 1999 (October 1, 1998 through March 5, 1999).

Application <sup>1</sup>	Calls Received	Calls Completed in TRIS	Calls Routed to CSRs	Calls Abandoned
Master Customer Service Script .....	18,435,900	N/A	14,828,300	3,607,600
Refund Inquiry .....	7,000,000	4,270,700	2,382,600	346,600
Voice Balance Due (Installment Agreement) .....	1,025,000	96,600	893,800	34,600
Payoff .....	484,000	40,300	397,800	46,000
View Debit .....	479,400	9,300	415,100	55,000
View Credit .....	333,200	18,500	275,700	39,000
Location .....	318,700	70,100	222,000	26,600
Transcript Request .....	260,300	49,900	133,500	77,000
PIN Maintenance .....	179,200	200	152,800	26,200
Refund Trace .....	3,200	1,800	1,300	200
Refund Release .....	2,000	400	1,500	100
Totals .....	28,520,900	4,557,800	19,704,400	4,258,900

<sup>1</sup> TRIS Application Definitions.

*Refund Inquiry*—allows caller to obtain status of refund.

*Voice Balance Due (Installment Plan)*—allows caller to set up payment plan.

*Payoff*—allows caller to hear payoff balance(s) as of call date and balances up to 120 days in the future. Also allows caller to obtain the address of the nearest IRS office and menu option into VBD to set up payment plan.

*View Debit*—allows the caller to listen to account information. It is a spoken explanation of the information on an account transcript.

*View Credit*—allows the caller to confirm receipt of payment(s) sent to IRS and to hear how those payments were applied.

*Location*—allows caller to get the mailing address of the IRS. The address given is based on the zip code of the caller, type of form to be filed and whether a remittance is also mailed.

*Transcript Request*—allows the caller to request the form to order a photocopy of return, an account transcript, or return transcript (for student loans, etc.)

*PIN Maintenance*—allows the caller to block, delete, or change existing PIN number.

*Refund Trace*—allows a caller to file a claim telephonically to request a replacement check for a current year refund which has been lost, stolen, destroyed, or was never received.

*Refund Release*—allows a caller to correct three situations where a name/SSN mismatch is preventing a refund from being issued.

*Question.* How many dollars and FTE's does IRS plan to devote to assisting taxpayers in fiscal year 2000? How does that plan compare with actual expenditures in fiscal year 1998 and expected expenditures in fiscal year 1999?

Answer. Expenditures for taxpayer assistance are as follows:

## FTE

Service	Fiscal year—		
	1998	1999	2000
Toll Free Telephone .....	7,399	7,089	7,289
Walk-In Service .....	1,127	1,170	1,174
Taxpayer Education .....	225	252	253
<b>Total .....</b>	<b>8,751</b>	<b>8,511</b>	<b>8,716</b>

## LABOR DOLLARS

Service	Fiscal year—		
	1998	1999	2000
Toll Free Telephone .....	\$296,981,000	\$301,050,000	\$324,807,000
Walk-In Service .....	10,999,000	13,234,000	13,342,000
Taxpayer Education .....	47,125,000	51,774,000	53,390,000
<b>Total .....</b>	<b>355,105,000</b>	<b>366,058,000</b>	<b>391,539,000</b>

In addition to the labor dollars cited above, a total of \$6 million is planned for grants for Low Income Taxpayer Clinics.

In fiscal year 2000, 200 FTE are added for Spanish language toll free telephone assistance.

*Question.* How much does the IRS expect to actually spend on customer service improvements in fiscal year 2000?

Answer. In fiscal year 2000, IRS will continue to implement 157 near-term initiatives as part of an on-going Taxpayer Treatment and Service Improvement Program. Over half of those initiatives are directly related to the IRS Restructuring and Reform Act of 1998 (RRA98). The \$40 million requested increase for implementing Titles II and III of RRA98 includes \$17.5 million for customer service improvements in such areas as Spanish-language telephone assistance, Low Income Taxpayer Clinics and enhanced Internet access for taxpayers and practitioners. Absent an activity-based cost accounting system, only such program increases and information systems costs (not base resources in Operations programs) can be clearly associated with the broad concept of "customer service improvements."

Related technology costs total \$22 million—including investments in such projects as Forecaster/Scheduler, Telephone Routing Interactive System (TRIS) and Servicewide Electronic Research Project (SERP). Finally, in fiscal year 2000, IRS expects to spend \$120.9 million from the Information Technology Investment Account (in partnership with the Prime Alliance) on customer service improvements, including Call Routing and Management and Customer Service Infrastructure and Security.

*Question.* I understand that there has been customer service training at the IRS in the past, so how will you raise the bar in order to deliver customer service that's on par with private industry?

*Answer.* The IRS is fully committed to becoming a world class customer service organization delivering world class quality service to its customers, the taxpayers of America. In support of this commitment, the Agency has committed financial and human resources to the development and delivery of quality training programs to meet the needs of the employees charged with serving America's taxpayers. Specifically, the IRS has conducted benchmarking studies against private industry organizations and engaged outside vendors in the validation of our customer service strategies. Customer service tenets are being embedded in technical training as additional reinforcement and functional curricula are being reviewed to ensure adequacy and consistency with the move to a more customer focused approach in dealing with the American taxpayers. All of these initiatives are being blended into a comprehensive approach that complements the Agency's modernization initiatives to maximize the effectiveness of the training and the employees' receptiveness to the training interventions. On March 5, 1999 IRS provided the Congress a report required by Section 1205 of RRA 98 which describes in detail how IRS will accomplish these actions and achieve this goal. The centerpiece of these activities is a course we call World Class Customer Service Training which will be delivered later this fiscal year.

#### IRS REORGANIZATION

*Question.* What assurances can you provide that training will be revamped to reflect the kind of IRS you envision?

*Answer.* To ensure that our training efforts fully support the transition to a customer-focused organization, we are obtaining feedback on our processes from a broad base of both internal and external stakeholders, including front-line IRS employees, the National Treasury Employees Union, and members of the taxpaying public.

#### CUSTOMER SERVICE FUNDING

*Question.* Will IRS be carrying over into fiscal year 2000 any prior year Customer Service training funding? If so, what will that funding be used for?

*Answer.* The IRS does not anticipate carrying over any prior year Customer Service training funding into fiscal year 2000.

#### UNION SUPPORT

*Question.* Have employees and the employees' union been supportive of testing and training? What concerns have been raised?

*Answer.* Employees and their union have concerns with regard to Customer Service testing, both with the validity of the tests and how the tests will be used. In general the tests are being used to identify training needs or measure the attainment of training objectives, once training has been completed. We continue to work with the union on these issues.

In general, the employees and their union are supportive of Customer Service training. However, there are concerns by all parties with regard to the necessity of balancing program roll-out demands and available resources with our goal of providing employees with complete and timely training to enable them to perform their duties.

#### IRS REORGANIZATION

*Question.* You have announced your intention to reorganize the IRS into four main operating divisions. How will the current regional structure be affected by this new organization?

*Answer.* Although regional and district offices will not exist in the new IRS organization structure there are no plans to reduce the number of employees in the Service. Everyone will have a job but roles may change. The Commissioner has pledged that employee movement will be minimal. The impact will be managed in a methodical, sequenced manner taking into account the start-up schedules of new business units, emerging career management strategies and various personnel options.

#### IRRA98

*Question.* Will your fiscal year 2000 request for taxpayer protection—\$27 million—provide the funding necessary to implement all of the measures to protect the taxpayer as mandated by the Restructuring Act?

Answer. During fiscal year 1999, IRS will absorb—from base resources—nearly \$160 million and 2,300 FTE in staffing and support costs necessary to implement the Restructuring and Reform Act of 1998 (RRA98). Of the total, \$135 million is directly related to Title III—Taxpayer Protection and Rights. Fiscal year 2000 costs will increase by at least \$10 million and 400 FTE as new provisions take effect. For example, beginning January 1, 2000, Section 3705 requires that IRS provide Spanish-language telephone assistance (including a “live assistor” option). The \$27 million and 500 FTE requested as part of this \$40 million program increase will also fund service center workload increases associated with “innocent spouse” and “pre-levy collection notice” provisions in the service centers—and an expansion of taxpayer education programs such as the Low Income Taxpayer Clinics. [Note: The remaining \$13 million supports Title II—Electronic Filing.]

*Question.* If not, when do you expect the IRS to have this area of the Act fully implemented?

Answer. IRS is committed to fully implementing taxpayer protections by their effective dates as mandated by the Restructuring Act—most of which were effective at the date of enactment. Since the program increase requested represents only 20 percent of estimated costs, the balance will be accomplished within the IRS budget base.

*Question.* How are you going to be able to reach into the depths of the organization and energize all at the IRS—management, regions, and most importantly, the employees of the IRS—to give them the same energy and commitment to change that you have in order to really affect a culture change?

Answer. The best way to create commitment to change is to communicate a clear vision to employees and involve them in the change. Our vision is clear. We have a variety of efforts underway to continuously communicate about the change as we make progress. For example, we have a newsletter which has an exclusive focus on modernization. Employees have been actively recruited for the modernization Design Teams. The Design Teams not only include employees, but they have solicited their input through focus group interviews to get ideas on barriers to be overcome and actions the Service can take to better serve taxpayers. Employees ideas and questions are also captured through a web site set up for this purpose. We believe if we treat our employees well they will, in turn, treat our customers well. Therefore, as part of our balanced measures, one major focus is on employee satisfaction. This Spring all employees will be invited to participate in an employee climate survey which will give us input into how they feel about working in IRS. We have commissioned a process (Treatment of Taxpayers and Service Improvements) which oversees our strategic initiatives including a category titled “Create an IRS culture that values employees and rewards top quality service.” Fourteen separate initiatives have begun to further this goal. Other activities to promote our culture change include: establishing a Customer Service expectation for employees and managers to ensure that they know what performance is expected. Employees will receive training on providing customer service. The top grade level of Customer Service representatives has been raised to recognize the complexity and importance of their roles in helping taxpayers comply with tax laws. Although each of the previous initiatives will help promote buy in by employees and managers, we are also planning to pull it altogether through a Culture Change initiative, which will use world-class contractor support to help us in our efforts.

*Question.* What has IRS done (or plan to do) to get managers, employees, and union officials to buy into and support the reorganization? How will employee position descriptions and career paths be changed to reflect the different operating divisions? How is the National Treasury Employees Union involved in making these decisions?

Answer. The Design Teams are made up of more than 200 executives, management, and bargaining unit members to ensure full participation in the planning, design, integration, and implementation of the Modernization initiative. The Teams are continuously seeking input from managers and employees as well as conducting focus groups with them. Having NTEU (bargaining unit) employees as part of the design teams is ensuring that major changes, issues and concerns for bargaining unit employees are identified and factored into the implementation planning and timing.

NTEU has been involved with management in all phases of activities to design the new business lines in the modernized IRS. The Commissioner and President of NTEU have ongoing discussions about modernization and the President of NTEU is involved in all Executive Steering Committee briefings on Modernization. NTEU is currently in the process within the labor statute, of negotiating over these changes with IRS. There is also a communication package that will be employee friendly to get them the information they need.

Position Classification Specialists are engaged at the earliest possible step of any job redesign. In concert with the Design Teams, the Position Classification Specialist reviews the current position descriptions to determine the impact of these changes. When changes are significant or new positions are needed, the Design teams, subject matter experts and personnel specialists meet to describe these new positions, and subsequently new or amended position descriptions are prepared.

Career and future career paths both within and outside each operating division are being explored during discussions with the Design Teams. Employees of the newly created Career Management Organization, which includes Personnel and Training professionals, are working with successive Design Teams to identify the competencies and tasks of newly created positions. A review of the competencies required will result in the initial identification of opportunities for movement both within and across operating divisions.

*Question.* How will IRS inform taxpayers of the reorganization and the different options they have for getting assistance and resolving problems?

*Answer.* A key objective of the reorganization is improved communication with and service to taxpayers. However, this will happen gradually. IRS will continue to use various forms of media (print, television, Internet) to inform taxpayers of the reorganization. In addition, just as companies develop particular products and marketing programs to reach customers with differing needs, most IRS business practices can be tailored to address particular taxpayer needs and problems. Pre-filing assistance programs, such as customer education and telephone and Internet assistance, and publications and forms design, all represent opportunities for clear and effective communications. Filing related programs, such as electronic filing, telephone account assistance and notices also can be tailored to suit the needs of individual, small business and large business taxpayers.

#### SUBMISSION PROCESSING

*Question.* Specifically, how was the \$71 million increase for Submission Processing computed? Does that request reflect expected savings from increased electronic filing in fiscal year 2000?

*Answer.* The \$71 million increase for Submission Processing represents increases for the pay raise and non labor increases based on general inflation. This request reflects expected savings from increased electronic filing in fiscal year 2000. The savings are reflected in two actions—(1) FTE were reprogrammed from Submission Processing to Employee Plans/Exempt Organizations and Statistics of Income in the Tax Law Enforcement appropriation, and (2) No increase was requested in Submission Processing for projected workload growth due to increased filers.

#### ALTERNATIVE DISPUTE RESOLUTION

*Question.* The IRS Restructuring and Reform Act requires better use of alternative dispute resolution methods. What has been done to expand the use of ADR? Will this result in any savings? If so, what is the expectation?

*Answer. Early Referral.*—Revenue Procedure 96–9, 1996–1 C.B. 575, contained the procedures that allowed Coordinated Examination Program (CEP) taxpayers to request early referral of an issue from Examination to Appeals. New IRC section 7123 provides that the Secretary shall prescribe procedures by which any taxpayer may request the early referral of one or more unresolved issues from the Examination or Collection Division to the Internal Revenue Service Office of Appeals. The Service is preparing a revenue procedure which will expand the early referral process and describe the method by which a taxpayer requests such an early referral. This revenue procedure will also describe the method by which a taxpayer may request early referral of one or more unagreed issues from the Employee Plans/Exempt Organizations Division (EP/EO) to the Office of Appeals. We expect to publish this revenue procedure in the near future.

*Mediation.*—Appeals has tested the use of mediation for Coordinated Examination Program (CEP) cases assigned to Appeals Team Chiefs. Announcement 95–86, 1995–44 I.R.B. 27, and Announcement 97–1, 1997–2 I.R.B. 62, contained the procedures that taxpayers previously used to request mediation. In Announcement 98–99, 1998–46 I.R.B. 34, Appeals has expanded the mediation test to allow taxpayers to request mediation for factual issues involving an adjustment of \$1 million or more that are already in the Appeals administrative process. The mediation procedure is effective for requests for mediation made during the two-year test period beginning on November 16, 1998, the date Announcement 98–99 was published in the Internal Revenue Bulletin.

Additionally, new IRC section 7123 provides for expansion of mediation below the \$1 million threshold contained in Announcement 98–99. Appeals is currently devel-

oping procedures to expand the availability of mediation as required by the new law. We have also solicited comments from the public on the expansion of the mediation process.

*Arbitration.*—New IRC section 7123 also provides that the Secretary shall establish a pilot program under which a taxpayer and the Internal Revenue Service Office of Appeals may jointly request binding arbitration on any issue unresolved at the conclusion of: (A) appeals procedures, or (B) unsuccessful attempts to enter into a closing agreement under IRC section 7121 or a compromise under IRC section 7122. Appeals is developing procedures for a pilot program to test binding arbitration. This would allow taxpayers to request arbitration for factual issues that are already in the Appeals administrative process. We expect to publish an announcement with the arbitration procedures for public comment in the near future.

*Savings from the use of ADR methods.*—The Appeals ADR programs are cost effective for taxpayers in relation to the alternative of litigating issues not resolved in Appeals, and must also be compared to the amount of time spent in the audit and other dispute resolution processes.

Our ADR techniques are tools that address the heart of the Administrative Dispute Resolution Act of 1996 and the IRS Restructuring and Reform Act of 1998. These programs are alternatives to litigation. If any one of these ADR techniques prevents one or more issues from being litigated, then they will have served their purpose.

#### EARNED INCOME TAX CREDIT COMPLIANCE

*Question.* As you know, Congress appropriated \$138 Million (for 2,358 FTE) in fiscal year 1998 and 143 Million (for 1,972 FTE) in fiscal year 1999 for the Earned Income Tax Credit Compliance Initiative. The purpose of this separate appropriation is to help address non-compliance issues which was expected to in turn save money. How much as actually saved in fiscal year 1998? How much is expected to be saved in fiscal year 1999?

*Answer.* For fiscal year 1998, Enforcement Revenue and Revenue Protected \$977.2 M. For fiscal year 1999, Enforcement Revenue and Revenue Protected is projected to be \$1,259.9B.

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#### QUESTIONS SUBMITTED BY SENATOR KYL

##### PROBLEM SOLVING DAYS

First, just a comment. My staff in Arizona reports that the IRS problem solving days you've scheduled in the state appear to be very successful and well-attended. We're not receiving as many complaints about the local IRS offices since they started their new taxpayer-friendly programs. So I want to congratulate you for the progress being made there, and recognize the good work of the IRS staff in Arizona.

We are still receiving complaints that the IRS service centers—for example, in Ogden—are not as taxpayer-oriented as the local offices, and I will be in touch with you with specific examples of that as they arise. But I think it is appropriate here to note the success of the problem solving days in Arizona.

##### INSIDER FRAUD

Several weeks ago, the media carried reports about the high risk of insider fraud in certain federal agencies. A Knight Ridder report, for example, suggested that employee theft or embezzlement at the IRS amounted to \$5.3 million from 1995 to 1997. Some schemes were apparently as simple as changing a check made out to the IRS to "I.R. Smith" and cashing it. Others were more complicated. One employee, according to the report, using financial data on a submitted check from a large corporate account, made a duplicate of it and pocketed \$590,000.

According to a General Accounting Office report, delays in receiving background and fingerprint checks have resulted in the IRS hiring employees with previous arrests or convictions. The GAO found unarmed couriers, traveling alone, transporting multi-million dollar tax payments into IRS centers. One bicycle messenger delivered daily deposits as high as \$100 million at one district office. Another courier left unattended a \$200 million payment in an unlocked van. The GAO found receipts and returns at one center stored in a hallway accessible to a nearby fitness center, ready for any willing check washer to come by and steal them.

*Question.* My understanding is that the IRS has taken some action to better protect returns and payments, but the GAO contends it does not go far enough. Can you tell me what the IRS has done—both with regard to the problem of insider

fraud, as well as the security of receipts and returns? Could you respond specifically with regard to the recommendations made by the GAO?

Answer. In response to GAO recommendations, IRS has taken the following actions to mitigate the problem of insider fraud, as well as the security of receipts and returns:

We are in the process of reevaluating the risk classification of all positions in IRS' Receipt and Control Branch and will reclassify such positions where appropriate.

All applicants are fingerprinted and the fingerprints submitted to the Office of Personnel Management and forwarded to the Federal Bureau of Investigation (FBI). We will reemphasize our procedures for fingerprinting job applicants and include a policy for fingerprinting potential employees upon receipt of an application.

We have issued guidelines to our personnel offices regarding the feasibility of obtaining local police checks for prospective employees.

Most notably, we have procured live scan fingerprint equipment for the personnel offices servicing each of our service centers. The equipment is compatible with the FBI's Integrated Automated Fingerprint Identification System (IAFIS) which is scheduled to be implemented summer 1999. The IAFIS will provide fingerprint check results in approximately 5 days in lieu of 15 to 120 days. The equipment has been installed and tested and employees trained in its use. The IRS has taken the lead in preparing for IAFIS.

All service centers store receipts and returns in secured areas during off-peak times; however, some service centers store mail in an unsecured area during peak due to space and resource limitations. We are working with our service centers to improve physical security controls over receipts and returns stored in overflow areas and to ensure that all final candling activities are located in a restricted access area. We expect both actions to be completed by the next filing season.

New procedures are in place for storing discovered remittances in a secure container and properly recording the required information. We are also in the process of obtaining suitable containers for storing unmatched checks.

We have established a supplemental procedure to reinforce over stamping of returned refund checks as soon as they are extracted.

We have initiated a contracting action for a study on the various security methods available for transporting deposits to the depository. The contract will be used to determine the best method to help ensure that the Government's assets are not exposed to loss, theft, or damage in transit. A policy will then be developed. We are also working on the best solution for limiting courier access to service center premises for deposit pick-up.

We have completed locker feasibility studies at the service centers and are in the process of negotiating with the National Treasury Employees Union. When completed, we will procure and install lockers for use by all employees who work with remittances. The employees will be required to store coats, purses, backpacks, and related items in their locker before entering the work area.

Additional actions taken by IRS include:

We convened a task team to look at the issues of recruitment background and security investigations. The task team proposed and management approved 7 recommendations which have been or are in the process of being implemented. Many of the task team's recommendations (e.g. procurement of live scan fingerprint equipment) were shared with GAO and incorporated into their recommendations. We developed an action plan that includes the recommendations of the task team as well as other actions related to mitigating the risk of loss, theft, or embezzlement in service center remittance processing areas. The GAO recommendations relating to recruitment background and security investigations were added to the action plan. The majority of significant actions are scheduled for completion by September 30, 1999.

We developed action plans for the protection of monetary instruments. For example, our summary action plan addresses protection of monetary instruments in general terms. It includes actions such as security awareness training, lockers for remittance processing area employees, development of related action plans, etc. We developed site-specific action plans for the Receipt and Control Branch at each service center. The actions include construction of slab-to-slab walls, installation of motion sensors under raised floors and above ceilings, installation of intrusion detection and alarm devices, etc.

Funding for lockers for our service centers is an immediate need. The estimated cost is \$1 million.

*Question.* Do you believe there are sufficient resources at the Inspector General's Office to help deal with these problems? What needs do you have, in terms of additional funding or legislative authority, to adequately respond here?

Answer. (Provided by the Acting Treasury Inspector General for Tax Administration): The Office of the Treasury Inspector General for Tax Administration (OTIGTA) was established by the IRS Restructuring and Reform Act of 1998 and became effective on January 18, 1999. Most of the resources of the former IRS office of the Chief Inspector transferred to this new Office. The Acting Treasury Inspector General for Tax Administration has commenced establishing the structure of this organization to meet its new responsibilities. The nomination of the Treasury Inspector General for Tax Administration is pending before the Senate.

QUESTIONS SUBMITTED BY SENATOR DORGAN

COMPLIANCE PROGRAMS

*Question.* Even though you state that the fiscal year 2000 budget request is flat, the IRS' operating budget is a 6.3 percent increase over the fiscal year 1999 enacted level. In light of that please elaborate on two comments in the Commissioner's written statement . . . "current estimates of specifically identified and known Year 2000 costs are less than the costs for fiscal year 1999" and "because of fiscal constraints many changes are being carried out by diverting resources from ongoing programs such as compliance, potentially imposing long term costs and revenue losses". Can you explain why, if costs are decreasing and the fiscal year 2000 request is a 6 percent increase over the fiscal year 1999 enacted level, fiscal restraints require a diversion of funds from compliance programs?

Answer. The 6 percent increase was specifically requested to fund \$40 million in new requirements for RRA98, \$17 million for customer service related training, \$140 million for Organizational Modernization, \$250 million for Year 2000 costs, and \$250 million for the costs of pay raises less non-recurs.

Therefore, increases needed to fund other programs must be funded by diverting resources. In fiscal year 1999, the Service will absorb the full cost of implementing RRA98 by diverting approximately \$160 million and 2,300 FTE from compliance programs. Since the resource needs of RRA98 are recurring, the redirection of these compliance resources is permanent. The modest program increase of \$40 million in fiscal year 2000 will not allow any of the diverted resources to be returned to front-line compliance programs because the increase is needed to fund the statutory RRA98 mandates that take effect in fiscal year 2000.

In addition, in fiscal year 2000, the IRS is taking a \$50 million cut to its base to fund non-labor inflationary needs. This cut will result in an additional reduction of 580 FTE.

*Question.* In the fiscal year 2000 request, it appears that around 2,500 employees are being diverted away from traditional exam and compliance work. What is the effect of this diversion of resources on exam coverage and collection of revenue?

Answer. Although the Service estimates that implementation of the Restructuring and Reform Act of 1998 (RRA98) will require diversion of some 2,300 FTE and nearly \$160 million in fiscal year 1999, Examination and Collection account for only 1,022 FTE. The remainder of nearly 1,278 FTE are in other program areas—including Appeals, Chief Counsel, Submission Processing, Customer Service, Information Systems and Management and Finance. Absorption of these increased resource needs from the existing budget base will reduce audit coverage rates and direct enforcement revenue. In terms of overall audit coverage, Servicewide rates will decline from .99 percent in fiscal year 1998 to .84 percent in fiscal year 1999 and 2000.

*Examination—Coverage History*

<i>Fiscal year</i>	<i>Total Audit Coverage (Percent)</i>
1992	1.08
1993	0.95
1994	1.08
1995	1.62
1996	1.62
1997	1.28
1998	0.99
1999	0.84
2000	0.84

This reduction represents the combined impact of absorbing RRA98 workload (389 FTE) and absolute reductions to Examination's base (180 FTE) to offset unfunded increases to non-labor MCL's (i.e., inflationary increases). Beyond reductions in audit coverage, absorption of RRA98 costs in Collection (676 FTE)—plus a reduction

of 100 FTE for non-labor MCL's—will result in some reduction to direct enforcement revenue.

Despite short-term reductions in dollars collected in the Examination and Collection programs, IRS is committed to a long-term shift in emphasis—away from traditional approaches that rely on one-on-one, face-to-face enforcement—to wholesale treatments that emphasize systemic solutions to noncompliance in identifiable market segments (e.g., industry groupings and/or classes of taxpayers who share common filing patterns and economic/demographic characteristics). New program initiatives target educational programs and outreach efforts aimed at improving voluntary compliance—and total dollars collected—through partnerships with customer groups and external stakeholders.

*Question.* In terms of all compliance programs, how are resources allocated? How will they be allocated along taxpayer categories?

*Answer.* Available resources are allocated among major Compliance program areas to achieve a balanced enforcement presence that addresses known compliance problems and promotes voluntary compliance throughout the economy. Over the last several years, Operations has made a concerted effort to move the focus to up-front, early detection and systemic approaches and compliance treatments that minimize reliance on costly, intrusive face-to-face enforcement actions by revenue agents, tax auditors, revenue officers and special agents. Annual executive-level reviews of program budgets and priorities have required significant base realignments to support new initiatives.

The Modernization Design Teams are looking at the best way to allocate resources by taxpayer category. We expect to have preliminary staffing numbers by the time the fiscal year 2001 budget is submitted. The goal is to tailor tax administration practices and strategies to address specific taxpayer needs and problems.

#### TRAINING

*Question.* In the Commissioner's testimony, he stated that the request for training funds is pivotal to driving the improvements in service that we want to provide our taxpayers. The fiscal year 2000 budget requests a \$17 million increase in the base funding for tax related technical training. This is a 25 percent increase over the \$66 million base. What percentage of the total training needs does the fiscal year 1999 budget provide?

*Answer.* We estimate that at base funding levels the Service will be able to meet approximately 72 percent of the training needs identified by management. With the fiscal year 2000 budget, we will invest in Workforce Modeling that integrates workforce planning with training needs assessment. The model will enable the Service to project the skills needed to meet our objectives based on employees' occupations, their career path and competencies, and, the business needs of the Service. Using the workforce-planning model, we will more accurately project the resources needed to implement a strategic human resources approach.

*Question.* Please define tax-related technical training.

*Answer.* Tax-related technical training is training in tax law and IRS procedures for employees who have direct contact with taxpayers or tax returns. These employees examine tax returns, make technical corrections and adjustments to tax returns, compute tax liability and interest, provide information to taxpayers regarding tax procedures, collect unpaid taxes, or secure unfiled returns. This category includes basic, advanced, and specialty training for Customer Service Representatives, Revenue Officers, Revenue Agents, Appeals Officers, Criminal Investigators, and other professional employees in the Customer Service and Compliance functions.

*Question.* Of the training funds requested please explain how they will be distributed by taxpayer segments.

*Answer.* We have not yet prepared a distribution of the fiscal year 2000 training budget by taxpayer segments. For planning purposes, Corporate Education will prepare a tentative distribution based on the current location of employees to be trained. As those employees and their workload are aligned to the new business units, training funds will be distributed to the appropriate organizations.

*Question.* Are the IRS employees being trained on the impact of Section 1203(b) Termination of Employment for Misconduct? Does this constitute a marked change from the IRS's previous reaction to employee misconduct?

*Answer.* Beginning July 1998, we began the process of educating IRS managers and employees on Section 1203. Initially, we provided a Commerce Clearinghouse publication to all subject matter experts. In September, we developed and distributed a Section 1203 guide, "IRS Restructuring and Reform Act of 1998 (RRA 1998) Conduct Provisions—Employee Guide", which included a plain language interpretation of the new law, templates, procedural guidance, and questions & answers.

In addition, the following training materials were developed and delivered to all employees: An Organizational Change video featuring the Commissioner and Deputy Commissioner; A Section 1203 Training Video providing scenarios and discussions for employees and managers; and, Section 1203 Employee and Manager Training Guides.

Since October, we have been conducting mandatory Section 1203 training for all Service executives, managers, and employees. To further our training efforts, we will continue to develop and distribute materials and procedural guides for all employees. In addition, Section 1203 information will be added to our new employee orientation sessions and specific aspects will be included in all appropriate curriculums for IRS personnel. We will also conduct annual all employee briefings to reinforce employee Section 1203 awareness.

The Service has also set up a Section 1203 Hotline and e-mail address, where personnel can ask questions and obtain additional guidance. In addition, we have established two internal web sites, to provide additional information and guidance with regard to Section 1203 as well as other RRA 1998 provisions.

Previously, the Service has provided annual manager/employee training and briefings on standards of conduct. Employees have always been expected to observe and practice good conduct in the performance of their work. What has now changed are the consequences of employee violations of Section 1203 provisions.

*Question.* Can the committee expect these requirements to reduce in the future, after a basic training program has been instituted?

*Answer.* The funds requested for fiscal year 2000 for the Improve Customer Service Through Training initiative constitute an increase to the training base. Training budgets for the last several years have been insufficient to meet the total training demand and we expect the demand for training to increase as the Service strives to create an environment in which employees are able to perform to their fullest and focus on the customer.

#### CUSTOMER SERVICE

*Question.* IRS personnel providing walk-in assistance in rural states, such as North Dakota, has been dramatically reduced over the past few years. In fact North Dakota has lost dozens of IRS employees who were providing front line assistance. In the Commissioner's statement for the record he indicates the IRS is on a "path to revamping our business practices in all areas" including "expanding walk-in service". Please explain: how will the services be expanded.

*Answer.* As part of Modernizing America's Tax agency, we intend to significantly expand walk-in assistance by redirecting in excess of 500 staff years to this operation. Not only will we be adding employees, we will provide service utilizing new and improved methods. A key component of our strategy will be the use of mobile vans staffed by trained personnel that can not only assist our customers in the preparation of their tax returns/answer tax law questions but also enter into payment agreements and/or resolve examination issues. We believe the mobile van initiative will be particularly helpful in our effort to provide assistance in less populated, rural areas. Additionally, we intend to offer service thru kiosks in retail locations. We believe the kiosk concept will enable our customers to conduct their transactions with IRS at the same time and place they complete other commercial interactions. We also envision renting space for temporary offices, which would make us far more accessible to our customers. Such temporary space may be open for a portion of the year and/or for certain days of the week.

All three of these avenues (mobile van, kiosk and temporary space) will enable us to spread our staff over more locations thereby providing greater access to our customers and reducing their travel time and frustration regarding their inability to receive service. While these initiatives will benefit all of our customers, we believe they will be of particular interest to individuals in rural areas.

*Question.* Will the expansion incorporate "problem solving days" principals into the IRS' day-to-day operations?

*Answer.* While Problem Solving Days (PSD's) will be continued through the end of calendar year 1999, PSD principals will be incorporated into our everyday operations to make "every day a problem solving day". We have learned from PSD's what features taxpayers find most desirable including: the ability to schedule an appointment; having teams of employees (Collection, Customer Service, etc.,) available to facilitate one stop service; providing service outside of normal business hours; and, locating PSD's in different locales outside normal IRS facilities.

If these features can be successfully incorporated into our daily operations the need for separate PSD's may be eliminated.

We intend to incorporate “problem solving days” into daily operations by the creation of a position tentatively titled Tax Resolution Representative (TRR). Individuals selected for these positions will be trained on a range of disciplines including collection techniques, Audit/Examination procedures and Tax Law. We believe that these individuals will be able to offer “full service” to customers seeking our assistance. They will be expected to take ownership of customer problems and work them through resolution. Their focus will be on timely resolution of problems.

*Question.* Will there be an increase in the level of resources dedicated to walk-in services?

*Answer.* Our vision for the future walk-in service increases the resource levels dedicated to assisting customers. This will be achieved by redeploying existing resources into a new position that is focused on resolving customer problems. This position will have the skills and training necessary to assist customers with issues that span across traditional IRS functional boundaries (walk-in, customer service accounts, exam, collection).

As mentioned earlier there will be an increase in resources devoted to walk-in. Additionally, resources will be added to our efforts to reach our customers through partnership with public and private organizations who share a common interest/connection to segments of the public we serve. For example, we intend to partner with financial institutions, state tax agencies and volunteer/community organizations such as AARP to leverage our resources to provide greater access for our customers.

*Question.* How will the resources be allocated?

*Answer.* Our first priority when allocating resources will be maintaining positions in the same geography for existing employees. All employees will have a position in the new organization. We have not completed a geographic footprint which would reflect distribution of resources. However, it is our intent to distribute a significant portion of the resources to smaller offices to ensure adequate coverage and back-up.

*Question.* Many states, particularly rural states, are at a disadvantage in receiving the benefits of services provided by the IRS such as “problem solving days”. For rural areas, the use of mobile units to provide problem solving services, as well as general taxpayer assistance, would make greater sense. Has the IRS looked into this option? Is consideration being given to conducting a mobile unit demonstration project?

*Answer.* During the fiscal year 1999 filing season we are conducting two mobile unit demonstration projects in the Georgia District and the Pacific-Northwest District. The purpose of these projects is to provide tax return preparation, tax form distribution and technical assistance to taxpayers who do not have ready access to an IRS office. We will analyze the results of these projects after the filing season ends.

*Question.* Between November 1997 and July 1998 the IRS “problem solving days” provided taxpayer services to 22,000 taxpayers. These “problem solving days” incurred an incremental cost of \$11.5 million (in the form of overtime salaries and related personnel compensation). In terms of the people assisted one could say that the cost to the IRS we percent 522.72 per taxpayer provided service. That cost does not include the cost to the taxpayer of traveling to the participating IRS office. Do you believe the cost of a mobile unit would far exceed those related to conducting the “problem solving days”?

*Answer.* We cannot answer this question at this time as there is insufficient data.

#### ELECTRONIC TAX ADMINISTRATION

*Question.* The Internal Revenue Service Restructuring and Reform Act of 1998 (RRA) requires an increase in electronic tax filing. The Act has set a goal requiring that 80 percent of all filings be made electronically by calendar year 2007. To ensure this occurs \$5 million was allocated in 1998 (for Electronic Tax Administration marketing), \$8 million was allocated in 1999, and \$13 million is requested in fiscal year 2000. Is this goal achievable?

*Answer.* In December 1998, the IRS issued for public comment its first-ever Strategic Plan for Electronic Tax Administration which was designed to make significant progress toward (i) the congressionally mandated goal of 80 percent of all tax and information returns being filed electronically by the year 2007, and (ii) the interim goal that, to the extent practicable, all returns prepared electronically should be filed electronically for taxable years beginning after 2001.

In conjunction with the issuance of the Strategic Plan, the professional forecasters under the Assistant Commissioner (Research and Statistics of Income) developed IRS’ official projections of electronically filed individual returns for 1998–2007 as indicated below.

[In millions]

<i>Year</i>	<i>E-File Projections</i>
1998 .....	24.6
1999 .....	29.6
2000 .....	32.5–39.3
2001 .....	35.1–44.5
2002 .....	37.4–48.8
2003 .....	39.8–53.0
2004 .....	42.1–57.3
2005 .....	44.5–61.6
2006 .....	47.0–66.0
2007 .....	49.4–70.4

These projections represent baseline extrapolations of current trends, existing market approaches, enacted legislation, and confirmed (or reasonably certain) IRS program changes including recent enhancements to IRS' e-file programs such as this year's credit card and signature alternative pilots. However, these projections 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 recently announced initiatives as well as the additional enhancements reflected in the Strategic Plan, increases to the current projections are expected.

*Question.* How will this money be spent?

*Answer.* An additional \$5 million or a total marketing budget of \$13 million is needed in fiscal year 2000 to better inform and educate individual taxpayers, small and large businesses and practitioners about the benefits of electronic filing and electronic payments and to take advantage of the provision contained in the IRS Restructuring and Reform Act of 1998 which authorizes the use of mass communications to promote and encourage the benefits of ETA programs. The majority of the funding increase would be spent on paid advertising in the print media, radio and television. It is important to note that similar product and services launches in the private sector are typically allocated five to seven times this amount on an annual basis.

*Question.* What kind of return can we expect on this investment?

*Answer.* The IRS cannot specifically quantify the return on investment for our marketing initiatives at this time. However, we do know that similar product and service launches in the private sector are typically allocated five to seven times that allocated for ETA marketing.

The IRS is continuing to gather quantitative data to better assess the impact of our marketing efforts on changes to taxpayer filing habits which we believe will be considerable. IRS' experience with marketing ETA products and services during the base years of 1998, 1999 and 2000 will provide the data and information necessary to better answer this question. Specific initiatives underway include:

- To measure whether the level of awareness and filings has increased nationwide as well as in specific markets as a result of paid advertising by monitoring specific zip codes and building on awareness to influence behavior.
- To quantify taxpayer and Electronic Return Originators satisfaction with the e-file products and services we now offer, identify perceived strengths and weaknesses (diagnostics) of current ETA products and identify opportunities for future ETA product development by capturing customer and non-customer ideas about how ETA can improve or add to its electronic product offerings.
- To quantify taxpayer attitudes towards and usage of technology, how they segment attitudinally in terms of technology and how these segments can be reached.
- The ETA Marketing Database has also been constructed to demographically profile taxpayers, establish baselines, identify taxpayer eligibility to use various products such as TeleFile, On-Line and practitioner e-file, measure product usage, and make informed decisions to direct resources towards new marketing campaigns or product development. It currently contains two years of individual return information and will be expanded to include three years of individual, business and payment data.

*Question.* Does the IRS have adequate systems to accommodate a significant growth in electronically filed returns?

*Answer.* The IRS is working with the Prime Alliance on a long-term plan to expand ETA's capabilities to ensure that we are capable of meeting the goals required by the Internal Revenue Service Restructuring and Reform Act of 1998. Significant increases in capacity are expected with the redesign of the programs and systems

that receive, process and store electronic data under the auspices of the Prime contract during the next few years.

*Question.* The RRA authorizes the IRS to pay appropriate incentives for electronically filed returns. Should the IRS be paying these incentives? Why? What is the IRS requesting to provide these incentives?

*Answer.* The IRS has decided to engage in a practitioner incentive program as authorized under the IRS Restructuring and Reform Act of 1998. Tax practitioners authorized to electronically file tax returns to the IRS (Electronic Return Originators or ERO's) 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, ETA will seek to support ERO's by establishing an Extranet consisting of management information system, account resolution and tax law capabilities; expanding the marketing support available to ERO's 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; and establishing account management programs.

For fiscal year 2000, the IRS is requesting \$2.5 million to begin implementing a program of distributor incentives/services to support the more than 90,000 IRS-authorized Electronic Return Originators (ERO's) who provide electronic filing services to taxpayers.

*Question.* Is the IRS requesting any additional funding for Electronic Tax Administration?

*Answer.* In addition to the \$5 million requested for ETA marketing (see S36) and the \$2.5 million requested for distributor incentives/services (see S39), as indicated below the IRS is also requesting additional funding of \$5 million for private sector partnering and \$300,000 for training, travel and support for the Electronic Tax Administration Advisory Committee (ETAAC).

*Private Sector Partnering—\$5.0 million.*—In order to achieve significant growth in electronic tax administration, the IRS must embark on a new stage in its relationship with external stakeholders to deliver enhanced ETA products and services through partnership with the private sector. \$5 million is needed in fiscal year 2000 to continue to implement the results of ETA's initial Request for Proposals (RFP) in such critical areas as signature alternatives and electronic payments and to pursue additional pilots and RFP's including those affecting business taxpayers.

*Training, Travel and Electronic Tax Administration Advisory Committee Support—\$300K.*—An additional \$300,000 is requested to cover the costs of supporting the ETAAC which was required by the IRS Restructuring and Reform Act and for additional travel and training for ETA employees in such critical areas as marketing and finance which will enable Electronic Tax Administration to operate more like the private sector.

#### INFORMATION TECHNOLOGY INVESTMENTS

*Question.* The IRS budget request does not include a fiscal year 2000 request for the Information Technology Investment Account. That account, which is not part of the IRS operating budget, has a balance of more than \$500 million. The IRS projects fiscal year 1999 expenditures of less than \$70 million, leaving a balance of more than \$400 million. Please tell the committee how this \$400 million and how the \$325 million advanced appropriation will be obligated?

*Answer.* Our current schedule for obligation of funds is being revised in coordination with the PRIME contractor. By June 1999, a multi-year expenditure plan will be completed which will show proposed obligations of the funds that are currently available and the anticipated requirements for funding in fiscal year 2001.

The level of funding by year will be determined as a result of the detailed planning that is currently taking place. IRS strategic plans that incorporate congressional guidance together with analyses of best practices will result in an expenditure plan that details costs based upon strategic goals. The expenditure plan will reflect costs for ongoing modernization activities which include: Program management; Blueprint and Sequencing Plan updates; Development of prioritized modernization projects; and Future work driven by business systems planning, alternatives analysis, electronic tax administration, and organizational modernization.

*Question.* What services is the Prime Contractor providing now?

*Answer.* The first task orders for the PRIME include: Building process maturity to manage Modernization, such as the institutionalization of the PRIME's Catalyst<sup>SM</sup> methodology as our Enterprise Life Cycle (ELC) and developing processes, procedures, and plans for program management; Developing the business and infor-

mation technology strategic plan including evaluating alternatives for migrating to the Modernization Blueprint; and Planning and design of the first subreleases of the Modernization Blueprint in support of Customer Service and Compliance. These subreleases are: Subrelease 1.1—Primary Telephone Call Routing and Management, Subrelease 1.2—Enhanced Secondary Telephone Call Routing and Management, and Subrelease 1.3—Infrastructure and Security.

#### LOW INCOME TAX CLINICS

*Question.* The Restructuring and Reform Act of 1998 authorizes the IRS to fund Low-Income Tax Clinics in the amount of \$6 million. The funding will be distributed in the form of grants which will provide matching funding of up to \$100,000. The fiscal year 1999 appropriation bill provided \$2 million in start up costs for this program. How will the program be implemented?

*Answer.* The program is being implemented through the development of a Low Income Taxpayer Clinic Program Guidelines and Application Package. We consulted with the IRS Chief Counsel and appropriate external stakeholders prior to completion of this package. We placed a draft Low Income Taxpayer Clinic (LITC) Application Package on the IRS Web Page on January 11, 1999 and in the Internal Revenue Bulletin (IRB) on January 25, 1999. A notice of the availability of the application package on the IRS Web Page appeared in the January 14, 1999 Federal Register. The public was given until February 27, 1999 to provide comments regarding the draft application package. Their comments are currently being reviewed. We plan to publish a Federal Register notice in April 1999 announcing the availability of the final application package. We plan to award grants to qualifying organizations in July 1999.

*Question.* Who will be eligible for the matching funds?

*Answer.* Qualifying organizations that provide legal assistance to low-income taxpayers in controversies with the Internal Revenue Service and inform individuals for whom English is a second language of their tax rights and responsibilities. A qualifying organization is either an accredited law, business or accounting school where students represent taxpayers in controversies with the IRS; or an organization described in section 501(c) that is exempt from tax under section 501(a). A qualifying clinic cannot charge more than a nominal fee and must provide either representation or referral of taxpayers and/or dissemination of information to individuals for whom English is a second language regarding their tax rights and responsibilities.

*Question.* What criterion is being developed to prioritize requests?

*Answer.* Eligibility standards, prescreening guidelines administrative procedures and selection criteria are currently being developed for the program.

*Question.* Are the IRS employing outreach efforts to ensure all eligible institutions are aware of the availability of these funds?

*Answer.* Yes. We have participated in two LITC workshops sponsored by the American Bar Association. Over 100 individuals attended these workshops but we do not know how many of them will apply for a grant. We placed a notice of the availability of the draft LITC Application Package on the IRS Web Page, in the January 11, 1999 Federal Register, and in the January 25, 1999 IRB. A national news release was issued by our Communications Office to coincide with the notices. In addition, we have mailed out notices to 50 external stakeholders who have a potential interest in the availability of the LITC matching grant funds.

#### EXAM AUDIT COVERAGE

*Question.* Over the past few years funds have been depleted in the audit coverage activity. What impact has that had on revenue collection?

*Answer.* The purpose of Examination audit coverage, in addition to determining the correct amount of tax, is to ensure voluntary compliance. IRS is committed to a long-term shift in emphasis—away from traditional approaches that rely on one-on-one, face-to-face enforcement—to wholesale treatments that emphasize systemic solutions to noncompliance in identifiable market segments (e.g., industry groupings and/or classes of taxpayers who share common filing patterns and economic/demographic characteristics). New program initiatives target educational programs and outreach efforts aimed at improving voluntary compliance—and total dollars collected—through partnerships with customer groups and external stakeholders.

*Question.* How does the IRS allocate the available resources?

*Answer.* Examination staffing is allocated using a resource allocation model. This model allocates resources where they can be used in the most effective manner, within certain constraints. Such constraints include the projected revenue agent and tax auditor staffing and the number of returns which can be examined per year. The

key component of this allocation model is the DIF (Discriminate Function) return scoring system. Through DIF we are able to rank our inventory of returns with the greatest probability of error on a national basis. In addition to providing resources to audit classes where we believe the potential for error is greatest, resources are also allocated to maintain minimum levels of coverage in each audit class and to support special compliance programs. Staffing for a district will be equal to its share of the highest potential for error DIF returns and special program staffing.

*Question.* Are the resources being dedicating (sic) to cases that represent a substantial portion of the estimated "tax gap" (e.g., large and mid size corporations) to those cases where it is easier to get a faster return?

*Answer.* Revenue agents examine the "large and mid size corporations" (defined as corporations with assets of \$5 Million or more). As the question indicates, between fiscal year 1997 and fiscal year 1998 revenue agent examination time decreased. The percentage decrease in the time applied to large and mid size corporations was 6 percent. This compares to a decrease of 17 percent of the revenue agent time spent examining individual returns. Overall coverage of individual returns was 0.99 percent and about 19 percent of the large and mid size corporations in fiscal year 1998.

#### ORGANIZATIONAL MODERNIZATION

*Question.* The IRS is requesting \$140 million for implementing the Modernization concept to restructure, reorganize, and retrain the IRS workforce. How will that request be allocated?

*Answer.* The IRS is asking for Congressional support in the fiscal year 2000 appropriation process as it works to finalize the modernization blueprint and refine the projected costs to modernize the agency. We anticipate that the costs of modernization will shift within the \$140 million as projections for staffing and the geographic footprints of the headquarters of the four new operating divisions are finalized. Regarding staffing, the "human behavior" factor, which is difficult to predict and will probably cause changes in our cost projections for buyouts and relocations, must be considered. In some cases, managers and employees will choose new jobs requiring additional skills; and they must be provided with appropriate training. In other cases, they will choose to take jobs in different cities; and their relocation expenses must be provided. In addition, there will be those who will opt for a buyout. Given those factors, the Service currently estimates that the \$140 million would be applied as follows: \$53 million for buyouts, \$41 million for relocations, \$3 million for recruitment, \$36 million for training related to organizational change, and \$7 million for moving and realigning computer equipment.

*Question.* The fiscal year 1998 and fiscal year 1999 appropriation bills included \$46.6 million to hire contractors to carry out this modernization. The fiscal year 2000 budget requests an additional \$21 million. What have the contractors provided?

*Answer.* The contractor has analyzed and validated the initial organizational concept, and has subsequently supported the development of a corresponding implementation plan that would reorganize the IRS and refocus its attention on our various customer segments and their needs. A variety of deliverables were submitted as this effort was undertaken as described below:

*Phase I deliverables: Completed and delivered April 1998:*

- Identification of customer segments
- Analyses of the particular needs of our customer segments
- Baseline organizational report
- Organizational design principles and overall management architecture
- Migration and transformation plan
- Communication plan
- Final report and executive summary

*Phase II deliverables: All deliverables on target for delivery April 1999:*

- Initial organizational hypotheses and approaches
- Key findings
- Preliminary blueprint of new organization
- Refined blueprint of new organization
- Comprehensive team deliverable, which merges individual team plans
- Integrated blueprint
- Archival support data

*Question.* Although there will be ongoing costs associated with the organizational modernization, much of the fiscal year 2000 request associated with the modernization are one time costs that should not be built into the IRS baseline. Should the

appropriations committee consider separating these costs by establishing a separate account to track organizational modernization costs?

Answer. The IRS will track Organizational Modernization costs regardless of how funding is provided and reflect one-time needs as non-recurring in the subsequent budget submission.

*Question.* GAO's fiscal year 1998 Financial Audit issues a qualified opinion of IRS's administrative functions. In part, the qualified opinion was due to IRS's inability to reconcile its fund balance with Treasury, and its understatement of property and equipment on its financial statement. In addition, there are outstanding issues concerning the IRS's Statement of Budgetary Resources. These problems are indicative of weak financial management. What mechanisms has the IRS developed to ensure that you will receive an unqualified audit in the future?

Answer. First, the IRS has made this a top priority and has established a corrective action team under the direct control of the Chief Financial Officer (CFO) to address the issues, concerns, and weaknesses raised in the report. The team is working with the Department of Treasury, OMB, and GAO to achieve buy-in on the plan, which will be shared with Congress. The team anticipates that the plan will be completed by March 31, 1999.

Second, while the Service's systems were not designed to meet today's standards and are in non-compliance in some cases, interim solutions are being planned and implemented to bridge the gap until enhanced or new integrated systems can be delivered over the next several years. The Chief Information Officer (CIO) is bringing on board an executive with expertise in addressing management and finance systems issues to assist in this effort. The CFO will be working with the CIO to identify priorities and resources necessary to complete these systems solutions.

Third, outside experts will be brought in during fiscal year 1999 to assist internal staff in clearing up already known deficiencies and problems in administrative activities and to assist in designing solutions to these problems.

The IRS regrets that the fund balance with Treasury was a problem in fiscal year 1998 and is taking immediate action to ensure that this does not happen in fiscal year 1999. On the property and equipment issue, the Service follows Treasury policy on the capitalization of property and equipment. GAO has been advised that this is a government-wide problem and probably needs to be addressed by the Chief Financial Officer's Council. While a clean opinion in fiscal year 1999 cannot be guaranteed, the Service is fully committed to meeting all Congressionally mandated and other legal requirements, complying with financial accounting and reporting standards, and making the necessary improvements in its financial systems and financial management processes to secure a clean opinion on its financial statements as soon as possible.

*Question.* What systems are you establishing to ensure that your financial systems can report critical audit information?

Answer. The IRS has developed extensive "work around" procedures to meet these financial requirements and track this information. The Service's requirements for enhanced or new systems include the capabilities to track this information and provide the necessary financial information to support financial statements; however, this solution is some years down the road. Until then, the Service will need to use and refine these interim procedures to produce its financial statement information.

#### YEAR 2000 DATE CHANGE

*Question.* The fiscal year 2000 budget requests \$250 million and 239 FTE (Full Time Equivalents) to meet Year 2000 requirements. Please explain these continuing requirements—\$123.4 million for staffing, telecommunications, and contractual support, \$26.4 million for Integrated Submission and Remittance Processing, and \$100.6 million for the Service Center Mainframe Consolidation.

Answer. The IRS has made significant progress in preparing for the Year 2000. As of January 1999, nearly all of our mission-critical systems were made Y2K compliant and were placed back into production for the 1999 Filing Season. Approximately half of these systems have been successfully tested "end-to-end" with the clocks rolled forward. We will continue focusing our repair efforts on mission critical systems from now until the end of March. From April through the end of 1999, most of the effort will be applied to wrapping up some smaller systems and, most importantly, completing the full-scale end-to-end testing.

While this picture is generally positive, there is still a great deal of risk and some trouble spots. In fact, we believe that the next 90 days represent the riskiest period. The massive amount of changes made to our systems in the last year, coupled with the extremely heavy volumes of processing that occur during the filing season, may cause localized problems. We have organized an internal process to identify and re-

spond to such problems immediately and to eliminate or mitigate any possible impact on taxpayers.

Because of the complexity and integrated nature of the Service's computer systems, the Y2K conversion was planned and scheduled to take place over several years; consequently there are a significant number of critical Y2K related tasks and monitoring activities that are scheduled for completion during fiscal year 2000.

Of the \$250 million requested, \$123.4 million will be used to fund the staffing, telecommunications and contractual support required to manage and complete the remaining conversion work and ensure that all IRS tax and critical systems are Y2K compliant as of January 2000. Specifically, the Service will concentrate on conducting a final, all-inclusive code review to ensure compliance with IRS/Treasury/OMB standards, on conducting owner-sponsored end-to-end integration testing to ensure integration with year 2000 filing season changes, on continuing the formal risk management (identification, monitoring, resolution) process, and on implementing an "End Game" strategy designed to reduce risk. "End Game" activities include establishing and operating a Situation Response Center (SRC) equipped to resolve all Y2K related problems/issues, providing back-up SRC activities and communications, providing storage for mission-critical supplies and services and expanding testing and technical help-desk support. In addition, the Service will maintain the test beds, software packages and telecommunication products used in converting the nationwide telecommunications infrastructure.

Within IRS' overall Y2K program, the Mainframe Consolidation project and the ISRP project represent the two efforts that contained the largest degree of risk, and hence required the most sophisticated project management techniques. In the past, IRS was overly focused on simply meeting dates, rather than focusing on strategic priorities. The management process we are using today is managing risk more effectively by being flexible, constantly evaluating our options, adjusting schedules to meet constantly changing business priorities and jointly managing project between the Information Systems and Business Operations organizations. All projects are run with a focus on maximizing benefits for the taxpayer and obtaining the best utilization of our limited resources, both human and capital.

With respect to the Integrated Submission and Remittance Processing (ISRP) project, we chose to delay installing remittance processing in the last four centers because we did not want to increase the risk on the 1999 filing season. We will have all sites fully operational in time for next year's filing season, and we will have a full year of operational experience behind us in six sites and two full years in one site. During fiscal year 2000, the system will require \$26.4 million to fund hardware/software maintenance, continued program development, contract support for testing, technical management, integration testing, and the Phase 2 rollout and implementation of the Remittance Processing System (RPS) component at the Cincinnati, Philadelphia, Atlanta, and Fresno Service Centers.

The addition of disaster recovery capabilities recommended by the GAO, along with the need to devote resources to Y2K work, has extended both the timeframe and cost of the Mainframe Consolidation effort. After delivering on all Y2K requirements, implementing basic disaster recovery and fully consolidating three mainframe sites, the Mainframe Consolidation effort will require \$100.6 million to manage and complete the consolidation of the Service's mainframe computing operations. Specifically, costs include system maintenance costs for the Service Center Replacement System (SCRS), the Security and Communications System (SACS), and the Integrated Collection System/Automated Collection System/PRINT (I/A/P) systems; recurring lease-to-purchase costs for SCRS and I/A/P; software maintenance costs for SCRS and I/A/P; third party (vendor) software maintenance costs; and disaster and business recovery costs. In addition, the IRS has identified requirements that impact fiscal year 2000 Mainframe Consolidation efforts, including standardizing service center operating processes, staffing computing centers and year 2000 end-to-end integration testing.

## FISCAL YEAR 2000 Y2K INITIATIVE

[Dollars in millions]

Program	Cost of FTE		Non-Labor Dollars	Program Total	Program Activities
	FTE	Labor Dollars			
Year 2000 (Y2K) .....	209	\$21.8	\$101.6	\$123.4	Complete final, all-inclusive code review to ensure compliance with IRS, Treasury, and OMB standards. Conduct owner-sponsored end-to-end integration testing to ensure integration with the CY 2000 filing season changes. Continue formal risk management process. Implement an "End Game" strategy, which includes: implementing/operating a Situation Response Center (SRC) to resolve problems; providing back-up SRC and communications; providing storage for critical supplies and services; expanding testing and technical help desk support; maintaining test beds, software, telecommunications products used in converting the nationwide telecommunications infrastructure.
Integrated Submission and Remittance Processing (ISRP).	30	3.2	23.2	26.4	Hardware/software maintenance. Continued program development. Contract support for testing. Integration testing. Technical management. Phase 2 Implementation of the Remittance Processing System (RPS) component at the Cincinnati, Philadelphia, Atlanta, and Fresno Service Centers.
Service Center Mainframe Consolidation (SCMC).	.....	.....	100.6	100.6	Complete the consolidation of mainframe computing operations from ten Service Centers to two Computing Centers through lease-to-purchase acquisition/maintenance agreements. Data transmission. Contractual support activities. Implement and test improved Disaster Recovery. Independent validation/verification.
Initiative Total .....	239	25.0	225.4	250.4	

*Question.* Should these requirements be considered an "emergency", in other words shouldn't the funds be requested from the fiscal year 1999 Emergency Fund so we would not impact our scarce fiscal year 2000 allocation? Were these costs known when the fiscal year 1999 Emergency Funds were requested?

*Answer.* The funding for these requirements should not be considered an emergency. The \$250 million was requested in the fiscal year 2000 budget because the need for this funding was known when the fiscal year 2000 budget was being formulated (and the time when the fiscal year 1999 Emergency Funds request was made).

*Question.* What happens to the 239 FTE in fiscal year 2001?

*Answer.* These FTE will be moved from Y2K work into roles supporting modernization and continued implementation of legislative changes. Specifically, these resources will be used to:

- Provide development staffing to support the Modernization Blueprint/PRIME. Tasks and activities include development of requirements for legacy bridge programs that support key modernization initiatives, configuration management, planning, scheduling, systems analysis, technical evaluation, software and system modifications, and PRIME partnership support.
- Provide Capacity and Performance Review resources to support the PRIME contract and Modernization bridges and initiatives; and to conduct capacity and performance impact analysis of modernization and near term initiatives in support of the PRIME contract.

- Perform a substantial number of coding changes and the realignment of systems operations to reorient tax processing to the requirements of the four new tax divisions of the Service.
- In the long term, support the redesign and evolution of batch and paper-oriented core data repository to an online, interactive database architecture and to facilitate the resolution of issues involving legacy corporate processing.
- Provide development/maintenance staffing for system application changes resulting from the IRS Restructuring and Reform Act of 1998 and other anticipated/proposed legislative requirements.

With the completion of Y2K work, Information Systems will resume making enhancements, based on defined business needs, to existing systems. There is at least a two year backlog of necessary systems application change requirements from the Taxpayer Relief Act of 1997, the IRS Restructuring and Reform Act of 1998 and required program (customer service, collection, examination) changes. Staff previously devoted to Y2K testing will be redirected to increase the number of tax processing program changes tested in Product Assurance before release to production. Staff who have been devoted to Y2K related program/project management activities will be redirected to integrated product teams working with the PRIME contractor to define requirements, oversee contractor performance, validate the quality of contractor deliverables, and implement systems in accordance with the new Systems Life Cycle.

#### TRANSFER PRICING

*Question.* How many employees at the IRS are currently working on transfer pricing compliance issues? Please describe the nature of their work and the length of time they have worked on such issues.

*Answer.* *International Examiners (IE's).*—IE's (approximately 650 nationwide) are responsible for all the international issues associated with an examination. They routinely examine transfer pricing issues on corporate examinations. Approximately 50 percent of total IE direct examination time is spent on section 482 issues in cases closed during each fiscal year.

*International Field Assistance Specialization Program (IFASP).*—IFASP specialists support field examination work by providing case assistance and training to field international personnel nationwide. The four section 482 specialists have approximately 70 years experience in the international arena, most of which was at the examination level. They have played a significant role in recommending changes and additions to the section 482 regulations, which assist the field in better enforcement of the transfer pricing area.

*Competent Authority.*—Two groups of professionals (23 employees) work on double taxation cases with treaty partners regarding transfer pricing issues. Their inventory also includes bilateral and multilateral Advanced Pricing Agreements (APA's).

*Associate Chief Counsel (International).*—Approximately 10 attorneys are devoted to transfer pricing, which includes interpretation of the law, issuance of regulations, and numerous guidance projects.

*Advanced Pricing Agreement (APA).*—The APA program affords a means, in appropriate cases, of addressing the principal section 482 compliance and enforcement problems. Through that program, a taxpayer and the IRS can negotiate and agree upon a system of records and an appropriate transfer pricing methodology. In bilateral and multilateral cases, the competent authority of treaty partner countries may also participate, so that the maximum amount of certainty and predictability regarding future tax treatment of specified types of transactions can be obtained. As mentioned below, there are currently 18 professional employees directly responsible for APA's; in addition, the field expends approximately 16 to 20 direct examination staff years as part of the APA Team.

*Question.* How many Advanced Pricing Agreements (APA's) have been reached between the IRS and corporate taxpayers? How many of these corporate taxpayers are foreign based? How many are U.S. based companies?

*Answer.* Since the issuance of the first APA on January 15, 1991, through March 3, 1999, 174 APA's have been agreed to between the IRS and corporate taxpayers. Due to improvement of the process for issuing APA's over time, 130 of these agreements have been completed in the last three years. Of the 174 completed APA's, 101 are with foreign-based parent companies and 73 are with U.S.-based parent companies.

*Question.* How many IRS employees are directly or indirectly involved in the APA program?

*Answer.* There are currently 18 full time professionals and three support staff assigned to the APA Program in the Office of the Associate Chief Counsel (Inter-

national). In addition, IRS field employees assist in the evaluation of taxpayer requests for APA's that conduct their business operations within the boundaries of the District office. Nationwide, according to time reports filed by examiners, it appears that approximately 16–20 field direct staffyears annually have been incurred in coordinating APA's.

*Question.* Does the IRS believe that its APA program is improving transfer-pricing compliance? If yes, how does the IRS measure its success in this area?

*Answer.* In terms of compliance, every APA that is entered into with a taxpayer essentially results in 100 percent voluntary compliance with the rules governing transfer pricing for that taxpayer. That is, by signing the agreement, the taxpayer agrees to file tax returns that fully comply with the arm's length standard. In the opinion of many transfer pricing experts, in both the public and private sectors, establishing "up front" guidelines for compliance for a particular taxpayer in this manner is less costly than the traditional adversarial process of audit and litigation. To date, however, the APA program has not developed a method for measuring these resource savings.

As an alternative dispute resolution program, the APA program serves an important role in the Service's overall transfer pricing compliance strategy. In recent years, Congress has enhanced the ability of the Service to enforce transfer pricing compliance by enacting documentation requirements and strict penalty provisions. These measures are designed to encourage taxpayers to report their transfer prices correctly at the outset. The APA program complements these measures by providing a mechanism by which taxpayers can achieve early certainty that they will avoid the large penalties and heavy expenses that accompany a post facto transfer pricing dispute.

Finally, the APA program is voluntary and nonadversarial, which allows for a cooperative environment where taxpayers are willing to provide information freely. Such information not only can be utilized in connection with the specific case, but can also allow the Service to obtain a more current understanding of industry conditions and practices, which, in turn, enables the Service to develop more responsive general guidance and more effective regulations.

*Question.* In the past, the IRS has been recovering only about 20 cents on every dollar it believes is owed to the U.S. government by companies due to transfer pricing. What is the IRS's current sustention rate on Section 482 transfer pricing adjustments?

*Answer.*

<i>Year</i>	<i>Sustention (Percent)</i>
1993 .....	33.00
1994 .....	19.41
1995 .....	34.00
1996 .....	17.00
1997 .....	14.00
1998 .....	29.00

Our Centaur database includes both Appeals and Counsel disposals. These rates reflect the net Appeals/Counsel sustentions.

*Question.* The IRS is currently studying the estimated revenue loss due to transfer pricing abuses. In a more limited study in 1994, the IRS determined that the possible revenue losses from improper transfer pricing by foreign based companies was between \$1–2 Billion a year. But the IRS admitted that its audit adjustment based methodology might significantly understate the true size of the losses. How will the IRS improve its current study to give a more accurate assessment of the tax gap in this area?

*Answer.* IRS's current estimates of revenue loss due to transfer pricing abuse, like the estimates in its 1994 study, are once again based on operational audit adjustment data, as these are the best data currently available on which to base these estimates. It is true that estimates based on operational audit data are not as good as estimates based on the random, intensive audits of IRS's Taxpayer Compliance Measurement Program (TCMP). However, the only TCMP data available for corporations date back to 1987 and are limited to small (under \$10 million in assets) corporations.

IRS's current estimates are based on operational audit data for fiscal years 1995–1998. These data are more detailed than the operational audit data used in IRS's 1994 study. The estimates in the 1994 study could only distinguish in general between FCC revenue losses due to "international adjustments" and those due to "domestic adjustments." IRS's current estimates, however, will focus on section 482 issues, and particularly on transfer pricing adjustments. In another improvement

over the 1994 study, IRS's current estimates will include revenue loss estimates for U.S.-based multinational corporations as well as for FCC's.

*Question.* Has the IRS used, or plan to use, the authority to increase wages that Congress granted it in last year's major IRS reform bill to help retain the best-trained and most experienced IRS employees working in the international tax area?

*Answer.* The IRS is using critical pay authority as judiciously as possible. Starting with some top level positions, we will fill new key operating division head and selected critical positions in other parts of the organization using critical pay. We will soon begin to explore the feasibility and business needs for positions below senior leadership. We are currently in the process of exploring all options including paybanding, retention allowances, and demonstration projects. In doing this, we are coordinating closely with Treasury, the Office of Personnel Management and the National Treasury Employees Union. We expect to have more definitive plans in this arena in the next 90-180 days. These plans will address our front line occupations including those in the international tax area.

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QUESTIONS SUBMITTED BY SENATOR MIKULSKI

NEW CARROLLTON FACILITY

*Question.* What are the IRS staffing plans for the New Carrollton facility—both in civil service and contractor personnel?

*Answer.* The New Carrollton facility master plan accommodates a total of 4,440 employees (4,160 IRS employees, and 280 contractor employees). New Carrollton has also been identified as the new Headquarters location of the Small Business & Self-Employed Business Division and the Information Systems function. Through 2002, employees will be realigned into and out of New Carrollton to fully staff these two primary business units.

We also have additional National Office employees in the following Maryland suburbs: Bethesda (67 IRS employees, and 10 contractor employees); Constellation Building in Oxon Hill (260 IRS employees, and 21 contractor employees); and Salubria Building in Oxon Hill (89 IRS employees, and 468 contractor employees).

*Question.* The IRS has announced that new headquarters locations will be set up in the Washington D.C. area for Small Business and Self-Employed Operating Division and the Tax Exempt Operating Division. Will either of these organizations be located in New Carrollton?

*Answer.* The Small Business and Self-Employed Operating Division will be located in New Carrollton, Md. The Tax Exempt Operating Division will be located in Washington D.C.

*Question.* What is your projection for the staff buildup for the newly awarded IRS Prime Contractor? How many of these jobs do you expect to be in the New Carrollton area?

*Answer.* There are no projected staffing increases for the IRS to support the newly-awarded IRS PRIME Contract. However, the PRIME intends to have about 50 staff on board in April 1999 and will ramp up to about 100 staff by September 1999, with increases based upon the defined work. The PRIME intends to locate these staff in the New Carrollton, Maryland area.

*Question.* With the award of the PRIME, how do you see New Carrollton becoming a technical center of excellence for the IRS, much like Goddard is for NASA?

*Answer.* The Information Systems organization is embarking on several initiatives that will ensure that the technical expertise required to deliver and maintain its programs and systems is available. Partnering with the Prime contractor is a major factor in direction. The Information Systems' personnel located in the New Carrollton facility, supported by the Prime contractor, will form the core of our nation-wide technical support that will provide all systems' customers with quality products and services no matter where they are located. As we restructure our Information Systems organization to meet the challenges before us, our technical personnel will receive the training they need to make our New Carrollton facility the center of excellence our internal and external customers expect and deserve.

*Question.* How do you see this affecting the local communities?

*Answer.* Internal Revenue Service employees have traditionally been extremely supportive of the communities in which they live. Not only is the local economy positively affected by the many IRS workers who buy goods and services at this time, we anticipate that as Prime contractor personnel and supporting partners visit our facility, the economy will be even more positively affected. In addition, many of our New Carrollton personnel—as well as those in all of our locations nationwide—support local charitable and civic organizations with their time and money. As our cen-

ter of technical excellence grows, so will our support of the communities that support us.

We expect that any impact on the New Carrollton area will be positive. The New Carrollton site is geographically convenient for many current and future occupants due to its accessibility to public transportation and major roadways. We anticipate that many new recruits for the New Carrollton facility will be relocating to the Maryland area. Current employees in the New Carrollton facility utilize the local vendors including a variety of restaurants and shopping areas. This, coupled with an already steady economy, should be beneficial to the immediate New Carrollton area including the surrounding local communities.

#### SERVICE TO TAXPAYERS

*Question.* How will the Prime Contractor be used to help improve the service that IRS provides taxpayers?

*Answer.* Initially, the PRIME will support the IRS to develop the business and IT strategic plan with insight from commercial "best practices" and to establish the prioritized Modernization initiatives with a focus on improving service to taxpayers. The PRIME will also be jointly responsible and accountable for effectuating our Modernization effort. Early initiatives will provide enhanced call management, a single database for refund and fact-of-filing inquiries, daily posting of fact-of-filing, and better security, auditing, and managing information data. Infrastructure improvements include modern Internet technology and infrastructure development and deployment plans. These increased technical capabilities will provide taxpayers with improved telephone services and expanded Internet capabilities while protecting privacy, as well as allowing IRS to better manage operations that will increase the quality of service.

Another early initiative provides infrastructure and security for employee access to modernized and legacy data through a single universal secure workstation. The implementation of the Interim Regional Infrastructure Services (IRIS) at field locations and enhanced national infrastructure services will provide: Standardized identification and authentication security; Employee access controls through the Authentication Database (AUTHDB); and Expanded audit trail data collection to include legacy access audit information via secure workstations.

Universal Secure Workstations (USW) supported through the implementation of IRIS enable access to modernized and legacy systems.

*Question.* What is the schedule for achieving some of these service improvements?

*Answer.* The initial deployment of some of these improvements will be piloted during mid-2000 and then made available to the taxpayer in January 2001. Subsequent capabilities will be deployed on an incremental basis over the next several years.

*Question.* Will some of the new service being provided to taxpayers include more opportunities for taxpayers to interact with the IRS electronically?

*Answer.* Yes. Working with the Prime Alliance, the IRS expects to enable expanded and improved services to taxpayers. Some of the early releases of functionality the IRS is seeking funding for from the Information Technology Investment Account (ITIA) includes electronic self-service applications such as fact of filing and refund inquiry. Additionally, the IRS and the Prime Alliance will be working this spring to review the electronic filing, payment, and communications capabilities called out in ETA's strategic plan, "A Strategy for Growth." This review will help determine which electronic service capabilities are best suited for partnering with the Prime Alliance for delivery in the near term.

*Question.* When will the average taxpayer be able to file his or her taxes over the Internet?

*Answer.* Most taxpayers can file their taxes over the Internet now. In partnership with the IRS, the private sector has enabled sophisticated tax preparation and e-filing capabilities on the Internet using the World Wide Web (WWW). The fastest growing method for e-filing is the "on-line filing" channel, which is a combination of taxpayers using WWW products and personal computer tax preparation software to file their taxes electronically.

#### PRIME CONTRACTOR

*Question.* What are some of the other major initiatives that the IRS and the Prime Contractor will be undertaking?

*Answer.* Other initiatives to be undertaken with the PRIME in the next stage of Modernization are now being identified as part of an ongoing business and IT strategic systems planning. We expect to identify a limited number of high-priority and high-impact initiatives that can be developed in the next five years.

*Question.* The previous CIO testified that the IRS has almost 60 stovepipe databases that make it very difficult for the IRS to provide immediate answers to taxpayers questions. When do you expect to begin developing new IRS master files that integrate these stovepipe databases into a single integrated database that allows IRS customer service representatives to provide timely information to taxpayers?

*Answer.* Migrating taxpayer records from the existing MasterFile into a single integrated database is a vast, complex, and risky undertaking that will require many years to complete. In order to limit risk and to accomplish this effort in the mostly timely manner, we are undertaking detailed planning considering both technical and business requirements and impacts. We are currently in the process of developing an approach to accelerate migrating taxpayer records from the existing systems to the new integrated database in support of our new operating divisions and consistent with our Modernization strategic planning efforts. We are studying the feasibility of beginning with selected market segments to validate our concept, minimize risk, and deliver early benefits. These early benefits will provide more timely service and more accurate information for taxpayer customer service.

*Question.* What will be the Prime Contractor's role in this development?

*Answer.* The PRIME has the responsibility and accountability to deliver the single integrated database. This includes the: Associated program management; Procurement administration to select from among competing alternative business solutions; and Horizontal integration with the legacy environment as well as the evolving Modernization environment.

*Question.* What assurances can you give the committee that the money we appropriate for modernization will be well spent?

*Answer.* The IRS is investing in the solid foundation needed to manage and execute Modernization effectively. To that end, we have implemented an agency-wide Governance structure and processes to manage Modernization. This Governance is under the direction of the IRS Core Business Systems Executive Steering Committee (CBS ESC), chaired by the IRS Commissioner. Members include the top executives across the Service, Treasury, National Treasury Employees Union (NTEU), and the PRIME. This committee directs Modernization and strategic planning and oversees critical program management activities and major programs. The CBS ESC is responsible for making investment decisions following a process consistent with commercial and government "best practices."

Day-to-day management of Modernization and the PRIME activities is the responsibility of the Program Management and Architecture (PM&A) organization under the direction of the CIO, and the Business Systems Modernization Planning (BSMP) office under the direction of the Deputy Commissioner for Modernization. This management responsibility and accountability includes program control for Modernization. This is supported by a strategic risk management process to identify and mitigate potential problems in cost, schedule, and performance. We are leveraging the PRIME's best practices and existing proven processes for our program management and execution policies and procedures to ensure the best business case development and cost control over execution.

*Question.* One problem the IRS has had in the past is that business and technology goals were not always in alignment. How do you plan to correct this problem?

*Answer.* As described above, the Modernization governance and program management is a shared responsibility between the business and information systems organizations. We have adopted the PRIME's Catalyst<sup>SM</sup> methodology as our Enterprise Life Cycle (ELC). Catalyst<sup>SM</sup> is a combined business process reengineering (BPR) and software development methodology which is designed for timely implementation of the information systems necessary to enable the implementation of redesigned processes.

Throughout the ELC, the business and information systems organizations work closely together. The first phase of the ELC involves the integration of business strategic planning and information technology and is jointly led by business and information system executives. Throughout the other stages of the ELC, from business process reengineering through deployment, business and information systems staff work side-by-side in integrated product teams with the PRIME. This extensive partnership ensures that business and technology goals are aligned.

*Question.* The IRS has used contractors in the past for some programs that did not turn out well. How will your use of the Prime Contract be different than previous attempts to use contractors?

*Answer.* The fundamental difference from our previous use of contractors is the creation of an IRS and PRIME strategic partnership. In order for Modernization to succeed, it is essential for the IRS and the PRIME to form a strategic partnership in which the IRS contributes its knowledge of tax administration and the oper-

ational systems, while the PRIME provides project management, business re-engineering, systems engineering, design, development, and integration expertise. This partnership begins with high-level Governance, where the PRIME sits on the CBS ESC.

The PRIME is an integral component for management at the program level and co-leads integrated product teams focused on specific project execution. IRS employees will work side-by-side with the PRIME to develop modernized systems, and will operate and maintain them once they are delivered. This is not the traditional turn-key contracting relationship where IRS throws business requirements over the fence and the contractor delivers a completed system.

Another difference is that the PRIME is the integrator for Modernization, including both business process change and technology. The IRS intends to contractually require that the PRIME contractor, as the single systems integrator, share the risk of performance. This intention is reflected in the PRIME contract, which identifies that the IRS will use Performance Based and Fixed Price task orders where appropriate. The selected PRIME contractor clearly demonstrated its commitment to risk sharing in its proposal.

*Question.* Have you achieved the managerial and technical sophistication needed to effectively manage the Prime Contractor?

*Answer.* We have achieved a significant measure of the managerial and technical sophistication we need to effectively manage the PRIME contractor. Using the authority granted by Congress, we have put in place a new top management team with extensive private and public sector experience. This team, and IRS staff engaged in Modernization, are supported by our private sector partners, such as the PRIME and our Federally Funded Research and Development Center (FFRDC), who bring strong disciplined management techniques proven through experience. We are deliberately and steadily maturing our processes and investing in the training and development of our staff. We are confident that we can and will effectively manage the PRIME.

*Question.* How do you plan to manage the Prime Contractor so that it most effectively contributes to your success?

*Answer.* At the highest level, we have established the Core Business Systems Executive Steering Committee to direct Modernization and strategic planning, and oversee critical program management activities and major programs. At the next level, the Assistant Commissioner for Program Management & Architecture (PM&A) is responsible for managing the PRIME contractor relationship. The PM&A organization is responsible for program management and control, project management, technical contract management, and management of the overall architecture. PM&A is implementing formal processes to assess contractor performance at both the strategic and tactical levels.

The Business Systems Modernization Planning office is responsible for defining the scope and objectives of proposed major business technology modernization programs, preparing business cases and assisting in developing and maintaining a modernization activity sequencing plan which includes identification of business requirements.

Working with PM&A is our Procurement organization. The Contracting Officer is responsible for the overall administration of the PRIME contract. The day-to-day requirements of the PRIME contractor will be reflected in many individual task orders administered by several IRS contracting officers who report directly to the PRIME contract Contracting Officer. These task order contracting officers are supported by several technical representatives (Contracting Officer Technical Representatives or "COTR's") and many Government Task Managers (GTM's) who monitor and inspect the contractor's performance on a daily basis.

*Question.* In addition to the Prime Contractor, the IRS has several other major contractors that are performing major elements of work, such as Booz-Allen, TRW, and Mitre. How will you ensure that the efforts of these and other contractors are seamlessly integrated into a coherent whole? Please delineate the roles of each of these contracts and their dollar values as well.

*Answer.* We have strategically defined and managed our Modernization related contracts. These contracts have expressly different purposes and scope, and we are carefully defining their roles and responsibilities. The PRIME has the responsibility and accountability to provide: Program Management, under the direction of the IRS, to provide comprehensive systems life cycle and program management functions; Procurement administration to select from among competing alternative business solutions; Modernization infrastructure to maintain the architecture and standards reflective in the Modernization Blueprint; and Horizontal integration of business solutions to include the integration of business solutions into the legacy environment as well as the evolving Modernization environment.

The Integration Support Contractor, TRW, has the responsibility to provide assistance for knowledge transfer of the legacy environment and current Modernization Blueprint to the PRIME. They are also a secondary source for integration support services acting under the PRIME for: Development of business requirements; and Integration, test, and deployment of modernized systems.

The organizational modernization contractor, Booz, Allen & Hamilton, is supporting the Organizational Modernization and implementation of new balanced performance measures.

The Federally Funded Research and Development Center, MITRE, with its freedom from conflict of interest and special relationship with the Government, supports the IRS in government activities for: Strategic management; Assessment of major program management activities; Independent evaluations; Independent verifications and validations; Research; and Technical advice.

The dollar values of each of these contracts are based on task orders as approved through the Governance and Program Management processes and do not have predefined yearly values.

The PRIME, as the overall integrator, has the responsibility to manage and coordinate the work of its sub-contractors. When the IRS contracts resources other than the PRIME, such as from the ISC, the PRIME works with the IRS to manage and coordinate these resources. The Enterprise Life Cycle (ELC) will be utilized by the IRS and PRIME, thereby ensuring a consistent management structure for the oversight of all contractor activities.

*Question.* Is there some potential that the work of these contractors will overlap?

*Answer.* We recognize the potential that the work of our various contractors could overlap. With our constrained funding we cannot afford to allow for duplication of efforts or ineffective use of our contracting resources. To minimize this potential, we have established contracts with expressly different purposes and scope, and are carefully defining their roles and responsibilities. We are actively managing the utilization of these contractors. This includes formal processes to resolve utilization issues that may arise.

*Question.* Do you have defined roles for each of these contractors?

*Answer.* We recognize the need for clear delineated roles among our various contracts in order to minimize the potential for overlap and ensure proper use of contracting services. The description of the various contracts and roles is given above.

#### PERFORMANCE MEASURES

*Question.* Do you have measurable goals that you will use to determine that the IRS has achieved improved levels of taxpayer satisfaction?

*Answer.* One of the components of the balanced measurement system is customer satisfaction. This element of the balanced measures will be based on results from various customer satisfaction surveys that are being administered by a third party to a statistically significant sample of taxpayers who have interacted with the IRS. The surveys are designed to measure taxpayers' perceptions of how they were served. In this transition year to the balanced measurement system, we have not set a goal for customer satisfaction because the new measures are being baselined. The IRS will use the baselines identified during fiscal year 1999 to establish goals for future years. Currently, customer surveys are administered in the following areas: Toll-free, Walk-in, Exempt Organizations (EO) Determination, Employee Plans (EP) Determination, Collection, Examination, Automated Collection System (ACS), Service Center Examination, EO Examination, EP Examination, and Appeals. The use of surveys in other areas will be considered as the balanced measurement system is implemented and adopted throughout the entire organization.

*Question.* How will the average taxpayer know that the IRS has achieved its goals for improved customer service?

*Answer.* While Congress will be able to assess IRS' progress in improving service to customers through specific measures in the balanced measurement system such as timeliness, level of service, quality, and accuracy, taxpayers will know that the IRS has achieved its goals for improved customer service based on their direct experiences. For example, as taxpayers receive easy-to-understand forms and notices, or when callers can quickly reach an IRS assistor through telephone service that is now available 24 hours a day, seven days a week or through visits to walk-in offices that offer longer hours and Saturday services, or when questions or problems are resolved during the initial contact, taxpayers will experience a change in the level and quality of service delivered by the IRS.

SUBCOMMITTEE RECESS

Senator CAMPBELL. Thank you. We have no further business, Mr. Commissioner, thank you so much for coming.

Mr. ROSSOTTI. Thank you.

Senator CAMPBELL. This hearing is recessed.

[Whereupon, at 10:56 a.m., Thursday, February 25, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, March 4.]

# TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2000

THURSDAY, MARCH 4, 1999

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

The subcommittee met, at 9:48 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Kyl, and Dorgan.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF NATIONAL DRUG CONTROL POLICY

STATEMENT OF GENERAL BARRY R. McCaffrey, Director

## OPENING REMARKS

Senator CAMPBELL. Good morning. The Treasury Subcommittee will come to order. Senator Dorgan will be along. We were in an energy meeting, and he is still up there, so he will be down in just a few minutes. We will go ahead and start.

I would like to welcome Barry McCaffrey, the director of the Office of National Drug Control Policy before the committee once again. Today, we are here to discuss your fiscal year 2000 budget submission. I once again apologize that we could not get the camera that you requested. We needed 48 hours in order to do that, and we just did not get the request soon enough.

We are here today to discuss your fiscal 2000 initiatives, and specifically I have an interest in receiving an update of the current trends of drug use and availability and how your 2000 budget request addresses these issues. I know that the members of the committee are also interested in discussing the media campaign. You mentioned to me just a moment ago, General, that you do have some tapes. I would be very interested in seeing those even if I have to look at them in the office.

To date, that campaign has received \$380 million in funding, and in your fiscal year 2000 budget, if this is approved, we will have appropriated over \$500 million for this one project alone, which is the single largest portion of your budget request. I know when you first came to this committee asking for this money a few years ago, some of us were a little bit wary, but I think it is moving along nicely and I would look forward to you talking about that a bit in your opening statement and testimony.

Obviously, we want to ensure that the program is achieving its goal and that we are getting a good return on the Government investment. I did read your testimony and from the contents of your testimony it does look like there's been a decrease of drug use among teens. I notice from over 12.9 percent down to 12.1 percent. I would hope that that has something to do with that media campaign that youngsters are watching, and I will be interested in listening to your testimony on that.

I am also interested in knowing more about the achievements over the last fiscal year and how the emergency drug supplemental funding specifically translated into reducing drug problems in this country. When we fund initiatives like the media campaign, those are big ticket items and it is not like we have so many resources that we do not have to reduce spending somewhere else.

One of the concerns, of course, was if there would be a decrease in donated media time on the part of the private industry if we increased money availability so that they could tap into that. The budget situation is so tight we often have to make very conscious and careful decisions.

Therefore, I would ask you to go ahead, General McCaffrey, and we look forward to your testimony.

General MCCAFFREY. Mr. Chairman, thanks very much for the opportunity to be here and to address your own concerns and listen to your viewpoints and those of your fellow committee members. I look forward to working with Senator Dorgan also. I have not had an opportunity to work with him before.

Let me, if I may, ask for your permission to enter into the record the written statement.

Senator CAMPBELL. Yes, without objection, your complete testimony will be included in the record.

General MCCAFFREY. As you know we do an enormous amount of work to try and make sure that is an accurate depiction of where we are, and we will put that up on our web page later on today, making it available for the many people who watch very closely what we are doing and the drug problem.

Let me also, if I may, mention some of the many people who have helped craft our drug strategy and who are really doing the preponderance of the work around the country. We have several in this hearing today. I am honored to be joined by Major General retired Art Dean, and Sue Thau of the Community Anti-Drug Coalitions of America. As you know, they represent more than 4,000 community coalitions and have acted as an umbrella organization for a lot of the community activity around the country.

Dick Bonnet and Mike Townsend from Partnership for a Drug-Free America are also here. And you know, Jim Burke has really been, in many ways, the driving force behind the notion of talking to America's youth using modern means of communication and helping change youth attitudes. I am very grateful for their partnership and their continuing influence.

Dr. Linda Wolf-Jones is here. She is with Therapeutic Communities of America, representing what is possibly the single easiest payoff for us, which is to address America's 4.1 million chronic addicts with effective drug treatment. I know we will talk about that more during the hearing.

Jim McGivney is here, deputy director of DARE America. Arguably, there is certainly no larger or more effective school-based prevention program than the 26 million-plus young people involved in DARE, now growing rapidly in the international community, particularly in our hemisphere. So we are grateful for their revised curriculum and their engagement in schools across America.

Kathleen Sheehan from NASADAD is here. They have been very heavily involved in trying to bring sensible management at State level to these Federal resources you have provided to us. And Johnny Hughes from the National Troopers Coalition, who has been a personal friend and an advisor throughout the last three years.

#### CONCEPTUAL ORGANIZATION

Mr. Chairman, if I may, let me just for the record talk about the conceptual organization of our national drug control policy. With your permission, I will just hold up and briefly talk about five volumes.

Beginning with the National Drug Control Strategy which you are obviously familiar with, as is your staff. There is a difference though. This year, thanks to the omnibus legislation that you passed last year which reauthorized the National Drug Control Policy Office. It was the subject, as you remember, of two years of sort of intense negotiations, and I am very grateful for the bipartisan involvement of Congress in getting that bill passed.

So this National Drug Control Strategy is now not only mandated by law that I produce it, but it is operative for five years. So I will come down each year and explain if it still fits the environmental circumstances. But this is now a long term document that we are proud to put in play, the 1999 National Drug Control Strategy.

That strategy has been revised from last year. We went out to more than 4,000 institutions and individuals throughout the country. We sought their advice. We have read their input and it is on the table to guide our actions.

The second document, if I can underscore it, is the five-year drug budget summary. So we have submitted not only Fiscal Year 2000 drug budget, but also a five-year projection. It is better than last year's five-year projection. It still is not very good.

But there is a key difference, that last year it was the OMB director and I who got through collegial discussion, my colleagues to agree to submit a five-year budget projection. This year they did it because you changed the law last year, though I will submit each year a new five-year budget projection. I expect we will get more informed debate as we look at the long term trade-offs between prevention, treatment, law enforcement, and interdiction. I commend that to your attention.

Mr. Chairman, the third volume in the national drug control strategy are Performance Measures of Effectiveness. We have again revised this document which we presented to you last year for the first time. We think it is even more effective. If you look at it, there are now 12 target outcomes where we looked out 10 years and asked, where do we expect to be, and then we designed a way to measure achieving our objectives.

There are also 85 subordinate variables which allow to determine whether or not we are getting to those 12 outcome objectives.

We have to design data bases, but this is a serious management effort to look at what we are actually achieving year by year with the money you give us.

There is a fourth volume that is available through your classified controlled procedures, a secret, noform volume entitled, Classified Annex on Drug Interdiction, International Law Enforcement Policy and Programs. Mr. Chairman, that is the second year we have put that out. It is an attempt to give the intelligence community, Department of Defense, and law enforcement communities standing guidance on how to achieve our purpose.

Finally, we have a tabbed booklet for your consideration which is Congressional budget submission, which tries to pull together the various aspects of the ONDCP budget, which of course is reasonably small in terms of the \$17.8 billion total in the nine appropriations bills that have some drug funding in them.

#### ONDCP BUDGET

My own operating budget in ONDCP is \$21.9 million; a fairly modest amount. It is about one-tenth of 1 percent of the Federal drug control budget.

Finally, Mr. Chairman, if I can, let me just summarize a snapshot, because there has been a lot of back and forth on whether we should be spending more? How much more? Is there a decrease in interdiction?

I asked Dr. John Carnavale, my budget expert, to focus on the period Fiscal Year 1996 to Fiscal Year 2000, and to take a snapshot. Those are the budget years that the team I have assembled under the new law have been able to effect.

If you look at those budget years, we have increased prevention dollars by 55 percent. We have increased treatment dollars by 25 percent. Research, particularly in NIDA, National Institute of Drug Abuse, is up by 35 percent. Domestic law enforcement is up by 24 percent, interdiction by 47 percent, and our international programs have increased 120 percent.

Now I say this because at the end of the day, if you look at the whole Federal counter-drug budget, it has increased in those budget years by about one-third. There has been a 32 percent increase. It went up \$1 billion a year. I say that because I understand in a tight budget environment that we have to produce results with those dollars. I think the intent of Congress is being met, and I think the budget as it is evolving is supporting our strategy.

Some quick comments. First of all, in the National Youth Anti-Drug Media Campaign—and I will expect that you will want to talk about that with your own questions—the initial results are pretty encouraging. We have now hired some extremely sophisticated people to work with us on this program.

It is being executed by Partnership for a Drug-Free America and the Advertising Council. Essentially, more than 200 advertising corporations are doing this work for free. We are paying for production costs, but these are essentially donated efforts garnered through both PDFA and the Ad Council. The Actors Guild waives their fees. We are getting a lot of impact for our money.

We are meeting our matching goal. That is encouraging news. There was legitimate concern that the PSA time would dry up. And we are essentially achieving 107 percent of what we asked.

There has also been a rather significant corporate in-kind contribution. And depending on how you measure it, and we have got rather conservative assessments, it is probably a \$41 million in-kind contribution. We are also seeing the entertainment industry team up with us, and we think we are doing extremely well on addressing minority concerns. This effort by the end of the summer will be in 11 languages and some \$33 million worth of our effort is targeted to minority and ethnic audiences.

#### DRUG ABUSE

A quick snapshot on drug use in America. As you are aware, there is some good news and some bad news. Let me talk about the bad news. Drug use in America is unacceptable; 6 percent of the population is abusing drugs. That is 14 million Americans. Most of that is poly-drug abuse; marijuana and alcohol and other stuff.

Now some of the drug abuse patterns are changing, and in ways in which we're going to have to be very careful to measure it. Heroin abuse in the last decade is clearly going up. Huge quantities of high purity, low cost heroin are appearing. New drugs are showing up. Methamphetamines may be the worst drug to ever hit America. And if we are smart, and I think we are trying to work it in that fashion, we will get in front of the meth epidemic as we did not for the crack epidemic in the mid 1980s.

We are also seeing other drugs like MDMA, PCP, Rohypnol, other chemically manufactured drugs showing up in the rave scene and affecting new subpopulations.

It is clear that the impact of older, sicker chronic addicts is causing devastating impact on America. We say it is \$110 billion a year damages, and probably 16,000 dead. If you look at hospital emergency room admission rates, they have gone steadily up as this chronic addict population has aged.

Now turning around on the other hand, the results of the last two monitoring the future studies and national household survey data leaves room for encouragement. Our strategy essentially posits the argument that if you can reduce the number of American adolescents who are exposed to gateway drug-taking behavior, over time you will reduce the addict population.

We have seen two years ago, after five years of steadily worsening attitudes, and four years of increasing drug abuse by American youngsters, two years ago we saw a leveling out of those statistics. Then last year, although Secretary Shalala and I were careful to downplay expectations, we saw an unequivocal decrease in drug abuse and an improvement in attitudes almost across the board among 12th graders, 10th graders, and eighth graders. The most dramatic impact was among eighth graders, as you would expect, the newer populations hitting the drug exposure zone.

We think if we keep that up for an additional 10 years we are going to see remarkable impact on abuse rates throughout the country.

There is reason to believe we are on the right track and that if we deliver on some shortcomings, and the shortcomings we have

left in front of us is to more effectively tie drug treatment to the criminal justice system. That is a big one. Secretary Shalala, Attorney General Reno and I have done the groundwork. We have the conceptual organization. There is a great willingness among the States and localities to support this attempt.

But that is the next emphasis. How do we go to that 1.8 million Americans who are behind bars, half of whom, 50 percent to 80 percent of whom have an alcohol or drug-related compulsive use problem, how do we get them into mandated treatment? So there is a series of programs, many of them driven by the Attorney General.

#### DRUG REDUCTION PROGRAMS

The drug court system has grown explosively. Three years ago we had 12 drug courts. Now we have about 500 either operating or being formed up. I hope by the time we walk out of office we will leave more than 1,000 ongoing.

We have expanded the Break the Cycle program, which essentially mandates drug testing and treatment regardless of your offense. The drug court is sort of a front end diversion program. Break the Cycle says, if you are arrested, violent criminal or not, and you test positive, you are going into treatment and your compliance with that treatment protocol will affect how we deal with you in the criminal justice system.

So we have got now three adult test sites, and we have gone to two juvenile test sites. I think that shows great promise, along with prison-based drug treatment and post-release follow-on monitoring.

We also owe you better organization of the Southwest Border and America's ports of entry. We have done a lot of work. The situation is better. We have completed our studies on how to reorganize our intelligence collection system to support the drug issue. Now Director Tenet and Attorney General Reno and I will try and give the President a package of recommendations on how to ensure that our intelligence system better supports law enforcement.

There is also a lot of work going on to rationalize the more than 15,000 Federal employees who work along the 2,000 mile southwest border, to make sure it is a more coherent, results oriented operation that depends on non-intrusive technology as opposed to National Guard soldiers unloading 18-wheelers cargo and drilling holes in the wall looking for drugs. You just simply cannot do it that way.

Finally, there is a lot of reason to believe that our HIDTA program is showing great payoffs. We have got a wonderful new associate, Mr. Joe Peters, who is going to help us organize the HIDTA program. As you know, it has grown from six to 21 HIDTAs. You have put significant amounts of money into it. I am concerned about managing it the right way, so I am going to ask for funds to make sure I have got an external audit going on that program.

But having said that, local, State, and Federal law enforcement and prosecutors are making good use of that fund, and there are many other applicants for HIDTA status. By this summer I will have a study done that will probably be a better guide for Congress

and me on how to expand the HIDTA program, if we choose to do so.

#### PREPARED STATEMENT

On that note, Mr. Chairman, I thank you for the chance to appear in front of the committee and I look forward to answering your questions.

[The statement follows:]

#### PREPARED STATEMENT OF GENERAL BARRY R. MCCAFFREY

##### I. 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 2000 budget. Chairman Campbell, Senator 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 2000 budget request for ONDCP. However, to provide a framework for understanding this budget, this testimony must begin with an overview of the 1999 National Drug Control Strategy and an analysis of current drug trends.

##### II. OVERVIEW OF THE 1999 NATIONAL DRUG CONTROL STRATEGY

###### *The Requirement for a National Drug Control Strategy*

The Office of National Drug Control Policy Reauthorization Act of 1998 required the President to submit to Congress by February 1999 a comprehensive National Drug Control 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. Specifically, the Act required that the strategy include:

- Comprehensive, research-based, long-range, quantifiable, goals for reducing drug abuse and the consequences of drug abuse in the United States.
  - Annual, quantifiable, and measurable objectives and specific targets to accomplish long-term quantifiable goals that the Director determines may be achieved during each year of the period beginning on the date on which the National Drug Control Strategy is submitted.
  - Five-year projections for program and budget priorities.
  - A review of international, state, local, and private sector drug control activities to ensure that the United States pursues well-coordinated and effective drug control at all levels of government.
- ONDCP has prepared the following documents in compliance with this Act:
- The National Drug Control Strategy.
  - Drug Control Budget: fiscal year 2000.
  - Performance Measures of Effectiveness: Implementation and Findings.
  - Classified Annex.

It was the sense of the Congress in this Act that substantial progress could be made toward achieving specific reductions in drug supply and demand by the year 2003 as well as during the intervening years. This Strategy sets in motion policies and programs designed to make progress toward these targets. It contains careful analysis of what is achievable by specified years. Specifically, it proposes a multi-year conceptual framework to reduce illegal drug use and availability by 50 percent. 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 recorded drug-use rate in American history. Drug-related health, economic, social, and criminal costs would also be reduced commensurately. The Strategy also presents a detailed performance measurement system that links goals, objectives, and mid- and long-term targets. As we succeed in reaching our targets, we will continue to achieve even further reductions insofar as resources and other developments allow.

###### *Annual Strategy Report*

The ONDCP Reauthorization Act of 1998 also requires the President to submit to Congress each February a report on progress in implementing the Strategy. The 1999 Strategy contains a detailed report (in Chapter II) on: progress in reducing drug use and availability in the United States; the consequences of drug abuse; and

the effectiveness of prevention, treatment, enforcement, interdiction, and international programs. A summary of the report contained in the Strategy follows:

*Overall Trends.*—In 1997, there were 13.9 million current users of any illicit drug in the total household population aged 12 and older, down from the peak year of 1979, when 25 million (or 14.1 percent of the population) abused illegal drugs. The 13.9 million number represents 6.4 percent of the total population and is statistically unchanged from 1996. 36 percent aged twelve and older have used an illegal drug in their lifetime. Of these, more than 90 percent used either marijuana or hashish and approximately 30 percent tried cocaine. There are an estimated 4 million chronic drug users in America: 3.6 million chronic cocaine users (primarily crack cocaine) and 810,000 chronic heroin users.

*Juvenile Trends.*—Drug use among 12–17 year olds declined slightly in 1997 and 1998. Among 8th graders, past month use of illicit drugs declined from 12.9 percent to 12.1 percent. Among 10th graders, the percentage declined from 12.9 to 12.1. Among 12th graders, the decline was from 26.2 percent to 25.6 percent. These declines follow an earlier four-year trend of increasing drug use rates among 12–17 year olds. Between 1992 and 1996, past month illicit drug use had increased from 6.8 percent to 14.6 percent among 8th graders, increased from 11 percent to 23.2 percent among 10th graders, and increased from 14.4 percent to 24.6 percent among 12th graders. Use of inhalants declined among 8th graders from 5.6 percent in 1997 to 4.8 percent in 1998. In 1998 alcohol use decreased among 10th graders, and remained stable among 8th graders and 12th graders, albeit at unacceptably high levels. Past-month use of cigarettes slightly declined among 8th, 10th, and 12th graders from 1997 to 1998. We are concerned that every day more than 6,000 people aged eighteen or younger try their first cigarette, and more than 3,000 people aged eighteen or younger become daily smokers.

*Drug Availability.*—In 1997, an estimated 289 metric tons (MTs) of cocaine were available in the U.S., the lowest amount since the 1980s and far below the peak of 529 MTs in 1992. 145 MTs of cocaine were seized enroute to the U.S. in 1998. Marijuana remains readily available. Information about heroin price and purity is imprecise. In 1998 the average retail price for a pure gram of heroin was approximately \$1,799; the wholesale price was \$318. These prices were significantly lower than in 1981, when the retail price per gram was estimated to be \$3,115 and the wholesale price \$1,194. The average purity for retail heroin in 1998 was 25 percent, much higher than 1991's average of 19 percent. Methamphetamine remains the most prevalent synthetic drug. Americans spent \$57 billion on illegal drugs in 1995, down 37 percent since 1988.

*Consequences of Drug Abuse.*—Drug-related deaths climbed throughout the 1990s but have leveled off at about 9,300. Drug-related medical emergencies remain near historic highs but remained statistically constant, with 514,347 episodes in 1996 and 527,058 in 1997. Illegal drugs cost our society approximately \$110 billion each year.

*Drugs and Crime.*—More than 60 percent of adult male arrestees tested positive for drugs in twenty major cities in 1997. Drug offenders account for 25 percent of the growth in the state prison population and 72 percent of the growth in the federal prison population since 1990.

*Drugs and the Workplace.*—6.7 million current illegal drug users were employed full-time in 1997. Another 1.6 million current users worked part-time. Drug abuse is twice as prevalent among the unemployed compared to those employed full-time. Drug users are less dependable than other workers and decrease workplace productivity. They are more likely to have taken an unexcused absence in the past month; 12.1 percent did so compared to 6.1 percent of drug-free workers. Illegal drug users get fired more frequently (4.6 percent were terminated within the past year compared to 1.4 percent of non-users). Drug users also switch jobs more frequently; 32.1 percent worked for three or more employers in the past year, compared to 17.9 percent of non-drug-using workers. One-quarter of drug users left a job voluntarily in the past year. This high turnover increases training and other productivity-related costs to American businesses.

#### *Goals and objectives of the 1999 National Drug Control Strategy*

*Goals.*—The Strategy's five goals are comprehensive in that they cover the three broad aspects of drug control: demand reduction, supply reduction, and adverse consequences of drug abuse and trafficking. In addition, these goals are national in that they state what we must collectively achieve; they are not markers for solely a federal effort. Finally, these goals are research-based, quantifiable, and long-range. The five goals and thirty-one objectives reflect the need for prevention and education to protect all Americans, especially children, from the perils of drugs; treatment to help the chemically dependent; law enforcement to bring traffickers and other drug

offenders to justice; interdiction to reduce the flow of drugs into our nation; international cooperation to confront drug cultivation, production, trafficking, and use; and research to ensure policy is based on science.

*Goal 1: Educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco*

The Strategy focuses on youth for both moral and practical reasons. Children must be nurtured and protected from drug use and other forms of risky behavior to ensure that they grow up as healthy, productive members of society. As youngsters grow, they assimilate what they observe. Drug use is preventable. If children reach adulthood without using illegal drugs, alcohol, or tobacco, they are unlikely to develop a chemical-dependency problem. To this end, the Strategy fosters initiatives to educate children about the real dangers associated with drugs. ONDCP seeks to involve parents, coaches, mentors, teachers, clergy, and other role models in a broad prevention campaign. ONDCP encourages businesses, communities, schools, the entertainment industry, universities, and sports organizations to join these national anti-drug efforts.

*Goal 2: Increase the safety of America's citizens by substantially reducing drug-related crime and violence*

The negative social consequences of drug-related crime and violence mirror the tragedy that substance abuse wreaks on individuals. A large percentage of the twelve million property crimes committed each year are drug-related as is a significant proportion of nearly two million violent crimes. The nation's estimated 4 million chronic drug users contribute disproportionately to this problem. Drug-related crime can be reduced through community-oriented policing and other law-enforcement tactics, which have been demonstrated by police departments in New York and other cities where crime rates are plunging. Cooperation among federal, state, and local law-enforcement agencies also makes a difference. Operations targeting gangs, trafficking organizations, and violent drug dealers have contributed to declining violence associated with illegal drug markets. Equitable enforcement of fair laws is critical. We are a nation wedded to the prospect of equal justice for all. Punishment must be perceived as commensurate with the offense. Finally, the criminal justice system must do more than punish. It should use its coercive powers to break the cycle of drugs and crime. Treatment must be made available to the chemically dependent in our nation's prisons.

*Goal 3: Reduce health and social costs to the public of illegal drug use*

Drug dependence is a chronic, relapsing disorder that exacts an enormous cost on individuals, families, businesses, communities, and nations. Addicted individuals frequently engage in self-destructive and criminal behavior. Treatment can help them end dependence on addictive drugs. Treatment programs, moreover, can reduce the consequences of addictive drug use on the rest of society. The ultimate goal of treatment is to enable a patient to become abstinent and to improve functioning through sustained recovery. On the way to that goal, reducing drug use, improving the addict's ability to function, and minimizing medical consequences are useful interim outcomes. Treatment options include therapeutic communities, behavioral treatment, medication (e.g., methadone, levo-alpha-acetyl-methadol (LAAM), or naltrexone for heroin addiction), outpatient drug free programs, hospitalization, psychiatric programs, twelve-step recovery programs, and treatment that combines two or more of these options. Providing treatment for America's chronic drug users is both compassionate public policy and a sound investment. For example, the recent Drug Abuse Treatment Outcome Study (DATOS) found that outpatient methadone treatment reduced heroin use by 70 percent, cocaine use by 48 percent, and criminal activity by 57 percent, and increased employment by 24 percent. The same survey also revealed that long-term residential treatment achieved similar successes.

*Goal 4: Shield America's air, land, and sea frontiers from the drug threat*

The United States is obligated to protect its citizens from the threats posed by illegal drugs crossing our borders. Interdiction in the transit and arrival zones disrupts drug flow, increases risks to traffickers, drives them to less efficient routes and methods, and prevents significant quantities of drugs from reaching the United States. Interdiction operations also produce information that can be used by domestic law enforcement agencies against trafficking organizations. Each year, more than sixty-eight million passengers arrive in the United States aboard 830,000 commercial and private aircraft. Another eight million individuals arrive by sea, and a staggering 365 million people cross our land borders driving approximately 115 million vehicles. Ten million trucks and cargo containers and ninety thousand merchant and passenger ships also enter the United States annually, carrying some four hun-

dred million metric tons of cargo. Amid this voluminous trade, drug traffickers seek to hide approximately three-hundred metric tons of cocaine, thirteen metric tons of heroin, vast quantities of marijuana, and smaller amounts of other illegal substances.

*Goal 5: Break foreign and domestic drug sources of supply*

The rule of law, human rights, and democratic institutions are threatened by drug trafficking and consumption. International supply reduction programs not only reduce the volume of illegal drugs reaching our shores; they also attack international criminal organizations, strengthen democratic institutions, and honor our international drug-control commitments. The U.S. supply-reduction strategy seeks to: (1) eliminate illegal drug cultivation and production; (2) destroy drug-trafficking organizations; (3) interdict drug shipments; (4) encourage international cooperation; and (5) safeguard democracy and human rights. The United States continues to focus international drug-control efforts on source countries. International drug-trafficking organizations and their production and trafficking infrastructures are most concentrated, detectable, and vulnerable to effective law-enforcement action in source countries. In addition, the cultivation of coca and opium poppy and production of cocaine and heroin are labor intensive. For these reasons, cultivation and processing are relatively easier to disrupt than other downstream aspects of the trade. The international drug control strategy seeks to bolster source country resources, capabilities, and political will to reduce cultivation, attack production, interdict drug shipments, and disrupt and dismantle trafficking organizations, including their command and control structure and financial underpinnings.<sup>1</sup>

*Objectives.*—The Strategy also presents thirty-one objectives that are more narrowly focused than these five goals 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 discouraged. Programmatic initiatives will be tied directly to one or more of these objectives. The national youth anti-drug media campaign, for example, supports objective 2 (“pursue a vigorous advertising and public communications program”) and objective 7 (“create partnerships with the media, entertainment industry, and professional sports organizations”) of Goal 1.

*The Supporting Performance Measures of Effectiveness (PME) System*

Strategy links ends, ways, and means. Progress toward a strategy’s goals and objectives must be constantly assessed in order to gauge success or failure and adjust the strategy accordingly. ONDCP has developed—in conjunction with national drug-control program agencies, Congress, state and local officials, and private citizens with experience in demand and supply reduction—a Performance Measurement of Effectiveness (PME) system to orient drug-control efforts. This system: assesses the effectiveness of the Strategy; provides information to the entire drug-control community on what needs to be done to refine policy and programmatic directions; and assists with drug program budget management.<sup>2</sup>

The PME system identifies ninety-seven performance targets, of which twelve indicate the impact of national drug-control activities on the Strategy’s five overarching goals. The other eighty-five measure progress toward the Strategy’s thirty-one supporting objectives. These targets represent desired end-states for the years 2002 and 2007. They are “stretch targets” in that they require progress above that attained in previous years. This assessment is in keeping with recommendations of the National Academy of Public Administration, the General Accounting Office, and other organizations advocating good government practices.

Progress toward each goal and objective will be gauged using existing research and new surveys. Monitoring the Future and the National Household Survey of Drug Abuse, for example, both estimate risk perception, rates of current use, age of initiation, and life-time use for alcohol, tobacco, and most illegal drugs. The Arrestee Drug Abuse Monitoring System (ADAM) and Drug Abuse Warning Network (DAWN) indirectly measure the consequences of drug abuse. The State Department’s annual International Narcotics Control Strategy Report (INCSR) provides country-by-country assessments of initiatives and accomplishments. INCSR reviews statistics on drug cultivation, eradication, production, trafficking patterns, and seizure along with law-enforcement efforts including arrests and the destruction of

<sup>1</sup> Additional information about international drug-control programs is contained in the Classified Annex to the Strategy.

<sup>2</sup> The overall performance system is described in details in the companion volume to the Strategy—Performance Measures of Effectiveness: Implementation and Findings.

drug laboratories. The Subcommittee on Data, Research, and Interagency Coordination will consider additional instruments and measurement processes required to address the demographics of chronic users, domestic cannabis cultivation, drug availability, and data shortfalls related to drug policy.

The relationship between goals, objectives, targets, and federal and non-federal resources will be reassessed and refined continuously to reflect the dynamic drug-abuse problem and progress in reducing its scope. Non-achievement of a target over a period of time will trigger an in-depth interagency program evaluation to identify problems and recommend corrective action. Such measures might include a range of options such as modifying programs, reinforcing them with more resources, or eliminating them altogether. This ongoing review process will also allow reinforcement of successful programs.

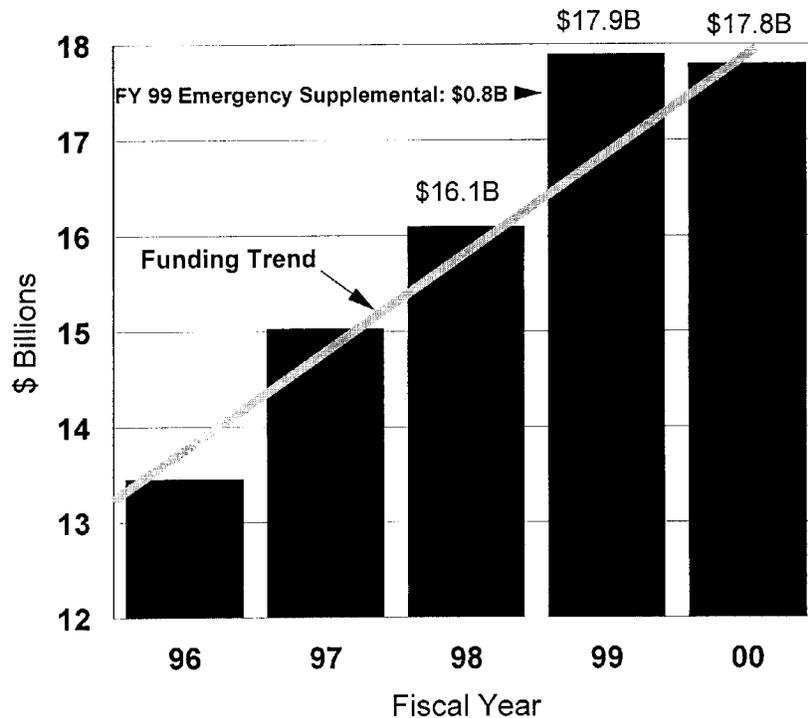


FIGURE 1. *National Drug Control Budget: Funding Trend up Fiscal Year 1996–Fiscal Year 2000*

### III. THE SUPPORTING FISCAL YEAR 2000 FEDERAL DRUG CONTROL BUDGET

In total, drug control funding recommended for fiscal year 2000 is \$17.8 billion, an increase of \$735 million (+4.3 percent) over fiscal year 1999 regular appropriations of \$17.0 billion. In addition to regular appropriations, federal drug control agencies received \$844 million for emergency purposes in fiscal year 1999. With this emergency funding, drug control appropriations total \$17.9 billion in fiscal year 1999. Spending that supports drug education, prevention and treatment programs increases by \$210.0 million (+3.6 percent) in fiscal year 2000 over fiscal year 1999 regular appropriations. Spending that supports drug law enforcement efforts increases by \$524.8 million (+4.7 percent) in fiscal year 2000 over fiscal year 1999 regular appropriations. Major increases in the budget submitted by the Administration follow:

#### 1. Youth Prevention

—School Coordinators: (Total \$50 million, an increase of \$15M). These additional resources will expand the School Coordinator program, started in fiscal year 1999. With this increase, total funding for this initiative will be \$50 million in

fiscal year 2000. This program will support the hiring of drug prevention coordinators in nearly half of the middle schools across the country to help improve the quality and effectiveness of drug prevention programs.

- National Youth Anti-Drug Media Campaign: (Total \$195 million, an increase of \$10 million). This additional funding brings the budget for ONDCP's Media Campaign to \$195 million in fiscal year 2000. With this money, ONDCP will continue its targeted, high impact, paid media campaign designed to change naive adolescent perceptions of the dangers and social approval of drugs.
- Youth Tobacco Prevention. (Total \$169 million, an increase of \$61 million). The Centers for Disease Control and Prevention will receive an increase of \$27.0 million in drug-related funds to extend state-based efforts to conduct comprehensive programs to reduce and prevent tobacco use. The Food and Drug Administration will receive an additional \$34.0 million in drug-related funding in fiscal year 2000 to expand implementation of its final rule intended to halt the supply of tobacco products to children.

### 2. Criminal Justice Programs

- Drug Intervention Program: (New program—\$100 million). This initiative, funded through the Office of Justice Programs, will provide drug abuse assistance to state and local governments to develop and implement comprehensive systems for drug testing, drug treatment and graduated sanctions for offenders.
- Drug Courts: (Total \$50 million, an increase of \$10M). This program 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.

### 3. Treatment

- Treatment Capacity Expansion Grants: (Total \$110 million, an increase of \$55 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.
- Substance Abuse Block Grant Program: (Total \$1.615 billion, an increase of \$30 million (\$24.8 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.

### 4. Law Enforcement & International Programs

- Southwest border—INS: (Total \$450.8 million, an increase of \$50 million. (\$7.5 million drug-related)). INS will continue to deploy the Integrated Surveillance Information System (ISIS). ISIS, which incorporates infrared and color cameras with ground sensors, will aid Border Patrol enforcement efforts and drug interdiction along the Southwest border.
- International Programs—State: (Total \$265 million, an increase of \$29 million). These new resources over fiscal year 1999 (excluding emergency funding) are requested for the Bureau of International Narcotics and Law Enforcement Affairs (INL). This additional funding includes support for Andean countries, Mexico, and assistance to international organizations.
- DEA Drug Intelligence: (Total spending for DEA is \$1.469 billion. Spending on intelligence will increase by \$22 million) This funding will provide \$13 million to accelerate implementation of DEA's FIREBIRD office automation system. FIREBIRD includes e-mail, uniform word processing and other forms of office automation that will provide DEA with more sophisticated electronic investigative records. Once fully deployed, FIREBIRD will allow DEA components located around the world to act as one cohesive unit through instantaneous access to critical law enforcement and intelligence information. In addition, \$9 million will enhance DEA's Special Operations Division by providing critical support for Title III investigations aimed at dismantling drug trafficking organizations.
- Forward Operating Locations—DOD: (New program—\$70.6 million). The drug control budget for the Department of Defense includes these additional resources in fiscal year 2000 for restructuring SOUTHCOM's theater counterdrug architecture, which will include the development of three Forward Operating Locations (FOLs). These FOLs will support transit and source zone air operations in SOUTHCOM's area of responsibility.

This Administration request for \$17.8B represents a record budget. If approved by Congress, federal drug control spending will have increased by more than a billion dollars a year since fiscal year 1996 (for a total of 32 percent). Spending increase by broad category follow:

*Demand Reduction*

- Prevention UP 55 percent (+ \$776.3 million)
- Treatment UP 25 percent (+ \$639.5 million)
- Research UP 35 percent (+ \$175.1 million)

*Supply Reduction*

- Domestic Law Enforcement UP 24 percent (+ \$1.768.5 billion)
- Interdiction UP 47 percent (+ \$616.3 million)
- International UP 120 percent (+ \$347.4 million)

The following shows how federal spending is distributed among the Strategy’s five goals.

*Fiscal year 2000 Budget by Goal*

<i>Five Goals</i>	<i>Percent</i>
Goal 1 .....	11.8
Goal 2 .....	43.4
Goal 3 .....	19.8
Goal 4 .....	12.9
Goal 5 .....	12.0

IV. 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. A key provision of that Act was the establishment of ONDCP to set priorities, implement a national strategy, and certify federal drug-control budgets. The law specifies that the strategy must be comprehensive and research based, contain long-range goals and measurable objectives, and seek to reduce drug abuse, trafficking, and their consequences. Specifically, drug abuse is to be curbed by preventing youth from using illegal drugs, reducing the number of users, and decreasing drug availability.

The Violent Crime Control and Law Enforcement Act of 1994 extended ONDCP’s mission to assessing budgets and resources related to the National Drug Control Strategy. It also established specific reporting requirements in the areas of drug use, availability, consequences, and treatment.

Executive Order No. 12880 (1993) and Executive Orders Nos. 12992 and 13023 (1996) assigned ONDCP responsibility within the executive branch for leading drug-control policy and developing an outcome-measurement system. The executive orders also chartered the President’s Drug Policy Council and established the ONDCP Director as the President’s chief spokesman for drug control.

The Office of National Drug Control Policy Reauthorization Act of 1998 expanded ONDCP’s mandate and authorities and set 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 and Establishment of a Parents Advisory Council on Drug Abuse.

V. ONDCP’S FISCAL YEAR 2000 BUDGET REQUEST

*Salaries and Expenses: \$21.933 Million*

ONDCP’s budget provides \$21.933 million for salaries and expenses to support ONDCP’s requested 158 Full Time Equivalents (FTEs)—128 full time employees and 30 detailees. This \$21.933 million for salaries and expenses is the smallest programmatic component of the ONDCP budget. However, this funding is the linchpin for all the other programs funded through the ONDCP budget. Without a fully staffed and funded ONDCP, none of these other initiatives can be carried out. ONDCP is an organization of committed professional men and women. The fiscal year 2000 request for \$21.933 million represents a \$2.791 million increase over the enacted fiscal year 1999 total of \$19.142 million. Major expenses include:

- \$9.768 million for compensation of 128 FTEs. This represents an increase of \$822,000 over the fiscal year 1999 enacted total of \$8.946 million, to support

- pay raises, within grade increases, and 4 additional FTEs for two growing areas within ONDCP.
- \$2.210 million for total personnel benefits.
- \$5.845 million for guard services, professional services contracts, maintenance services, and related costs. Over the last year, we have taken prudent steps to increase the security of both our personnel and sensitive information within the office's purview.
- \$2.202 million for rental payments to GSA.
- \$754,000 for travel and transportation costs.
- \$847,000 for communications, utilities, printing, reproduction, and related miscellaneous costs.
- 307,000 for equipment, supplies and materials, and representational allowance.

*Educating America's Young People, Empowering Communities, and Advancing Our Understanding of America's Drug Problem: \$225.3 Million for the Special Forfeiture Fund*

*The National Youth Anti-Drug Media Campaign*

The President requests \$195,000,000 for the National Youth Anti-Drug Media Campaign. The anti-drug media campaign began in January 1998 in twelve test sites and was expanded nationwide in July. Once ads began to run in the twelve test sites, anti-drug awareness increased and requests for anti-drug publications increased by more than 300 percent. The campaign harnesses a diverse mix of television, video, radio, Internet, and other forms of new media to deliver anti-drug messages. Its objectives are "universal," aiming at all adolescents, parents, and primary caregivers. Messages and channels through which they are being delivered are tailored for specific regional, ethnic, cultural, gender, and age differences among members of the target audiences. Advertisements are being prepared in eleven different languages. Paid and public service advertising, news, public-affairs programming, and entertainment venues are being used in the media campaign.

So far, media outlets are matching paid advertisements with public-service time for advertisements and pro-bono programming content on more than a one-for-one basis. In the past year, we received \$165 million in free public service announcement spots and \$40 million in corporate contributions. Public-service advertising space generated by the paid campaign is being dedicated to messages that target underage drinking and smoking, as well as other messages related to the campaign's communications objectives. We have also developed partnerships with a broad range of community and civic groups, professional associations, government agencies, and corporations. The entertainment industry is also responding favorably. In 1998, thirty television programs focused on themes and messages supportive of the campaign. While the campaign's goal was to reach 90 percent of the target audience with four messages a week, by January 1999, 95 percent of the target audience was receiving seven anti-drug messages a week.

The outstanding results attained during the first year of this media campaign are a function of the outstanding support of the private sector. The firm Porter-Novelli developed our strategic communications plan. Bates Advertising and Zenith Media planned and bought ad time and space in the initial phases of the campaign. Ogilvy and Mather is ONDCP's long term contractor for ad planning and placement. Fleishman-Hillard is our contractor for non-advertising media (entertainment industry collaboration, Internet initiatives, partnerships with major organizations serving youth and parents, and public education and media outreach). The Partnership for a Drug-Free America continues to produce most of the ads for the paid component of the campaign. The Ad Council serves as a clearing house for public service ads which are supported by campaign-generated ads. The American Advertising Federation and the National Association of State Alcohol and Drug Abuse Directors (NASADAD) form the core public service task force at the local level to ensure local and community organizations are supported by matching funds/air time. The support of most of the major television networks, the Disney Corporation, America Online, and other multimedia companies is indicative of the breadth of support this campaign has generated.

*The Drug-Free Communities Program*

The President requests \$22,000,000 to continue the Drug-Free Communities Program. Government response is only a small part of the national effort to counter illegal drugs. Communities are significant partners for local, state and federal agencies working to reduce drug use, especially among young people and deserve continued support. This program provides grants, information, and other essential support to communities around the country as they organize to confront drug abuse. Thousands of communities around the country have formed coalitions that coordinate

local reactions to the illegal drug problem. Coalitions typically include schools, businesses, law enforcement agencies, social service organizations, faith communities, medical groups, and youth groups, as well as county and local government. Community Anti-Drug Coalitions of America (CADCA) supports these organizations through technical assistance, leadership development, and information dissemination.

The Drug-Free Communities Act of 1997 provides vital support to communities. The program's genesis and growth has been fueled by an unprecedented level of bipartisan support. In fiscal year 1998, \$10 million in grants were provided to 92 coalitions in 46 states. ONDCP also conducted an initial training and technical assistance conference and a presidentially appointed Advisory Commission was established. In fiscal year 1999, we project that support will be provided to the original 92 recipients and that an additional 119 communities will be awarded grants. This fiscal year 2000 request will support the coalitions that received grants in fiscal year 1998 and fiscal year 1999 and will fund an additional 68 grants. A key feature of this program is ease of application and reporting requirements. Grants will be made to coalitions of representatives of youth, parents, businesses, the media, schools, youth organizations, law enforcement, religious or fraternal organizations, civic groups, health care professionals, state, local, or tribal government agencies, and other organizations. The requirement for participating communities to match funding will help ensure local initiatives, support, and accountability.

An Advisory Commission on Drug-Free Communities has been established to advise, consult with, and make recommendations to the ONDCP Director concerning activities carried out under the Program. In addition to providing outright support for coalitions, ONDCP and its partners—OJJDP and CSAP—are providing training and technical assistance to individuals and groups to enable them to start up coalitions in their communities.

#### *Director's Discretion*

The President requests \$8,300,000 for the ONDCP Director's discretion to enhance drug control activities and address emerging drug threats. We believe that it is essential for the ONDCP Director to have discretionary funds with which to respond to unforeseen contingencies. We would be delighted to brief Congress on a regular basis concerning programs funded and accomplishments.

At least \$3.3 million will be used to improve the Federal Drug Related Data Systems. This past February, ONDCP issued its first annual report on the Performance Measures of Effectiveness (PME) system for the National Drug Control Strategy. The PME is the first federal performance measurement system cutting across departments and agencies on a single area. It contains 97 performance targets for the 5 goals and 31 objectives of the Strategy. We have conducted a gap analysis to determine the number of targets for which data need to be developed. ONDCP's Subcommittee on Data, Research, and Interagency Coordination will review existing Federal data systems, within the context of the gap analysis, to determine what additions/modifications can be made to existing data systems to provide the measures for the PME system.

This funding request will provide support for agencies to modify or add to their existing data systems. Some projects targeted include: deriving annual estimates of the social costs of drug abuse; developing SAMHSA's National Treatment Outcome Monitoring Study; and developing estimates of drug availability. Funds will be transferred to agencies once a plan to redesign/modify/add to an existing data system has been submitted to and approved by ONDCP. Outyear funding is required to support ONDCP's continual data development projects. Agencies will be required to provide continuation funding in the out years through their own appropriations.

#### *Strengthening Law Enforcement: \$185.777 Million for the High Intensity Drug Trafficking Area Program*

High Intensity Drug Trafficking Areas (HIDTA) are regions with critical drug-trafficking problems that harmfully affect other areas of the United States. These locations are designated by the ONDCP Director in consultation with the Attorney General, the Secretary of the Treasury, heads of drug-control agencies, and governors. There are currently twenty-one HIDTAs. HIDTAs assess regional drug threats, design strategies to address the threats, develop integrated initiatives, and provide federal resources to implement these 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 trafficking organizations. In 1998, new HIDTAs were designated in central Florida (including Orlando and Tampa), North Texas, the Milwaukee metropolitan area, and the marijuana-growing regions of Kentucky, Tennessee, and West Virginia. HIDTAs have been established in the following locations:

Since January 1990, counties in 21 areas across the United States have been designated as HIDTAs:

1990

New York/New Jersey.

Los Angeles.

Miami.

Houston.

Southwest Border (which contains the five partnerships of the California Border, Arizona, New Mexico, West Texas, and South Texas).

1994

Baltimore/Washington, D.C.

Puerto Rico/U.S. Virgin Islands.

1995

Chicago

Atlanta

Philadelphia/Camden

1996

Rocky Mountain (Colorado, Utah, and Wyoming)

Gulf Coast (Alabama, Louisiana, and Mississippi)

Lake County (Lake County, Indiana).

Midwest (Iowa, Kansas, Missouri, Nebraska, and South Dakota).

Pacific NW (Washington Cascades).

1997

Southeast Michigan.

San Francisco Bay.

1998

Central Florida.

Kentucky/West Virginia/Tennessee.

Milwaukee.

North Texas.

This fiscal year 2000 request for \$185,777,000 for HIDTA is \$1.8 million greater than the fiscal year 1999 enacted HIDTA budget. The additional funding is required to retain independent auditors to perform financial and programmatic reviews of the HIDTAs. At least half of the resources will go to state and local participants to support more than 250 task forces and initiatives.

*Deploying Advanced Technologies to Fight Drugs: \$19 Million for the Counterdrug Technology Assessment Center*

The ONDCP Reauthorization Act of 1998 reestablished within ONDCP the Counter-Drug Technology Assessment Center (CTAC) to serve as the central counter-drug technology research and development organization of the United States Government. CTAC's responsibilities include:

- identify and define the short-, medium-, and long-term scientific and technological needs of Federal, State, and local drug supply reduction agencies, including: advanced surveillance, tracking, and radar imaging; electronic support measures; communications; data fusion, advanced computer systems, and artificial intelligence; and chemical, biological, radiological (including neutron, electron, and graviton), and other means of detection
- identify demand reduction basic and applied research needs and initiatives, in consultation with affected National Drug Control Program agencies, including: improving treatment through neuroscientific advances; improving the transfer of biomedical research to the clinical setting; and in consultation with the National Institute on Drug Abuse, and through interagency agreements or grants, examining addiction and rehabilitation research and the application of technology to expanding the effectiveness or availability of drug treatment
- make a priority ranking of such needs identified in subparagraphs (A) and (B) according to fiscal and technological feasibility, as part of a National Counter-Drug Enforcement Research and Development Program;
- oversee and coordinate counter-drug technology initiatives with related activities of other Federal civilian and military departments;
- provide support to the development and implementation of the national drug control performance measurement system; and
- submit requests to Congress for the reprogramming or transfer of funds appropriated for counter-drug technology research and development.

CTAC is pursuing a comprehensive research and development (R&D) program in support of the long-term National Drug Control Strategy. This R & D program has three essential elements:

- Projects to support the development of federal law enforcement and drug abuse treatment technology.
- Technical assessments and operational test and evaluation of emerging drug detection and tactical counterdrug technology for field transition.
- A program to transfer federal counterdrug technology directly to state and local law enforcement organizations.

Supporting activities include a variety of regional one-day workshops, technical symposia, and ad hoc studies to promote the exchange of relevant information throughout the scientific and technical community. These outreach activities serve to reduce unnecessary duplication of effort and provide the mechanism for CTAC to oversee and coordinate counterdrug technology initiatives with related activities of other federal, civilian and military departments. This oversight and coordination effort extends to include developments in the industrial, academic and federal laboratory sectors, as well.

CTAC has organized its R&D program according to five technology categories or areas of work:

- Non-intrusive inspection technology development.
- Tactical technology development for federal agencies.
- Demand reduction technology.
- Technical assessments and operational test and evaluation of emerging technology.
- Transfer of federally developed technology directly to state and local law enforcement organizations.

National laboratories, private industry and academic institutions are the sources for the expertise needed for technology development efforts and have performed the research within the R&D Program. Standard and centralized test and evaluation activities performed under CTAC sponsorship are used by the law enforcement community to validate expected system performance in the field and assist in rapid transfer of successful technology to the end-users.

*Expanding Our Understanding of the Problem: \$1.2 Million for ONDCP-Coordinated Policy Research*

The President requests \$1,200,000 for policy research in fiscal year 2000, an increase of \$100,000 over fiscal year 1999. This increase is primarily to provide funding for evaluations to be conducted in support of ONDCP's Performance Measures of Effectiveness (PME) system. ONDCP conducts policy research to develop and assess 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 the sources of data and information about the drug situation. The requested funds will support a wide range of policy research areas, such as:

- Drug-Flow Modeling.*—ONDCP is currently leading an interagency process to estimate the flow of drugs, from source country to distribution in the United States. The four drugs of interest are cocaine, heroin, marijuana, and methamphetamine. No single agency provides the data for the entire process, rather many agencies have key pieces. For example, the CIA's Crime and Narcotics Center provides data on potential cultivation, the Coast Guard and DOD provided data on events and seizures in the transit zone, and Customs provide data on seizures at ports of entry. We are working with the relevant agency staff to review their data, improve their estimates, and fit their data into the overall model. The resulting estimates will be used to measure progress in achieving several of the targets in the Performance Measures of Effectiveness system of the Strategy.
- Price of Illicit Drugs.*—This yearly project generates quarterly and annual illicit drug prices and purities for the United States and selected cities. Results of the project are used to monitor market trends and support other research projects related to the illicit drug market. Statistical models based on data from the DEA are used to estimate typical prices for standardized purchases of heroin, cocaine, and marijuana. The paper includes price trends for these standardized purchases over time.
- Deterrence Study.*—The purpose of this study is to develop a reliable functional relationship between the allocation and application of interdiction resources and the deterrence of illegal drug smuggling. The analysis is principally confined to deterrence associated with interdiction operations against all routes and modalities of illegal drug smuggling in the Source, Transit, and Arrival Zones. It ad-

dresses domestic U.S. disruption activities only to the extent that these activities affect interdiction operations or suggest changes in smuggling routes likely to alter the flow of drugs in the Source, Transit, and Arrival Zones. The first half of the study was supported with fiscal year 1998 funds from ONDCP, the Coast Guard, and Customs.

—*Gallup—Consultation with America Survey.*—This project is a follow up of a similar survey conducted by the Gallup Organization for ONDCP two years ago as part of ONDCP's Strategy consultation process. The survey asks respondents their attitudes and perceptions regarding a number of drug-related issues, including their perception of the importance of the problem relative to other national issues. The information obtained from the survey will be useful to the development of the National Drug Control Strategy and as a measurement source for several PME targets.

—*Federal Grant Directory.*—The Directory produced every 2–3 years assists state and local governments, community coalitions, researchers, and others in identifying and applying for Federal grants by cataloging Federal programs that award drug-related grants. It also provides information on how to identify and contact private foundations that also may provide valuable resources in the field. The third edition of the Directory is currently being prepared.

—*Pulse Check.*—This report, issued twice each year, provides details on current drug use and emerging trends based on qualitative information from the police, ethnographers, and epidemiologists working in the field, and providers of drug treatment services across the country. The report contains separate sections on marijuana, cocaine, and heroin markets and patterns of use.

—*Technical Paper: What America's Users Spend on Illegal Drugs.*—The report is prepared once every two years and estimates the amount of drugs available in the United States and how much Americans spend to purchase them. The report focuses on the retail sales value of cocaine, heroin, marijuana, and other illegal drugs. It currently provides ONDCP's estimates of the size of the hard-core user population.

#### *National Alliance for Model State Drug Laws—\$1,000,000*

State drug laws play a critical role in the effort to reduce drug availability and use. In recognition of this fact, in 1988 Congress mandated the creation of a bipartisan, presidentially appointed commission to develop model state drug legislation. The resulting President's Commission on Model State Drug Laws developed forty-four exemplary drug laws. Since 1993, the Alliance for Model State Drug Laws has been holding workshops throughout the country to focus attention on state policies and laws concerning drugs. The adoption of the Model State Drug Laws, and the continued efforts of the Alliance, are important to national drug-control efforts. The National Alliance for Model State Drug Laws (Alliance) encourages States to adopt and implement model laws, policies, and regulations to reduce drug use and its adverse consequences. The Alliance's success in promoting model laws among the States has prompted interest in assessing outcomes associated with such laws. The fiscal year 2000 request funds the Alliances' administrative costs.

#### VI. CONCLUSION

The Office of National Drug Control Policy's budget request of \$454.210 million is a modest component of the requested \$17.8 billion federal drug control budget. However, the importance of this funding cannot be overstated. This support will provide ONDCP the resources necessary to ensure the successful implementation of the 1999 National Drug Control Strategy, which will have broad reaching, positive impacts on this nation and its citizens.

All of us at ONDCP are proud of the growing partnership between the Executive and Legislative branches on drug control issues. This 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 objectives laid out in this Strategy without the support of the fifty states and four U.S. territories, as well as the thousands of city, county, and local governments threatened by illegal drugs. 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. Finally, the Strategy addresses congressional concerns over lack of accountability of drug-control programs by including specific benchmarks for a base year (1996) against which to measure progress and hard data results for 1997 and 1998 (where such data is available).

We look forward to working with committee members 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 who share our commitment to confronting the cancer of drug abuse.

Senator CAMPBELL. Thank you, General. I appreciated some of your testimony, having visited with you to the drug court in Denver a couple of years ago. I was very impressed and we talked at that time about not only expanding drug courts, but the juvenile drug courts. You said there were two?

#### JUVENILE DRUG COURTS AND HDTAS

General MCCAFFREY. Break the Cycle. The juvenile drug courts are more than that. I would have to give you a number. There are 500 total drug courts either operating or in the process of starting up.

Senator CAMPBELL. A couple of pilot projects for juveniles courts though, too?

General MCCAFFREY. Yes, absolutely.

Senator CAMPBELL. I think they are in the right direction. The HDTAs, I think also are doing well. There was some resistance early on to the growth of those. But the one that is in our area in Colorado seems to be doing very well. I check regularly with different departments, police department, sheriff and so on, and they are very pleased with it. They think it is really providing a service so they are not duplicating efforts and it helps them coordinate their efforts.

I am also pleased that you are putting more emphasis too on rehabilitation; something that we do not talk about often in politics. We like to sound tough and tell everybody how we are going to build bigger jails and put them all away. But I know the revolving door problem we have with people that are addicted, too, and until we break that cycle including helping the ones that are already incarcerated getting away from it, it will never put a big dent in the drug usage. So I appreciate your comments.

Before I ask you some questions though, since this is the first time our new ranking minority member, Senator Dorgan, is here with us for this hearing, I would ask him if he had a statement he would like to make.

#### PREPARED STATEMENT

Senator DORGAN. Thank you, Mr. Chairman. As you know I was over at the Energy Committee and then I went to the wrong room actually, so I was a bit delayed and would ask that my statement be made a part of the record.

[The statement follows:]

#### PREPARED STATEMENT OF SENATOR DORGON

Thank you, Chairman Campbell. I also want to welcome you to the subcommittee today, General McCaffrey. I appreciate having this opportunity to discuss with you my concerns with drugs and their impact on our society.

Over the past eight years, the Federal Government has invested more than \$165 billion in drug control strategies. This year \$17.8 billion is requested. And, certainly that is not too much to pay, if we are making strides in stemming the supply of drugs entering the country and reducing the level of drug usage, particularly of our youth. I am confident that you, General McCaffery, will use today's hearing as a

forum to show us how we are succeeding in reaching these goals. And, I know you will give us information that proves that our expenditures are having a real impact.

I hope that during this hearing we can also explore some of the very important programs you are involved with, such as the Drug Media Campaign, International Drug Supply and Interdiction efforts, and the reduction in overall drug usage.

The committee has provided \$380 million for the Drug Media Campaign. It is my understanding that this campaign includes not only the T.V. ads we are all familiar with, but it links these ads to community partnerships, corporate sponsorships, and entertainment industry's "in-kind" contributions. As a newcomer to the subcommittee, I would like to take this opportunity to learn more about this media campaign and its effectiveness.

International drug supply and interdiction efforts are another area I am interested in discussing. The United States and its allies have made gains in drug crop reduction. The continuing downward trend in illicit coca cultivation has resulted in a reduction of 17 percent in the overall coca cultivation in the Andean countries. However, in Columbia we see a sharp rise in coca cultivation resulting in Columbia becoming the premier coca cultivating country. Yet, in the last year, the United States has more than tripled aid to Columbia.

We have again been asked to approve the President's certification of Mexico. The certification process has been in effect for more than twelve years. It is a good tool. It promotes openness and viability. But, I am afraid we are going to eliminate the certification process's ability to effect change in other countries' drug efforts—especially, if we continue to certify countries that are obviously not making strides in stopping the drug trafficking to the United States. Mexico now rivals Columbia for dominance of the Western Hemisphere drug trade. Drug corruption has reached unprecedented levels, and drug seizures by the Mexican police have fallen significantly. I understand the politics surrounding the certification issue, but I find it difficult to agree with certifying that Mexico has been a fully cooperative ally in fighting illegal drugs.

Finally, I want to discuss drug usage. Our primary concern is seeing evidence that monies provided are leading to a reduction in drug use. Current studies and the "Data snapshot" information do not confirm reductions. In fact, your charts show that the current use of "any illicit drug" among youth is increasing. Use of marijuana is the highest since 1985, and heroin use has increased by close to 700 percent.

I know these are areas you want to address General McCaffery, and I look forward to your testimony.

Thank you very much, Mr. Chairman.

Senator DORGAN. But, General, thank you very much. I am impressed with the work you and your agency are doing and am interested in—I am new to this issue and new to this subcommittee but I am interested in working with the chairman, Senator Campbell, and you and others on these matters.

I have a number of questions I would like to ask, but a couple of the things that I am especially interested in, one, the drug media campaign. I happen to think it is an important and useful tool. I also know that it costs a great deal of money, and the management of it, and the measurement of results from it I think are critical to determine whether this is an investment that it is yielding the returns we expect.

I am also especially interested in the question of addiction and the amount of money available for treatment centers. You indicate in your statement, General, that there are 4 million chronic drug users in this country. That does not include alcohol I assume?

General MCCAFFREY. Does not include it, right.

Senator DORGAN. When you take a look at addiction to drugs and alcohol and evaluate the amount of money available for treating that addiction, we simply are not nearly where we ought to be. We can interdict drugs, but if we do not interdict the addiction we are going to have people out there committing crimes to feed their addiction. So I want to talk to you a bit about that today and think through how we can improve in that area.

I noted in your statement also you talked about the success of the methadone treatment programs and the reduction in addiction, and also the reduction in crime resulting from those programs. I was encouraged and heartened by that.

I am especially interested in one of the last points you raised about Break the Cycle and other kinds of programs. It seems to me that no one ought to leave prison who has not gone through some sort of addiction counseling or addiction program if they in their life of crime have been affected by drug or alcohol addiction. I would like to talk about how we accomplish that and I will do that during the question portion.

Mr. Chairman, you no doubt have some questions. Why don't I defer to you and then I will ask a series of questions.

Senator CAMPBELL. Okay, thank you.

General, let me associate myself with Senator Dorgan on the concern that we had at the beginning, as you remember, about putting all this huge amount of money into the media campaign. I have been pretty supportive of it, as you know, but it has been a chunk of money. As I mentioned in my opening statement, as of this year, this budget will be something like \$500 million in that program. I think it has been somewhat effective, I am just not sure how much. But I think it has headed in the right direction.

But I am a little bit concerned because, in my view, any program is as good as the administrator of the program. And if you are to have long term continuity of a new program then the person who really energized it, which in this case is you, General McCaffrey, I think the committee would like to be assured that you are going to continue on with this thing.

I only mention this because I noticed in the newspaper, the Washington Times, February 12th, that you were, according to the Washington Times you were going to be leaving this office and going to get a new job with the Red Cross. Of course, that has changed now and the Red Cross has picked a new president and it is obvious you are going to stay at least where you are for the time being.

I notice this is maybe a little personal and you are welcome to do what you want in your own personal life, but I think you could reassure this committee that this kind of a very expensive program is going to go on and continue what we want it to do by putting that much money in it under your leadership. I think it would make us very happy.

General MCCAFFREY. Senator, I told people—I called the Washington Times, the Post, and had to explain this to the President and to the Red Cross. I was flattered by the article along with other speculation, but there was no substance to those news reports at all. Although I was not a volunteer for this position at all, I am honored to be part of it. I think we are moving in the right direction, and as long as I retain the confidence of the U.S. Congress and the President and my associates, I am glad to continue to serve.

Senator CAMPBELL. Thank you. There is something else that is kind of close to my heart. As you probably know, since Bill Bradley left the U.S. Senate, I am the only one here who was on a U.S. Olympic team and still am very active in the Olympic team. Your

office has provided us with the estimates and costs of your recent trip to the International Olympic Committee's anti-drug conference.

And by the way, Senator Hatch and I have been working with the Olympic committee on trying to resolve some of the problems you have read about in the paper, and everybody has read about in the paper of collusion and all kinds of mismanagement and special gratuities and so on for some of the members of the International Olympic Committee, which has nothing to do, by the way, with the American Olympic Committee. That is a separate issue.

But as I understand it, when you went over to Switzerland, the four-day trip cost about \$68,000 including an estimate of \$25,000 for administrative and logistic expenses for seven attendees and seven marshals. That, as I also understand it, is about 11 percent of your total travel budget. I would like to know, which account is going to cover those costs, because as I remember they were not anticipated before in last year's budget?

#### INTERNATIONAL RESPONSIBILITIES

General MCCAFFREY. Senator, I do not have a clue about 11 percent. It doesn't sound likely. We spend a lot of money on travel. What I essentially do is move around the country, the Hemisphere, the Pacific Rim, and Europe acting both as spokesman and organizer on the drug effort. Our presence at Lausanne I think was timely. It was productive. We made a huge impact, along with the European Union, the Brits, the Germans, and particularly with the Australians and the Canadians.

It was, of course, a "doping conference" and I was probably less concerned about 5,000 international world-class athletes than I was the hundreds of thousands of kids all over the world who model their behavior on getting to the top. So that was our purpose in being there.

I think the trip was a tremendous expenditure of energy on our part and I am very proud of what we were able to do. The mechanics of how we paid for it; it was a tiny expense. I am on the road almost one-third of the year.

Senator CAMPBELL. It is an interesting area of discussion and we will not have time to get into all of it. But having been very active in the Olympic team, have you ever heard of what they commonly call blood doping?

General MCCAFFREY. Sure, absolutely. When I went over there I took along one of the country's leading experts on doping. I had to get him under contract. He was our NIDA person. As you know, NIDA funds 85 percent of the world's total expenditures on drug abuse. I also took along my deputy, Dr. Don Vereen, who is a nationally ranked drug abuse research expert, was the NIDA Deputy Director.

So we had a series of meetings where ever we went. We were working on this probably since last summer. We wrote a proposal for the IOC in October and sent it to them.

Senator CAMPBELL. And during that proposal, that is when you proposed you would provide \$1 million in funding to the IOC?

General MCCAFFREY. Exactly. They started down the wrong direction. They were going to do with Prince Maraud of the IOC, an inadequate institutional approach, and we did not think they were

adequately serious about it. So we think we have got them rethinking it, and I hope in the coming months we end up with something that makes it appear as if we are acting to protect the international Olympic movement.

Senator CAMPBELL. I support it. I am just a little concerned about the Federal Government's role in it since the Olympic Committee does—they have a budget of something like \$400 million every quadrennial, every four years. I am just not sure about how much the Federal money ought to be put in it. But if you can justify that, I do not have a problem with it. I just wanted to throw that out to you.

General MCCAFFREY. The \$1 million really we are not going to give them. We are going to do research which supports the doping issue.

Senator CAMPBELL. Where is that \$1 million going to come from, out of what part of your budget?

General MCCAFFREY. It is part of the CTAC. CTAC organized that approach.

Senator CAMPBELL. And you will be able to do that without diminishing some of the other CTAC projects or areas?

General MCCAFFREY. Presumably.

Senator CAMPBELL. Some of the things, by the way—Senator Dorgan may already know this and you may, too. There are some things that are against Olympic rules that are probably not on anybody's law as being illegal.

General MCCAFFREY. Sure.

Senator CAMPBELL. I mentioned blood doping.

General MCCAFFREY. There is no common standard. Not only in the Olympic movement, but there is none here in the United States. Certainly this Mark McGwire and andro and creatine brings that to bear. He was not violating any U.S. standard nor law by using andro, which is outlawed in other sports here in the United States and also in some Olympic competitions.

Senator CAMPBELL. Even some things like—

General MCCAFFREY. Artificial testosterone, blood packing, human growth hormone.

Senator CAMPBELL. Yes, and even withdrawing your own blood over a period of time before you compete and then pumping your own blood back into you, which is highly oxygenated which gives you sort of a supercharged effect for two or three days. That comes under the general classification as against the rules—

General MCCAFFREY. Methamphetamines, other stimulants.

Senator CAMPBELL [continuing]. But it is probably not against anybody's law.

General MCCAFFREY. Yes.

Senator CAMPBELL. I got a little far away. Let me get back to some specific questions. The current law requires that ONDCP secure corporate contributions equal to 40 percent of the appropriated amount of the campaign, which is roughly about \$74 million. Could you give us the status of that effort? You mentioned it in your opening statement.

## CORPORATE INVOLVEMENT

General MCCAFFREY. Right. I was asked that yesterday by Congressman Kolbe in the House hearing, and to be honest, I did not have an answer. I am not sure either one of us knew what we were talking about. So since then, last night I researched it.

During the omnibus appropriations act there were a series of things that were proposed for that bill that we thought were harmful. This was one of them, but it got in there. So it is in the law right now, and essentially seems to mandate \$40 million corporate in-kind contribution to first year, growing by percentages to 100 percent in 2002. It almost seems to imply that it might be cash contributions.

Senator CAMPBELL. No, it is in-kind.

General MCCAFFREY. Right. So as we look at it right now, if you look at the enormous in-kind contributions of the advertising world to both Partnership for a Drug-Free America and the Ad Council, we have totaled up \$41 million of in-kind contributions. So we are achieving that goal as well as, thankfully, the matching 100 percent requirement, which we have exceeded.

On top of that, I would suggest that by May we will have put the last contract into play. I will have a firm to work corporate partnerships.

Having said that, Senator, I would ask us to look carefully at that requirement. It may be that that is a very unwise mandate.

Senator CAMPBELL. That report was due at the end of January and I do not think it is in yet. Could you give us a specific date that you think you will have it to us?

General MCCAFFREY. Sure. We can give it to you right away. I am not sure we really focused on that.

But again, if I may suggest, we will need to consider whether this is feasible or desirable to have that as a requirement in the law. It implies that by 2002 there would be \$185 million of corporate in-kind contributions. That, by the accounts of those who do this for a living, is not even beginning to be realistic.

Senator CAMPBELL. Frankly, I am not sure it is realistic either, but it was to really—if you remember, it was kind of to alleviate the concern of the members, including me, that thought the more Federal money we pour into advertising on television, the less they might be inclined to donate if they thought they had sort of a new cash cow. That is what brought it about in the first place.

General MCCAFFREY. Yes. I think we are pleased and encouraged by the response.

Senator CAMPBELL. So your donated time has not decreased?

General MCCAFFREY. No. And we were worried about not only the donated time, but also to not dry up other campaigns with PSA access requirements. We have got a committee that verifies these for the Ad Council. Ruth Wooden and her associates have been tremendous about it, and so far I think we are doing good. So Mothers Against Drunk Driving has got more access, not less.

Senator CAMPBELL. That will be in your report, I assume, good hard evidence of it.

The tech transfer that we did, I have gone to, I guess, three of them around the country and they were very widely and happily

received by local departments. Originally, when we put that in place there was some reluctance, as I remember, to expand that. But it sure seems to be doing well out in the local departments. In fact, this year I was happy to see that that program requested under your salaries and expense account is being supported.

It was supported, by the way, last year to the tune of about \$13 million, each of the last two years. But this year you requested only \$3 million. But we have roughly \$30 million in requests from different police departments. I would like to know how you propose to meet those needs.

General MCCAFFREY. My records as of 1 March 1999 indicate I have got \$59 million plus in requests outstanding. This is enormously popular. It is extremely useful, particularly along that southwest frontier where we are asking local police departments to help defend all of America. So I think it is a wise use of Federal dollars. It ought to be looked at very carefully by the Congress.

In a tight budget year OMB funded it at a lower level than many of us would have wished to see. And I will listen very carefully for your own views about this.

Senator CAMPBELL. I think it ought to be funded to a higher level and I would hope that you would see it that way, too. Because I have been out there and I think that it has made a tremendous difference. Local departments have no way of ever being able to afford some of that technology that they can access through this program. Some of that stuff, I mean to tell you, it is just absolutely Buck Rogers things. I had no idea the sophistication of some of the apparatus that they were demonstrating.

The process by which it is explained to the local departments as to how they can get it, how the training is included with it, I mean it is just a widely popular program.

General MCCAFFREY. We have had Fort Wachuca managing that program for us. They have done a splendid job, and I agree, I think it is a big payoff program.

Senator CAMPBELL. All right, I thank you.

I will ask Senator Dorgan if he has some questions. I want to do another round of them, but I do not want to monopolize all the time.

Senator DORGAN. Thank you, Mr. Chairman.

Again, General, let me tell you my admiration for you and your agency and the work you do. But I do have a number of questions because I am trying to understand what we are doing and the effect of what we are doing. Let me start with the national media campaign.

Obviously, when we spend as much money as we are spending on that campaign, we want to try to understand what we are accomplishing with it. This subcommittee, I believe, required that evaluations be completed. For example, phase one, phase two evaluations should be completed and submitted. My understanding is we have not met those timelines.

I guess I would ask the question, if we are going into succeeding phases with quantities of money in the hundreds of millions of dollars without understanding what the consequences or effects of the first phases were, are we able to assure the taxpayers that we know what we are doing with that money?

## MEDIA CAMPAIGN

General MCCAFFREY. Senator, again this came up yesterday and I discussed this my own staff yesterday. We will be more effective in horizontal communication with committee staffers. Obviously there has been a shortfall here.

We have complied with the law. There is a Phase One evaluation report. I have signed it out to all the governors in the country, to Congressmen, to NGOs who follow this issue very carefully. There is also additional work going on Phase One evaluation looking at the survey. We are going to do a good baseline. Those 12 cities, the 12 control cities were looked at pretty carefully. There was extremely positive feedback.

We have moved forward into Phase Two expenditures of money. We have gone nationwide, but we are not at 75 percent expenditure rates.

In addition, I would suggest to you, I have got a packet up there for you of information. One of them is a March 4 memo I wrote, National Youth Anti-Drug campaign reviews and safeguards and ad development. I can assure you, this is very carefully monitored.

Thank God, we are beyond the Phase One where now I have got three of the most knowledgeable, sophisticated firms in the country. Ogilvy Mather is doing our advertising placement, \$129 million. We have got Fleishman-Hillard doing the online Internet and affecting program content in the entertainment industry. We do have a NIDA watchdog, National Institute of Drug Abuse. Westat Corporation is the evaluator external for that program. We do have, Partnership for a Drug-Free America; creative review committee, and we do have a scientific review process.

Then finally, I personally approve and expect to be held accountable for the execution of the program. All of that I will provide to Congress so you can watch the evolution.

But the bottom line is, I would just suggest to you as strongly as I can, we do know what we are doing, and we are getting some pretty solid feedback. There is a lot to be learned here now. We are on a new map sheet here, so we have got to be prudent in safeguarding the public's money. I am very aware that you have given me \$1 billion campaign to carry out.

Senator DORGAN. I ask the question because I remember reading recently about the wonderful milk check-off that we all approved, so we see all of these ads all over the country with people with milk mustaches. And then we start reading about how much money has been available in these campaigns and how it has been used, and it is very hard to control the use of money when you have that quantity of money.

You talk about some of the biggest and best names in the business. They would also probably be the most expensive in the business. Do you have some good newer firms that are less expensive and move more quickly and more innovatively to develop ads and do those kinds of things?

General MCCAFFREY. These were partnerships. We bid them. They get recompeted each year, so if they do not perform for me they will lose the contract next year.

Senator DORGAN. You indicated you have support and cooperation from the entertainment industry. What kind of support? When you use entertainment figures in these ads—I do not know that you do that, but if you do, do you get pro bono services from entertainers?

General MCCAFFREY. Again, any time there is an Actors Guild fee involved, they have waived it. There is also in the matching component considerable amounts of Fox Family TV, ABC, NBC, CBS, et cetera, who are producing PSAs themselves, in some cases using their own talent. Univision. We have got a lot of Spanish language ads on the air now. So, yes, there is employment of visible figures in some of these ads.

But the appropriated piece of it, the centerpiece of that is Partnership for a Drug-Free America and the advertising industry. But we now give PDFFA written guidelines and there is a scientific, medical review process so that we ensure that what is up there is not only persuasive, compelling, but will be remembered. In other words, will hit all these advertising requirements, but it is also scientifically accurate.

I think some of the anecdotal information is really quite interesting. Are the ads being noticed? Yes. By the way, the coming year is important to us because what we are using now is existing stock that PDFFA had. But now that the advertising firms see that their material is on the air, and is being viewed, the creative energy in this process has gone up. I have just approved the second wave and the third wave of these products. They are getting really first-rate.

Senator DORGAN. I just want to learn a little more about them and I look forward to doing that in conversations with you.

Two other quick areas. One is the addiction treatment capabilities, and especially dealing with prisons. But let me first ask, we have 4 million drug users in this country who are addicted to drugs. How many slots are available? Let's assume that someone is a heroin addict on the streets of New York City. What is the likelihood of that heroin addict, if they choose to want to get treatment, being able to access treatment?

#### DRUG ADDICTION TREATMENT

General MCCAFFREY. Those are very difficult numbers to get at. It has been interesting trying to pin people down, what is a treatment bed, a slot? What is the addicted population? So the numbers I will give you are a puzzle to varying responses. Let me suggest what I think is an answer which have some value.

My associate just handed me the number. We believe that we have probably got half of the treatment capacity that we need for the chronic addict population. And I say that, that is sort of sort data but it suggests—and we have closed it somewhat, but it has gone down in three years by about 300,000 treatment slots.

Part of the problem with my response is if you ask for an ideal treatment response, right now probably the conclusion of some of these people in the year would be this: Go for a year of residential treatment followed by five years of follow-on supervised care, with the one magic component of attendance at NA and AA daily for the first year, and then two or three times a year the following year. That would be the ideal.

We cannot afford that. I do not believe we will ever provide a year of residential treatment in a campus-like setting for 4.1 million chronic addicts. So we are not going to get there, and we are not going to try and get there.

We are going to try and go to other community-based approaches, and we are going to try to get the user, when he or she show up in the criminal justice system, for sure, to get into treatment.

Senator DORGAN. But that is not happening now.

General MCCAFFREY. A lot of it is beginning to happen—it darn sure is. We have got enormously increased dollars in Department of Justice and Health and Human Services programs for drug treatment. As I reported, it has gone up 25 percent in four budget years.

Senator DORGAN. Just on that point. Last year we funded \$4.5 million for a drug-free prison zone, to fund some treatment programs in Federal prisons. Can you tell me how that has been used or how that is structured?

General MCCAFFREY. By the way, I will give you a written answer, because there is a series of programs, and although I probably know more about it than most people in the country, I would be hard-pressed to give you every one of Lori Robinson's Department of Justice programs.

The Federal prison system is doing better than most.

Senator DORGAN. Right, and they have 5 percent or 8 percent of the inmate population. Most of it is—

General MCCAFFREY. A tiny amount. They have got 105,000 people behind bars. There is 900,000 at State level. There is 600,000 at the local level.

The Federal programs will claim, I think it is 51 institutions, have some form of drug treatment. I believe that most of them have modest capabilities and a few are beginning to implement a comprehensive program.

But having said that, the prison-based component, if it is done alone, is of little value. We have to follow the chronic drug abuser back into community life and keep them under supervised drug treatment, drug testing. That component has not been implemented except in the State of Delaware is starting to do it, California is beginning to do it, et cetera.

Senator DORGAN. But a prison program that does not exist is of no value. My feeling is that there ought not be anybody that goes into prison, especially violent offenders, but there ought not be anybody that goes into a prison who has a drug problem and comes out without having been forced into an addiction treatment program.

General MCCAFFREY. I absolutely agree. I think you are—

Senator DORGAN. I will tell you, all over the country that happens now.

General MCCAFFREY. Right. No, I am well aware of it.

Senator DORGAN. Some of that is changing, but not very fast. I am interested in any strategies that we can use, including mandates, which is a word that a lot of people do not want to use around here, that would put in place the requirement that if you have somebody in any prison in this country, you do not let them

out unless they are required to have gone through these addiction treatment programs.

But let me turn back the time just to say this. I have skipped a couple things. My understanding is that there are a couple hundred thousand spots in treatment programs available and if you are an addict, if you are a heroin or a cocaine addict on the streets someplace, you have a devil of a time in most cases getting access to—if you want to shed that addiction, getting access to a good treatment program.

As we deal with all of this, one part is to try to stop people from starting on drugs, and that is especially children. The second part is to deal with these people who are on drugs to try to get them off of drugs and shed their addiction and stop the crime that results from it. I think on the addiction treatment side, the chairman indicated and I fully support, we are woefully short of the needed funds to provide addiction treatment center spots for those who want to shed their addiction.

General MCCAFFREY. I agree.

Senator DORGAN. We must address that. And if we do not address that, we are going to continue to see this cycle of addiction among those hard drug users that results in all of the crime and all of the other related issues.

Now many of them go in and out of prison, so one of the places we can at least begin to address it is to require them to go through this counseling in prison, and then try to follow them on the outside.

General MCCAFFREY. I agree.

Senator DORGAN. I have got some other questions, Mr. Chairman.

#### DRUG TREATMENT AND PARITY

General MCCAFFREY. Senator, I wonder if I could just respond. Secretary Shalala has \$3.054 billion in the fiscal year 2000 budget on drug treatment. That is a huge amount of money. But it goes to one piece of the population. So if you go to a lot of these treatment programs, it is very deceptive. You will see an awful lot of minority people in publicly-funded, supported drug treatment.

There are two other pieces of it. One is to get to the criminal justice system. Whether you end up behind bars or not, if I am using drugs I will end up in trouble with the law. Physicians have one of the highest rates of drug abuse in our society, and will end up in trouble with the law if they are abusing drugs. They have got effective drug treatment if I am an addicted medical person. And we have got to extend that.

One of the bills Senator Wellstone and others have supported is a notion of health care parity for drug treatment. I think in the coming year we are going to try and come down and make a sensible argument on why we need to support that approach as a taxpayer's relief to the damage done by me.

The number I use, if I am addicted to drugs and you do not do something about it, or my family does not have access to drug treatment, I will cost you \$42,000 a year in damages untreated. Then you can lock me up for \$26,000 a year. And if you add in the

treatment component, it is a taxpayers' relief payoff. So I think you are right on the correct answer.

Senator CAMPBELL. I would like to welcome Senator Kyl. Do you have some questions, Senator, before we begin our second round here?

Senator KYL. Thank you, Mr. Chairman, yes, I do.

I apologize for not being here during your testimony, General McCaffrey. We have three different subcommittees going on and I wanted to be able to be here to ask you some questions.

The first has to do with the creation of a new HIDTA in Arizona. You should be receiving this week the plan and the budget for a new central Arizona HIDTA. You have been very supportive of the existing HIDTA in Arizona. This one was just newly created. It has the support of the existing HIDTA. It is a new central Arizona HIDTA.

This will be especially important to our ability to combat drug use both in the southern portion of the State where so much of it comes in, but also in the central part of the State where the bulk of our population is. I think you may recall that in Arizona the drug use among kids is one-third higher than the national average. So we have a huge drug problem with our youth.

But I hope that you will look favorably upon the designation of this new central Arizona HIDTA and that in providing the funding will provide adequate new funding for that second HIDTA rather than cutting up the existing pie for the money that has been coming to Arizona so far.

If you have any comment on that, go ahead, but I wanted to give you an advance notice that you should be receiving that this week.

#### HIDTA

General MCCAFFREY. I think we talked earlier about the growth in HIDTAs from six to 21. There are an enormous payoff. This is a good concept. Smart prosecutors and law enforcement understand the requirement to integrate local, State, and Federal efforts. And I think the Southwest Border, and Puerto Rico, Virgin Islands, the Gulf Coast States, South Florida have a special responsibility since you are really acting in protection of a lot of the rest of the country.

I also am concerned, as you are, that two years from now there not be 40 HIDTAs with the same level of funding, or it will just be another inconsequential Federal program. So we are going to look very closely at that.

I have got a study due by this summer which will try and overlay on a county-level analysis of the country where are indications of drug abuse in the United States. I am reasonably sure that that analysis will tell you what you already know anecdotally and by Arizona data, that you have got a huge problem which probably could be supported by HIDTA designation.

But we have to be a little careful. I have got nine regions have now submitted applications for new HIDTAs.

Senator CAMPBELL. How many was that, nine regions?

General MCCAFFREY. Nine more. So let me go look at them, get an analytical response, and come down and give you my recommendations. But I think basically this is a good payoff for the American people.

Senator KYL. I can tell you anecdotally, the law enforcement community in Arizona, from all of the different Federal agencies, to all of the different State and county agencies have told me that they have never come together before in the way that they have in support of the HIDTA. The HIDTA program actually was the cause for them to come together really for the first time ever in the cooperative, coordinated way that they have.

It has been a tremendous benefit, and they all, I think, have recognized that it was the HIDTA, the one HIDTA that we have, that brought them together. So I can provide at least that anecdotal support for the benefits of the program.

As I say, I hope you will look very carefully at the recommendation for the second one. It was not done lightly. It has the support, as I say, of the existing HIDTA. They simply see it as a little better division of the responsibilities to address the problem.

The second question I have results partially from meetings that I just came from. I think it might be interesting for Senator Dorgan, coming from a State that you do that is not highly populated, on the Canadian border—and, incidentally, you have talked about treatment. I share all of those thoughts. Now here is another perspective of another area of the battle that we have to fight.

In fact, General McCaffrey, you called it shield America's air, land, and sea frontiers from the drug threat. Well, we have got a very leaky shield, as you know.

On my border, the border with Mexico we have got a huge problem, and here is just an illustration. I do not know the population of some of your border communities in North Dakota but think of this. Just in the month of February, the last month that we had here, 49,000 apprehensions of illegal immigrants just in one sector. This does not even count the Yuma area, which is over by California. It is just the sector south of Tucson.

Douglas, Arizona, a sleepy little town, is the hottest spot for illegal crossing in the country now. And the people coming across are carrying a lot more drugs than they ever used to. Many of them are now being used by these coyotes to carry them on their backs. And they are much more violent than they used to be.

So 49,000 just in one month. Average daily, just in this sector—not the whole border—in Arizona is over 1,500 a day. And of course, there is no estimate of how many they miss, but it is clearly at least twice that many. So we have a very porous border.

Now, General McCaffrey, my question is this. Because you have such an outstanding reputation as fighting for what we need to win this war on drugs, and since a key component of it is providing this shield on our border, I would like to know your view of the Administration's budget request of exacting zero funding for new Customs agents and new Border Patrol agents.

I think you have stated in the past that our Border Patrol levels, the quotation I have is, are completely inadequate to patrol the 2,000 miles of U.S. border with Mexico. We are doing better with the training of some new agents but it is still very porous. And the statistics that I have here show that between 50 and 70 percent of illegal drugs enter through the southwest border.

So I would like to get your views on the Administration's budget request that there be no new funding for Border Patrol agents for

fiscal year 2000, as is required incidentally by the 1996 law that we passed to train 1,000 per year, and no new funding for additional Customs agents or inspectors.

#### BUDGET CHOICES

General McCaffrey. It is a question I rush to avoid. We have obviously got a zero balanced budget. You know, there were some hard budget choices made. I would be glad to provide this committee with the budget I certified at agency level and the budget I certified at department level by function. It is clearly our own view—the Border Patrol requested initially money for additional agents, and Customs Service in my impression needs to be right-sized.

What we have completed is a study on how we provide a better coherent defense of America on our southwest border. And it is a bit stuck now in the interagency debate with two components. One is the intelligence piece, which we have completed. We have done the analysis. Director Tenet, the Attorney General and I now owe the President our recommendation on how do we get the intelligence system better support, Border Patrol sector commanders, DEA SACs, Customs SACs, et cetera.

I think we know how to do that, but I am going to have to get some kind of a package together and give it to the President before summer comes around. Some different viewpoints, but I think we will achieve consensus.

We also have a white paper on how to better organize the southwest border. In my view, the Border Patrol and Customs Service have to have the right technology, manpower, and training, and organizational concept to do their job. There is no sense in pounding on the Customs Service for failure to find heroin and cocaine in trucks unless we give them the tools that will achieve their purpose, which we have not done.

I do not think this budget necessarily reflects long term wisdom, but I do believe we will be better off, and I finally got a document to the President that says, here is what we recommend you do. I have used some figures to finally stimulate the debate which said the Border Patrol probably ought to be 20,000 people. It was 3,000 when we started. It is 7,000 now. But that ought to be the product of analysis, not me asserting that that is probably about the minimum size to protect 12,000 miles of U.S. frontier, to include Canada.

As we succeed in the south, drugs are going to get pushed around. The Vancouver corridor now is a major drug smuggling route. So we have got to look at this, and the amount of—

Senator KYL. But, General, may I just interrupt you. I hate to do it. But you have been so effective in cutting through the baloney. You are a get-the-job-done guy, and I have supported your efforts because you have the right attitude toward this, you are committed to it, and you have done a lot of good, and you have come up with some great, innovative programs.

But here is the situation where we do not need any more analysis. You had it right. At 7,000 we do not have too many. I mean, we do know that; we do not have too many.

We passed a law in 1996 that said we were going to train 1,000 per year for five years and then take stock of where we were. The Administration put exactly zero money in to fund that law.

Now their response is not that we need to do a white paper or a study, or that we do not need the people. The response is that it is hard to recruit that many people. So the answer is to put zero money in the budget? How about taking an idea from what we just passed last week with our Soldiers and Sailors Relief Act, you could probably teach us all here a lot about what it takes to recruit and retain top quality people in the military to do the job. We finally figured out that we needed to put some money against that problem, and we have taken our first steps toward doing that.

So if \$18,000 or \$20,000 a year is not enough for a new border agent—and it clearly is not—the answer is not to say, we are not going to put any more money in the budget for training anybody this year because it is awfully hard to recruit them. We have just sort of run out of recruits. The answer is, fine, does it start a \$25,000 starting salary or a \$30,000 starting salary? How much more in a few millions of dollars would that add to our budget? And therefore, how much more successful could we be?

I know this is not your job. But I urgently request you, I implore you, because your job is dependent upon the successful funding of these other two programs, in part, to weigh in on this and say, from my perspective it is not adequate to have a zero funding for Customs and Border Patrol agents.

Now to the Administration's credit, there is money for technology for Customs, which you rightly point out we need more of. That is great. That is fine. But you need more agents too. When we have a two-day wait on our border—two days—that is not acceptable. And when we have the kinds of things going on on our border that I just articulated, it is not acceptable to say, we need a time-out until some more people decide that they want to join the ranks of the INS or Customs Service.

So I urge you to go back and tell the Administration to take another look at this and support our efforts to try to put more money in. Here is our problem on the Appropriations Committee. I go to Fritz Hollings and Judd Gregg on another subcommittee and say, would you put some money in? Well, what did the Administration request? They requested zero.

Well, Judd Gregg comes from a State, and Fritz Hollings comes from another State that are not too tied in with the southwest part of the border. But Senator Feinstein and I were just having a meeting and we are going crazy trying to figure out how to get a handle on this in our own States.

So I just have to ask you, would you please make a request of the Administration to take another look at this and to understand that they are not providing this shield that you talked about if they have zero funding for two of these critical elements of the effort.

#### BORDER ISSUES

General McCaffrey. Senator, one thing I think we ought to underscore is this is not a problem of the four border States. Colorado is on the front lines of drug smuggling out of Mexico.

Senator KYL. Absolutely.

General MCCAFFREY. So I try to make the case, this is not the four border States' problem.

Senator KYL. Absolutely.

General MCCAFFREY. I think the second argument, perhaps that has bothered me, is the notion of having the right culture to these Federal law enforcement agencies that protect the country. There is no reason we should ever say that there are not lots of young Americans who would not be proud to serve in uniform in the Border Patrol protecting America's frontiers, and not just as an anti-immigration force. This is Federal law enforcement, protecting U.S. laws along our frontiers.

So I do not believe that there are not lots of people who would be glad to serve for five years in uniform in Eagle Pass, Texas or in Douglas. I think part of it may be money. Part of it is recruiting. Part of it is having their own identifiable culture. Part of it is getting the Border Patrol having a uniformed service staff here in Washington responsible to civilian authority.

We have some work to do. And I agree with you, I do not think the current approach is adequate and we had better organize it in the two years we have remaining.

Senator KYL. Thank you.

Thank you, Mr. Chairman.

Senator CAMPBELL. I have gotten a little confused listening to that dialogue. As part of last year's deal to strike an effective budget deal there was a last minute push for a significant amount of emergency drug funding. As you remember, \$280.7 million according to my notes. I understand agencies like the Customs Service are still trying to figure out a plan on how to spend it because they had not anticipated that additional money.

Can you comment on that?

General MCCAFFREY. It is a little more than \$800 million. The supplemental appropriation, a little more than \$800 million, of which we scored a little more than \$600 million as drug related. We were involved in some pretty intense negotiations on that in the five or six days—the \$870.2 million of which \$843.9 million was scored as drug related by us.

A lot of that is going to be a tremendous contribution of the American people. So I finally signed up for it. It was done hastily. It was ill-advised. It was not done with analysis by the executive branch. Some of this concerns me. Money for Customs P-3 aviation. The appropriations bill was okay. The authorization bill put 30 P-3 aircraft into the Customs Service in the coming three years.

Senator CAMPBELL. That was additional aircraft?

General MCCAFFREY. Aircraft, Coast Guard ships, radars. We got some of it diverted to the southwest frontier. We tried to work with them. The appropriations was not completely out of line, but let me just state that we are about to create the second biggest air reconnaissance force on the face of the Earth, will be the U.S. Customs Service. The biggest will be the U.S. Air Force. The third will be the Soviet Air Force, former Soviets.

Senator CAMPBELL. Do you have the manpower to run all that?

General MCCAFFREY. I have asked them to show me their basing concept, their operational concept, their maintenance concept, their

manning and training. Where are the MOUs to co-base with the Navy? How much will they charge them?

Senator CAMPBELL. Senator Kyl's problem is a manpower problem. Cannot some of those resources be transferred under your own authority to manpower from some of that hardware?

#### LOGISTICAL ISSUES

General MCCAFFREY. We put a piece of appropriations bill out that can be worked with. I mean, again I did not feel that this was a fall-on-your-sword issue, but this is not the way to do public policy. I have asked the Customs Service—they have had two briefings for me that I found inadequate—to go get RAND Corporation or somebody and hire a bunch of Air Force retired colonels to go do a study and tell them how they are going to employ this amount of machinery.

Where is it going to be parked? What are you going to do with it? How you are going to maintain it? How are you going to train the manpower?

This is a huge operation. And oh, by the way, the drugs are not in the air.

Senator CAMPBELL. That is right.

General MCCAFFREY. If you gave me this amount of money in cash, I would not have spent it on P-3Bs. The drugs are on small boats going into the coastal Central America and coming through Mexican-U.S. border.

So we just have a screwy way of doing public policy here and we are going to need to be a little careful about it.

If you want to spend money, you need to buy \$3.5 million non-intrusive x-ray technology back scatter radar devices and give the Border Patrol, the Customs Service, the DEA, the HIDTA program, the manpower to do their job. That is not to argue against a robust air interdiction effort, but there are probably different ways we would go about it if you asked me for a recommendation, which is really what we are supposed to do.

Senator CAMPBELL. Clearly, I am sure I can speak for Senator Kyl and I both, that we need to work with you and the Administration in supporting the Customs Service.

General MCCAFFREY. This was the Senator DeWine-Congressman McCollum bill. Again, you know, they are good people but it was done in haste with inadequate analysis.

Senator CAMPBELL. Let me just ask you the last question and that is the staff attrition rates within ONDCP. As I understand it, your attrition rate is around 18 percent, which sounds very high. What is the cause of that high attrition rate and how are you going to address it, if you could tell me that?

#### ONDCP STAFFING

General MCCAFFREY. We are fortunate—we have 124 people; 124 civilian employees, 30 detailees. We have recruited probably some of the best people I have never seen in Government. There are 30 or more applicants for secretarial positions in ONDCP. We are also a separate line item appropriation. So we have had great results in the quality of the people we get.

I think we have had 24 people depart. Half of them left because they got promoted. We are a great place to go fish out a GS-15 and——

Senator CAMPBELL. They did not just leave Government, they are working for other agencies now?

General MCCAFFREY. No, half of them got promoted. One got pregnant, one was a termination, two retired——

Senator CAMPBELL. What was the termination for?

General MCCAFFREY [continuing]. One died. So we are really very blessed with the quality of the people. But we do not have any upper growth potential is one problem. So if you want to be an SES I have got to help you get a job in another agency.

Plus, it is pretty tough work. I mean, this is not a sleepy hollow. We are working seven days a week, and this is tough going.

Senator CAMPBELL. Try running for office. [Laughter.]

Senator Dorgan, did you have any questions, that was the last of my questions.

Senator DORGAN. Let me ask just a question. It is not about funding but it is probably you expect on the issue of certification, because that relates to the question of how much money we need to spend and how we spend it. The certification of Mexico and Colombia, you know, in the newspaper this morning they were quoting the DEA Chief Constantine and his statements about Mexico.

Are you comfortable with all of this? I know there is a lot of politics about all of this. Some people kick this all around for political reasons. Others kick it around for other reasons. I think some of us just are curious whether this whole certification process is good policy, number one. But second, as long as we have it and are certifying countries like Mexico and Colombia, whether it is on the level.

So are you comfortable with these certifications?

#### CERTIFICATION

General MCCAFFREY. It has been interesting to me. I have worked the Latin American region off and on a good bit of my life, and although I have a great sense of humility on what I do not know, I have been every foot of the ground from Patagonia to the U.S.-Mexican border. I speak atrocious Spanish. I know all the political-military leadership.

The day I got sworn in at 9:00 in the morning, March 1 three years ago, at 10:30 we did the certification. And the President, thankfully, appointed me the head of the U.S. High Level Contact Group to go work the Mexican issues. I say that because two years earlier Dr. Perry, who is one of the greatest people I have met in public life, and I were the first two to set foot in Mexico, the first SECDEF, the first U.S. CINC that ever went down there, and against the advice of all U.S. authorities. Said do not go there, there is tremendous official animosity.

So I have worked this for five years now. And the certification process, as a Federal law, is something I do not comment on. I am going to comply with it. And there are two pieces of it, and I have looked at the two pieces. You look at a foreign majors list identified country, you say, are they trying to achieve the objectives of the

1988 Vienna Convention, number one? And number two, or are they trying to cooperate with the U.S.? They do not have to do the second if they are doing the first.

When you apply that standard, it is not how well are they doing, it is are they trying to achieve those objectives?

By the way, if you applied the same rule to us you would have to ask, is the U.S. serious about drug abuse? Of course we are. Have we achieved drug eradication, drug abuse rates, criminal conduct, et cetera?

Senator CAMPBELL. That is exactly the point. They cannot achieve theirs unless we achieve ours. We are the buyers.

General MCCAFFREY. There is a lot of creative hypocrisy in this. We are the ones spending \$57 billion a year on illegal drugs, and the engine sucks drugs through Mexico and the Caribbean. And the corrosive impact of violence and corruption on democratic institutions in the hemisphere as well as our own, in border communities in particular, is atrocious.

Now let me, if I can, give you two snapshots. When Dr. Perry and I went to Mexico five years ago, I think it is not much of an overstatement to say that—not in the economic and political areas, but in drug cooperation, military to military cooperation, there was zero. It was absolutely absent. And in the space of five years we have gone to—Mexico has gone through revolutionary change. It is incredible.

We now train military, navy, the Coast Guard and the Mexican navy cooperate at sea. We exchange intelligence. Although they are uncomfortable when I talk about this in public, we have Customs aircraft parked on the ground flying out of Mexico. They allow us to fly through their airspace with their permission; 85 percent compliance rates. They let our Coast Guard and Navy go in and refuel in their ports with less than 24 hours notice. There is an enormous amount of cooperative effort going on.

But unfortunately, Mexico is—President Zedillo and these incredibly good people that are trying to reorganize Mexico's future are pulling on levers that are attached to institutions that are inadequate. So I have got some sympathy. The cooperation at the highest levels is excellent. I have great admiration for the Mexican police and army, who lost their lives in trying to protect Mexico. But there is a lot of problems.

Senator DORGAN. But, General, I respect that, and I also respect the notion that the demand in this country is what creates the giant sucking sound in this direction for drugs. I respect that. But just two weeks ago in the Washington Post it says, senior Administration officials said that drug corruption in Mexico has reached unprecedented levels. The Mexican government has made little progress in combating.

So when you are answering effort, I am asking what has been the result.

General MCCAFFREY. The result is increased cooperation with Mexico, almost dramatic in nature. But we are looking at Mexican law enforcement and judicial institutions that are threatened by incredible levels of violence and threatened by internal corruption.

## TREATMENT IN PRISON

Senator DORGAN. I appreciate your answer. Let me just ask one quick small question that relates to the issue of drugs in prison. If an addict, drug addict, heroin user is sent to a Federal prison, any one of the Federal prisons today, will that addict be required to take treatment for that addiction in a Federal prison before the addict is released?

General MCCAFFREY. Let me give you a response in writing, but the answer is yes, we have mandated that. The Department of Justice Director has a mandatory drug testing program in the Federal prison system, and in theory we have drug treatment available. I do not believe though that that is an adequate response. I think some of them have better programs than others. Very few—

I would also caution you, Federal prisoners do not tend to be the compulsive drug user. They are traffickers. So we have got 60,000-some-odd people behind bars in the Federal system, but a lot of them had a ton of pot. So the Federal prison is not where these people end up. They end up in State and local incarceration.

Senator DORGAN. The reason I was asking about the Federal prison is if you are proposing a mandate on State and local authorities, they will say, what are you doing at the Federal level?

My thought is that States, all of the States provide good time off for good behavior for all criminals, even violent criminals, and many of them provide very generous good time off, as you know. I have been trying for some while to connect that good time to some positive result, one of which might be that if you are addicted, you do not receive good time credits unless you go through a drug treatment program.

General MCCAFFREY. Absolutely.

Senator DORGAN. End of story. Now that would be a mandate, but a mandate it seems to me that would be very worthwhile.

General MCCAFFREY. Yes. There is considerable amount of Federal money in there. One program, which is dying out, was the Federal prison construction fund. That 10 percent of those funds, if the State requested, could be diverted. But the program is tapering to zero. So there is other money—

Senator DORGAN. We have other money with which to connect that mandate. I know the Senate would have a significant debate about that, but the question of whether we allow good time credit against sentences in the entire criminal justice system seems to me ought to relate to a couple things, one of which ought to be if you are addicted, you have drug treatment before you are able to be released early under good time credits.

Well, I appreciate your appearance and it is a pleasure to have the opportunity to visit and work with you.

## SUBMITTED QUESTIONS

Senator CAMPBELL. I might mention before I ask Senator Kyl for any closing questions that I introduced a bill dealing with certification last year. We are trying to rewrite it this year, and I have not been a real big supporter of this sort of unconditional certification. The bill that I introduced would have given a conditional certification but could be withdrawn if they did not reach certain

targets. We are trying to rewrite that. You might want to look at that, Senator Dorgan, and work with me, too.

Senator Kyl, did you have any additional questions?

Senator KYL. No. Thank you, General.

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

#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

##### TRAVEL

*Question.* Which Specific Account Will Be Covering the Estimated \$68,000 in Costs Associated with Your Recent Four-day Trip to Switzerland to Attend a Meeting at the International Olympic Committee Anti-doping Conference?

Answer. All costs associated with my trip to Switzerland were paid from appropriated resources in ONDCP's Salaries and Expenses account.

*Question.* While Attending this Conference, You Promised the Federal Government Would Provide \$1 Million in Funding to Assist the IOC in Drug Testing That Would Come from ONDCP. Is this \$1 million Included in Your fiscal year 2000 Budget Request, If So from What Account Is it Being Funded?

Answer. No, the fiscal year 2000 request does not include a request for \$1 million. The \$1 million we set aside from the fiscal year 1999 CTAC \$16 million base R&D program. The \$1 million will be used to study innovative approaches to testing athletes for drug abuse and performance enhancing drugs. The results of the research projects will be made available to the USOC and the IOC. One extremely interesting areas of research has already been identified the potential to develop an assay instrument capable of indicating combinations of drugs which were previously not known as performance enhancing drugs.

##### MEDIA CAMPAIGN CORPORATE SPONSORSHIP

*Question.* The Current Law Requires That ONDCP Secure Corporate Contributions Equal to 40 percent of the Appropriated Amount of the Campaign for That Year, or \$74 million. What's the Status of this Effort? How Does ONDCP Anticipate Meeting the Mandated Sponsorship of 40 percent? If So How?

Answer. Since the National Youth Anti-Drug Media campaign began, ONDCP has received almost \$218 million in public service and in-kind contributions from corporate America. These contributions have come in the form of media time and space, programming, ad creation and production costs, educational materials, interactive services such as design and maintenance of web sites, film, cash and other materials or services.

While ONDCP believes corporate support of the media campaign will continue to grow, we do not believe that it will reach levels recently expected by Congress. We are also concerned about adding new requirements in appropriation language after the campaign has been planned and launched.

When Congress first appropriated funds for the media campaign in fiscal year 1998, it identified seven concerns or stipulations that were to apply to the operation of the campaign. One stipulation was to ensure that ONDCP's campaign not undermine existing public service contributions from media contributions which had been steadily declining largely because of competitive and structural changes in the television industry. To ensure that ONDCP's campaign would not further contribute to this decline, ONDCP established the concept of a "public service match" which became part of its negotiating position with each media outlet. When media time or space is purchased on a network or local outlet, the media must also provide an equivalent dollar for dollar match in public service contributions. This can come in the form of public service time or space, on-strategy programming, educational programs or materials for youth and teachers, community anti-drug events, etc. This past year, ONDCP's media buyers negotiated an average of 107 percent value in public service contributions. All of the public service time was shared with 33 drug-related non profit organizations such as America's Promise, Mothers Against Drug Driving, The Fatherhood Initiative, the National Crime Prevention Council, and the Partnership for a Drug Free America.

We want to emphasize that the concept of a "match" was ONDCP's, and it was created specifically to safeguard public service messages of other organizations. Additionally, in initial appropriation language there was not a specific dollar fundraising goal, nor even an indication that the phrase "private sector participation" meant cash contributions.

The difficulty comes now when language in our appropriation calls for very large sums of corporate support in addition to the support we are also receiving from corporate America from the pro bono match. Each of the several experts with whom we have consulted on this issue believes the specific goals set in the most recent appropriations language are not attainable without the pro bono match given the other requirements and restrictions on the campaign.

ONDCP is however, issuing a Request for Proposals for a Corporate Involvement contractor. This is expected to be announced in May with an award in early fall. The contractor will develop a corporate sponsorship effort (to raise funds), and a range of corporate participation efforts. ONDCP believes that corporate participation is often even more valuable in attaining the objectives of the campaign than financial contributions. For example, reaching parents through the workplace is a key strategy and campaign goal. If a large corporation would agree to a drug prevention/parenting strategy education program for its employees, it would be particularly effective from both a cost and impact perspective, much more so than an equivalent cash contribution.

#### PRO BONO MATCH FOR CAMPAIGN AD TIME

*Question.* In Your Budget Submission, You Listed That The Campaign's Purchases of Ad Time Has Generate a 109 percent Match of Donated Public Service Time Being Shared With Non-profit Organizations With Other Drug-related Messages. Of This 109 percent Match, How Much of This Is Resulting From Direct Intervention/activity by ONDCP? What Portion of These Matches Have Been Non-paid Commercial Ads And What Is Their Dollar Value? How Has This Effort by ONDCP Increased or Decreased The Public Service Time in The Market And by How Much? How Do You Verify this?

*Answer.* We have received well over 100 percent matching contributions from media vendors from whom we have purchased ads. This has ensured that the Campaign is helping public service efforts that target the risk factors that make youth drug use more likely—such as early alcohol use—and the protective factors that help prevent drug use—such as mentoring.

The Campaign has provided Mothers Against Drunk Driving, the National Council on Alcohol and Drug Dependency, and the Department of Transportation with public service time, derived through the Campaign's match component, to attack both underage drinking and drunk driving. Since July of 1998, the National Council on Alcohol and Drug Dependency effort against underage drinking benefitted from 2952 individual PSAs (including network, local and cable TV, and radio), at a total value of \$1.17 million. Similarly, during this period the Council's effort against drunk driving benefitted from 2,369 spots, at a total value of \$6.14 million.

Other organizations that help America's young people grow up safely and lead productive lives are also seeing the benefits of the Campaign. For example, the National Crime Prevention Council received 6,078 spots, at a total value of \$8.3 million. General Colin Powell's organization, America's Promise, dedicated to improving the lives of our young people, benefitted from 1,014 spots, at a total value of \$2.5 million. The 4-H's youth mentoring initiative has received 3,226 spots, at a total value of \$3 million. The "I Am Your Child" parenting initiative saw 744 spots broadcast, at a value of \$2.1 million. As these results from just the last seven months clearly show, the Campaign is increasing America's awareness about both the protective factors that help our children grow up drug-free, and the risk factors that can increase their chances of suffering a drug problem.

The only scientific measurement of PSA play is done by the AD Council utilizing electronic monitoring. They have reported a significant increase in the PSA play as a result of the media campaign. Further, ONDCP media buyers indicate when they negotiate for time and space that public service time for other issues must not diminish as a result of ONDCP's media purchase. The purpose of this policy is to further safeguard public service time for other issues.

#### TECHNOLOGY TRANSFER PROGRAM TO STATE AND LOCAL LAW ENFORCEMENT

*Question.* How Do You Propose to Meet the Outstanding Need of the State and Local Law Enforcement Given the Request Is Only \$3 million? Can You Explain Why You Only Requested \$3 million to Fund this Program in fiscal year 2000?

*Answer.* State and local law enforcement officials become aware of the technology transfer program through our one-day workshop outreach program. The program's success can be measured by the enthusiastic response of state and local law enforcement officials to the technology demonstrated at the workshops. Understandably, it will be impossible to satisfy more than \$3 million of the applications processed from their organizations. We will depend on the program's regional law enforcement ex-

perts and technical review specialists to select the organizations which will receive transfers of technology.

In fiscal year 1999, the President's budget request included language acknowledging the existence of the technology transfer program without requesting an appropriation. Congress responded with a \$13 million appropriation. This year the President's fiscal year 2000 budget included \$3 million for the program. While the President's fiscal year 2000 budget submission was being prepared, several more workshops were conducted which resulted in \$59 million of applications for technology to improve their capabilities to defeat drug crime. To prevent raising expectations beyond the program's ability to meet them, we will cut back holding workshops.

#### NATIONAL DRUG STRATEGY GOAL

*Question.* The current drug strategy goal is that the US, through your office, will reduce drug use and availability by 50 percent by the year 2007. Given this, has drug use and availability declined by 15 percent since 1997? At the current rates, are you on target to meet the Strategy's goal of a 50 percent reduction by 2007? If you're not meeting your goal, then how do you expect to make up any shortfall by 2007?

*Answer.* The two targets referred to are Impact targets that reflect the overall effect of national drug control activities upon drug use and availability. These are "stretch targets" representing normative end states to motivate the drug control community to "stretch" beyond previous performance levels. We have been developing action plans, with over 200 interagency representatives, on how best to achieve each target. We plan this year to incorporate state, local, and private sector input into these action plans. By integrating the budget and the evaluation, we will increase the likelihood of target achievement.

With respect to measuring progress toward achieving these targets, we are using a variety of data sources. It is important to note that for any data system there are lags in reporting. In most cases the most recent data for a measure is 1996 or 1997. For tracking drug use, we are relying primarily upon the National Household Survey on Drug Abuse (NHSDA). The NHSDA is conducted annually by the Substance Abuse and Mental Health Services Administration. Preliminary data for any given year are typically available by August of the following year (e.g., Data collection for 1998 ended in December; preliminary data will be available in August 1999). The most currently available data are for 1997. For drug availability we are developing estimates based on drug flow models. We are developing estimates of the availability of cocaine, heroin, marijuana, and methamphetamine, from cultivation/production, through the transit zone, to the U.S. border, and ultimately to distribution within the United States. We anticipate having estimates based upon these models by the fall of 1999.

#### PERFORMANCE MEASURES OF EFFECTIVENESS

*Question.* Last year, your office launched the Performance Measures of Effectiveness to rate federal agencies ability to succeed in national drug control efforts. As you've begun to put these measures into place, are the measures assisting you in determining where further work needs to be done and are the agencies you are rating both receptive and compliant? What programs have you eliminated because they are determined ineffective based on your standards? Which programs show the most promise based on your rating?

*Answer.* The Performance Measures of Effective (PME) System indicates the extent of progress made by the national drug control community towards the 97 performance targets that reflect desired end states for the Strategy. Since the system constitutes an aggregate assessment of the entire drug control community, it does not separate out the effect of federal, state, local, private or international efforts. It does not, therefore, provide a report card on any individual federal or non-federal agency (the Annual GPRA Progress Reports submitted by each agency represent such reports.)

The PME System has begun showing where further work needs to be done through the Action Plans that were drafted for the first time in 1998. For each target (or group of targets) a team of federal agency experts determined, first, what factors were known to influence the achievement of the target (for instance, peer pressure, media messages, etc. known to affect youth perception of drug use.) This logic modeling exercise then proceeded to identify efforts already in place (e.g., the Media Campaign) and areas where further effort was needed (for instance, to influence Internet messages.) These preliminary "Action Plans" reflect the first time federal agencies have collaborated to plan out the best way to achieve specific, measur-

able long-term targets. This exercise will be further refined this year through the explicit incorporation of state, local, and private sector ideas and efforts. At the end of 1999, we will have intergovernmental action plans that will lay out what needs to be undertaken by whom. Until this is completed, agencies will not have reason to be compliant or otherwise. This process should be greatly facilitated by the integration of budget and evaluation this year.

In the meantime, we shall continue to monitor progress towards the targets, initiating interagency program evaluations in situations where trend data indicate that intended targets have not been met. Performance measurement experts recommend a monitoring period of a few years before action is taken so that we can analyze whether the data indicates a trend or merely a random occurrence. It also reflects the high expense of conducting in-depth program evaluations to identify what led to failure: errors in the underlying logic, poor program management, insufficient funding, etc. The decision to alter the funding of a program is one that should be taken only after interagency evaluation following accepted methodological standards.

#### SHOUT PROGRAM FUNDING FROM FISCAL YEAR 1999

*Question.* In Last Year's Appropriation Bill, We Provided a Line Item to The Shout Program Through Your Appropriation. Shout Stands For Stay Healthy—oppose Using Tobacco And Is a Partnership Between Schools, Students, Local Businesses And County Health Services to Encourage Youth Between The Ages of 10 And 18 to Avoid Using Tobacco. Can You Provide The Status of The Funding And What You Are Doing to Resolve Any Outstanding Issues?

*Answer.* In last year's appropriation bill, the line item for the SHOUT program could not be accommodated, as neither ONDCP nor its procurement agent have direct grant-making authority within the salaries and expense account.

#### STAFF ATTRITION RATES AT ONDCP

*Question.* In last year's conference report, the Congress included a provision for you to detail your attrition rates of employees at ONDCP, which you have submitted and it shows your attrition rate is 18 percent. What is causing this high attrition rate? What are you doing to address it? For example have you put a program in place to deal with this problem?

*Answer.* It is accurate that ONDCP's attrition rate in 1998 was 18 percent. To provide some context for this figure, overall attrition rate in the EOP for calendar year 1998 was 20.99 percent. ONDCP accounts for just 6 percent of the overall rate.

We acknowledge that there is a threshold rate of attrition in any demanding, highly-specialized agency like ONDCP. Given the robust qualities of the economy in the greater Washington area, ONDCP personnel are occasionally recruited to other professional opportunities.

In this current fiscal year the ONDCP personnel selection process is still moving forward in an aggressive manner and consistent with Federal civil service laws and regulations.

#### DRUG FREE COMMUNITIES ACT (DFCA) FISCAL YEAR 2000 REQUEST

*Question.* While The Budget Caps For fiscal year 2000 Severely Constrain The Amount of Funding Available For Discretionary Programs, The DFCA Warrants an \$8 million Increase Over The President's fiscal year 2000 Requested Level. The Community Coalition Approach Has Proven Effective in Reducing Teenage Drug Use in Communities Around The Country, And This Additional Funding Will Allow Hundreds of Additional Communities to Build And Sustain Effective Efforts. If DFCA Has Proven Effective, Why Are We Reducing Funding by \$8 million?

*Answer.* During the preparation of the President's fiscal year 2000 budget, ONDCP requested the full authorized level—\$30 million—for the Drug Free Communities Program. Budgetary limitations necessary to meet balanced budget legislation requirements and other competing priorities led OMB to initially reduce that amount to \$20 million. The Director interceded directly with the President and the amount was ultimately raised to \$22 million, a \$2 million increase of fiscal year 1999. ONDCP shares the committee's view on the importance of the Drug Free Communities Program and looks forward to working with the committee to find opportunities for the program to reach its full potential.

#### DRUG FREE COMMUNITIES ACT GRANTS

*Question.* With Regards to the Letter That Went out February 10, 1999 Announcing a 25 percent Reduction for Grantees Renewing Grant Requests: Who Deter-

mined Their Would Be a 25 percent Reduction for 2nd Year Grantees? Under What Authority Were These New Guidelines Implemented? Was the Advisory Commission Consulted? How Can These Reductions Be Explained If the DFCA, the Act Clearly Authorizes Matching Grants of up to \$100,000 for Communities That Can Raise the Dollar for Dollar Local Match?

Answer. The policy of awarding second-year continuation grants of up to 75 percent of the original award, and third-year grants of up to 50 percent is completely consistent with both the original authorizing statute, congressional intent as represented in House report language, and the recommendations of the Advisory Commission on Drug-Free Communities. The law leaves to the discretion of the program Administrator the amount of renewal grant award, as well as the decision as to whether a renewal grant is to be made. Section 1032(b) IA(3i) of Public Law 105-20 states that "The Administrator may award a renewal grant to a grant recipient under this subparagraph for each fiscal year following the fiscal year for which the initial grant is awarded in an amount not to exceed the amount of non-Federal funds raised by the coalition, including in-kind contributions, for that fiscal year, during the four-year period following the period of the initial grant (*italics added*)."

Congress clearly envisioned that the purpose of Federal support was to leverage ongoing local support for community coalitions. In the conference report accompanying H.R. 956, the Committee on Government Reform and Oversight stated, at page 19:

"The Committee wants to maximize the utility of Federal resources so that a smaller amount to Federal support tracks strong local commitment and financial support. The Committee believes that the Federal government should be providing support to those communities that have efforts that are effective and substantial, not be a substitute for local community effort. It is hoped that Federal financial support will act as a catalyst to enhance what communities are already doing well and to spur the creation of other sustainable community anti-drug efforts."

The Advisory Commission on Drug-Free Communities discussed the issue of continuation grants at their inaugural November 23, 1998 meeting. At that meeting the members of the Commission heard a presentation by Shay Bilchik, Administrator of the Office of Juvenile Justice and Delinquency Prevention (OJJDP), ONDCP's interagency partner responsible for the execution of the grant program. Mr. Bilchik recommended to the Commission that renewal grants be funded at 75 percent of the initial grant. After some discussion, the Commission advised the Director, ONDCP, that, in the words of the minutes: "The award should decrease each year and the match should increase each year." ONDCP agreed with this recommendation, and so informed the Commission in a February 17, 1999 letter from Deputy Director Donald Vereen. We subsequently receive no correspondence or phone call from Commission members indicating either that we had mischaracterized their recommendation, or that the continuation grant policy was unwise.

In addition to encouraging coalitions to leverage sustainable non-Federal support for their activities, our continuation grant policy frees up Federal resources with which to assist other coalitions. For example, in fiscal year 1999 we will be able to fund an estimated 26 additional community coalitions over and above what could have been funded if continuation grants were at the full first-year levels. This approximately 25 percent increase in the number of grants awarded would, over the five-year authorization of the program, result in over 180 additional coalitions receiving support. Each state potentially will benefit from this greater number of Federally-assisted coalitions. Smaller grant awards would be unaffected by the continuation grant policy. Awards of \$50,000 or less would not be reduced in the second and third year, and awards of between \$50,000 and \$66,000 would be reduced to no less than \$50,000.

Our goals for the Drug-Free Communities Program are identical to those of the Congress: to strengthen and proliferated effective, broad-based community anti-drug coalitions throughout the country. We believe that the policy on continuation grants will serve those ends.

#### FISCAL YEAR 1999 EMERGENCY DRUG SUPPLEMENTAL

*Question.* The President's Budget Does Not Provide For Funding to Hire Personnel to Operate Additional Customs P-3s And Citations as Authorized in The Western Hemisphere Drug Elimination Act. If We Don't Have The Money to Fund The Personnel to Fly The P-3 Aircraft, How Do You Intend to Perform Goal 4 Interdiction Mission That Is Stated in The ONDCP Drug Strategy?

Answer. The Western Hemisphere Drug Elimination Act (H.R. 4300 Sec 101.a.1-11) authorizes \$886 million for the addition of 20 P-3 aircraft to the Customs fleet. It also provides for an additional \$71 million for various purposes including the de-

livery of 10 Citation aircraft per year in fiscal year 1999–01. The act clearly contributes to the continued progress of U.S. efforts in the areas of Goal 4 (Shield America's air, land, and sea frontiers from the drug threat) and Goal 5 (Break foreign and domestic drug sources of supply) of the President's National Drug Control Strategy.

ONDCP supports the additional funding authority in the Western Hemisphere Drug Elimination Act and the appropriations for six additional P-3 aircraft contained in the fiscal year 1999 Emergency Supplemental. These six P-3 aircraft are scheduled for delivery beginning in fiscal year 2001 and ending in fiscal year 2002. ONDCP has been assured that the fiscal year 2000 President's budget included the necessary follow-on funding for implementation of policies and operation of assets that were appropriated in the fiscal year 1999 Emergency Supplemental. OMB recently agreed to allow Customs to use the fiscal year 1999 emergency supplemental money to hire needed new air crews. The fiscal year 2001 President's budget is anticipated to include funding to support the additional personnel that Customs may require to operate the new P-3s as they join the Customs fleet.

The National Drug Control Strategy's Goal 4 interdiction mission of shielding America's air, land, and sea frontiers from the drug threat is being accomplished through the continuance and enhancement of U.S., bilateral, and regional interdiction operations. Initiatives are underway to harness the potential of new technologies to improve interdiction performance. Along the Southwest Border, U.S. interdiction personnel are benefitting from the addition of new equipment, including devices that employ non-intrusive inspection technologies. A Relocatable Over-The-Horizon Radar (ROTHR) system is being installed in Puerto Rico to augment our counter-drug surveillance capabilities in the Caribbean and the Andean Ridge. Podded radar technology is being developed for use by partner nations to improve their own drug trafficking detection capabilities. These types of new technologies are expected to have a significant positive impact on interdiction efforts supporting the Goal 4 mission.

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QUESTIONS SUBMITTED BY SENATOR SHELBY

NATIONAL MEDIA CAMPAIGN

*Question.* Could You Please Tell Me Why ONDCP Has Selected Channel One as a Main Outlet for the Anti-drug Message? Could You Please Tell Me the Amount of Money That ONDCP Is Spending on the Channel One Advertisements? Are the Prices for Air Time on Channel One Competitive with Those of Other Advertisements? Are You Aware of Concerns Regarding the Presence of Channel One in the Schools? In Light of the Fact That Many Parents Are Troubled by Channel One, Troubled by the Presence of Commercials in the Classrooms, Do You Think That it Is Appropriate for ONDCP to Continue to Use Taxpayer Funded Resources in this Manner? Isn't There Another Means That You Could Choose to Get Your Important Message to School Kids Without Taking Time That Could Be Spent on Academics. Couldn't ONDCP Target its Advertising in a Manner That Compliments Rather than Competes with Our Schools? Rather than "Bump" Geometry with One of Your Commercials Couldn't You Interrupt Some Commercial Television Programming in Order to Reach Kids?

*Answer.* ONDCP selected Channel One as a media outlet for our media campaign for several reasons. First of all, it is perhaps the best targeted of potential media vehicles: 8 million young people and 400,000 adults see the program every day. No other media vehicle (other than the Super Bowl) reaches as great a number of youth in our target age range. Moreover, because students watch Channel One in a school environment, we believe they are more likely to take the message seriously than if they were watching many of the shows on broadcast or cable television, which may offer mixed messages and images about illegal drugs. The context of a news program helps as well. For some youth, the 10 minutes of current events they receive each day on Channel One may be the only such information they receive, since they do not read newspapers or watch TV news or public affairs programming. Students discuss much of the material they see on Channel One with each other and their teachers, a fact substantiated by the 99 percent renewal rate among schools and other surveys. Additionally, Channel One is very well represented in rural and inner city schools.

Although Channel One is economically competitive with major network and cable stations, it in fact is a particularly effective use of public funds since there is no "waste." On Channel One, 100 percent of the viewing audience is in the key target age ranges for the media campaign; on commercial television there is always large

portions of an audience that are either younger or older than our age targets. Channel One is in only middle and high schools and we are not paying a premium for a wider, non target viewer group. Channel One cost per thousands (CPM) of \$34.73 is one of the most cost efficient broadcast CPMs (for teens 12-17) when compared to Fox Broadcasting's \$105.36 or WB's \$43.15.

We are aware that there are some groups that have taken issue with the concept of putting commercials in the classroom. It is our understanding, however, that from a national perspective most educators who work with Channel One highly approve of the programming. The 10 minutes of current events, along with two minutes of commercials (many of which are for health or other public programs) appear to be a minor trade off for the benefits received. Further, the Channel One "feed" is typically seen during homeroom which has minimum impact on purely academic subjects. While we do advertise on broadcast and cable channels as well, we find Channel One particularly effective for the purposes of this campaign. To us, anti-drug messages are as important as other educational lessons and we do not see our effort negatively impacting the education of youth. Each Channel One school receives televisions for each classroom, videotape recorders and a satellite dish to download a range of high quality educational programs for use at the discretion of each teacher, including 250 hours of commercial free Channel One programming each year. ONDCP has worked with Channel One on some of these programs and we think the work is very accurate and high quality. Additionally, for many schools in the nation, particularly those in areas struggling with tight education budgets, the services and facilities made available by Channel One make the job of teaching easier since teachers can use the televisions and VCRs for any educational purpose.

We are not aware of any current national studies that document parents' attitudes about Channel One, however we believe most parents support having our anti-drug messages in schools. Since Channel One is an effective means of communicating such messages to kids, we believe ONDCP's use of that delivery mechanism is an appropriate use of taxpayer funds.

Last year ONDCP spent approximately \$8.2 million on Channel One. This was matched by 100 percent in public service, including some outstanding programming on youth drug use issues. In the last year, Channel One has produced six different 20 minute anti-drug feature videos and 16 substances abuse news stories. Finally, on March 17, Director McCaffrey participated in a Channel One Town Hall meeting exclusively on illicit drugs. It was seen by the entire Channel one audience and took the place of the regular 12 minute feed. A 45 minute form of this session is available to any school in the county.

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#### QUESTIONS SUBMITTED BY SENATOR DORGAN

##### DRUGS

*Question.* Do You Believe That the Report Compiled by the National Institute of Medicine Will Radically Differ from the International Narcotics Control Board's Recommendation?

Answer. Both reports are complimentary to each other. In February 1999, the INCB issued a report and renewed its call for additional scientific research on the use of cannabis for certain medical purposes.

*Question.* Isn't it True That Licensing and Other Control Methods Used for Other Narcotic and Psychotropic Substances Would Move Marijuana into a Pharmaceutical? Wouldn't That Eliminate the Issue You Raise That Medical Use of Marijuana Would Send a Message to Our Youth That Marijuana Is Good for You?

Answer. The active ingredient in marijuana is 9-tetrahydrocannabinol (THC). If this drug or any other cannabinoid were re-scheduled as a pharmaceutical and its delivery was provided in an appropriate clinical setting via a medically approved device, the risk of sending the wrong message to our youth might be minimized. On the other hand, if the medicine is smoked marijuana itself, and the appropriate regulatory processes for determining whether it was safe and suitable for medical use are not followed, then ONDCP would be concerned about the message that we are sending then to our youth.

Pharmaceutical development rests on a basis of sound basic and clinical research before any drug can be deemed safe and suitable for medicinal use. This research and development process is within the purview of the Department of Health and Human Services.

*Question.* In the Director's written statement, he states that over the past two years, youth drug rates have leveled off and, in many cases fallen. However, ONDCP's document, Pulse Check National Trends in Drug Abuse, reports an in-

crease in young users of marijuana and a continuing rise in the number of new, young users who snort or smoke heroin. In addition, the Director's statement says that trends in drug use indicate that 1997 drug usage is statistically unchanged from fiscal year 1996.

Can ONDCP clear up what appears to be conflicting information? The Director often suggests marijuana is a gateway drug—leading youth to other “harder” drug usage. We have information that one-third of all clients receiving treatment for marijuana abuse in all regions of the country are under the age of twenty. Is this treatment effective? Are there sufficient facilities providing this treatment? Is ONDCP including treatment information in the materials you provide as part of the media campaign?

Answer. Conflicting Information. The apparent conflicting information stems from the fact that the information is drawn from various sources that have differing methodologies, purposes, and time frames. There are two main sources of youth drug use data in the general U.S. population, the National Household Survey on Drug Abuse (NHSDA) and the Monitoring the Future (MTF) study. Both are probability based nationally representative surveys. The NHSDA, conducted each year by the Substance Abuse and Mental Health Services Administration, collects data on the noninstitutionalized U.S. population 12 and older. Data are presented by age category, including ages 12–17. Data are collected continually throughout the year. Preliminary data for a given year are typically available in August of the following year (e.g., the 1998 NHSDA data will be available in August 1999). The MTF, conducted each year by the University of Michigan through a grant from the National Institute on Drug Abuse, collects data on 8th, 10th, and 12th graders. Data are collected in the first quarter of each year. Preliminary data for any given year are available by December of that year. The most recent data are for 1998. Relevant data from each year are:

- The most recent year for which data are available from the NHSDA is 1997. Data from the NHSDA indicate that past month use of any illicit drug by youth 12–17 rose from 9.0 percent in 1996 to 11.4 percent in 1997. This increase was driven mainly by an increase in marijuana use—from 7.1 percent in 1996 to 9.4 percent in 1997.
- The most recent year for which data are available from the MTF is 1998. Data from the MTF indicate that past year use of any illicit drug use decreased among 10th graders (from 38.5 percent in 1997 to 35.0 percent in 1998) and remained level among 8th and 12th graders. Additionally, past year use among 8th graders is down significantly from 1996 (from 23.5 percent to 21.0 percent). This is the source for the Director's comments that drug use among youth has leveled off and in many cases fallen over the past two years. We shall have to wait until August 1999 to see whether the NHSDA parallels these trends.
- Data from the 1997 NHSDA also indicates that past month use of any illicit drugs among the U.S. general population 12 and older remained unchanged between 1996 and 1997 (from 6.1 percent in 1996 to 6.4 percent in 1997, not a statistically significant change)—the increase in drug use compared to 1996 was seen only for youth. This is the source of the Director's statement that drug use in 1997 was statistically unchanged from 1996.

ONDCP's Pulse Check, unlike the NHSDA and the MTF study, is not a probability-based, nationally representative survey. Rather, it is a report based upon structured interviews with police officers, treatment providers, and street ethnographers in selected metropolitan areas. Its purpose is to provide current information on trends in drug use, drug markets, and emerging drugs. It provides ONDCP with a more “real-time” snapshot than the more methodologically rigorous surveys, which typically take 9 to 12 months after then end of data collection to report out. Information from the Pulse Check is often later confirmed by the NHSDA or MTF (e.g., the appearance and subsequent spread of the use of “blunts”—cigars that are unwrapped, the tobacco removed, and replaced with marijuana). Pulse Check sources have reported that marijuana use among youth is widespread and increasing. These are the impressions of professionals who have direct contact on a daily basis with the heaviest drug using portion of the population. The NHSDA and the MTF, on the other hand, are surveys of the general U.S. population. Trends observed among the heavier using population may signal trends that are about to emerge in the general population. The Pulse Check's finding that marijuana use among youth is increasing is not inconsistent with data on marijuana initiates from the NHSDA. The 1997 NHSDA reports that between 1991 and 1996 (the last year for which data on initiates is available), marijuana initiation increased from 1,376,000 to 2,540,000, an increase of 85 percent. However, initiation as measured by the NHSDA indicates the time when a person first used marijuana. This measure includes those who used it once and never again, those who used it a few times,

but stopped, as well as those who continue to use. This helps explain why initiation may be rising, yet past month use may not be going up as sharply or remaining unchanged from year to year.

*Treatment Effectiveness.*—The effectiveness of treatment is usually measured by assessing positive changes in client characteristics such as illicit drug use, involvement in criminal activities, employment, physical and mental health, and other socio-economic status. Results from treatment studies for overall illicit drug use, including marijuana, declined. Clients improved in a range of other life factors as a result of their treatment and reduced substance use. Specifically for marijuana, clients studied in one outcome study, the Services Research Outcome Study (SROS), showed a 28 percent decline in marijuana use five years after treatment. SAMHSA has not analyzed the marijuana data specifically for the under 20 year olds age group.

Nationally for all age groups, including the under 20, there is insufficient treatment capacity to address the need for treatment. ONDCP's Performance Measures of Effectiveness system contains targets that calls for the reduction in the number of people that need treatment and those that receive it (the so-called treatment gap) by 20 percent by year 2002. A 50 percent reduction is required by year 2007. Closing the treatment gap will require substantial funds from Federal and State Government and the private sector. The Federal drug control community has developed a plan to assess funding requirements that includes the role of parity in insurance coverage, and for better disseminating research findings that report improved treatment efficiency and effectiveness.

*National Youth Anti-Drug Media Campaign.*—Some of the Media Campaign's ads contain a "call to action" encouraging viewers/readers to call a toll-free number to obtain prevention materials published by either HHS or DOE. A caller might also ask the information specialist at the SAMHSA Clearinghouse (which mans the toll free number for the media campaign) for treatment information, though our ads don't direct them to do so. Also, some of the locally tagged ads list local prevention coalition numbers that also serve as treatment referral. Lastly, our television pro bono match reel (administered for ONDCP by the Ad Council) includes ads that are treatment oriented.

*Question.* What Can We Do to Stop These Drugs at the Source, Before They Take Hold?

Answer. Understanding that the some of the chemical components of certain synthetic drugs (i.e. methamphetamine) are readily and easily attainable as legal products, the current measures being undertaken are an answer to how we stop the production of these drugs. As you are aware the Chemical Diversion Trafficking Act of 1989 provided a list of regulated chemicals (i.e. ephedrine, pseudo-ephedrine, etc.) whose production and distribution is closely monitored. The same law gave the Drug Enforcement Administration (DEA) the authority to add to the list after following the established procedure of announcing it in the Federal Register and soliciting comments. Subsequent acts, such as the 1996 Comprehensive Methamphetamine Control Act, further restricted the amount of "dosage units" that could be sold in a pharmaceutical product containing any of several precursor chemicals. This control is still one of the best methods to stop synthetic drugs at the source. DEA continues to monitor precursor chemicals through its Chemical Diversion Unit as well as their agents in the field.

Additionally through aggressive enforcement action, DEA along with state and local law enforcement agencies are responding using task force tactics to seize active clandestine drug labs before the product reaches the distribution network. Although law enforcement operations are risky because of the hazards involved, clandestine methamphetamine labs continue to be seized as well as the products being prepared.

*Question.* What Measures Is ONDCP Taking to Combat the Epidemic Spread of Methamphetamine Through the Midwest? How Effective Have These Efforts Been in Term of Methamphetamine Usage and Distribution?

Answer. The Midwest HIDTA, designated in 1996, has placed a special emphasis on the explosive problems of methamphetamine usage and distribution in a five-state region consisting of counties in Iowa, Kansas, Missouri, Nebraska, and South Dakota. The State of North Dakota has just recently been added to the Midwest HIDTA. The Chicago HIDTA, designated in 1995, has also created special initiatives to attack the methamphetamine problem in the City of Chicago, Cook County and the surrounding areas. The importation and distribution of methamphetamine is common in all of these states; however, the clandestine manufacturing phenomenon is currently concentrated in Missouri, Kansas, and of late, Iowa. Local methamphetamine production is considered the single most important public safety and health

hazard to citizens in the Midwest HIDTA region. Related violent crime is increasing at alarming rates.

The following initiatives are being implemented as part of the Midwest HIDTA strategy to address the methamphetamine problem:

*Midwest HIDTA Investigative Support Center.*—Assists HIDTA task forces and other federal, state, and local enforcement agencies within the region in exchanging information/intelligence by linking each of the five states electronically.

*Co-Located Task Forces.*—The Iowa Division of Narcotics Enforcement/State Fire Marshal/Division of Criminal Investigation have been co-located at a HIDTA site to focus on the methamphetamine problem in that state. During the past year, 118 clandestine methamphetamine labs have been seized in Iowa.

*High Impact Area Task Forces.*—The HIDTA Program has allowed for the enhancement of task forces in Muscatine County and the cities of Des Moines and Sioux City to serve as the focal point of HIDTA activities in areas impacted most by methamphetamine trafficking.

*Drug Enforcement Task Forces.*—Two multi-agency task forces provide operational support for the narcotics units of the Kansas Bureau of Investigation and investigate methamphetamine producers and traffickers in the state of Kansas. For the period 6/1/97 to 5/31/98, 150 methamphetamine labs were seized in Kansas. Highway interdiction seizures of methamphetamine attributed to the HIDTA effort increased from 96.9 pounds in CY 1997 to 144 pounds in CY 1998.

*Missouri Task Force Initiatives.*—Collocated and multi-agency task forces targeting the methamphetamine problem were responsible for seizing 436 clandestine labs from June 1997 to May 1998. During this same time period Missouri recorded 679 methamphetamine-related arrests, with 502 classified as clandestine lab operators. The U.S. Attorney obtained 173 convictions on 178 methamphetamine-related cases with assistance provided from the various HIDTA task forces.

*Nebraska Law Enforcement Enhancement.*—The HIDTA Program provides direct support to four of Nebraska's drug task forces whose mission is to measurably reduce methamphetamine drug trafficking and related criminal activities. As a result of this initiative 50 pounds of methamphetamine was seized between January and May 1998. The HIDTA enhancement has also provided numerous intelligence gathering training activities for the Nebraska State Patrol, the Nebraska Crime Commission and various local law enforcement organizations.

*South Dakota Statewide Drug Task Force.*—Numerous "hotspot" counties in South Dakota have been designated as part of the Midwest HIDTA initiative. Due to the rural nature of the state the South Dakota initiative includes specific elements to provide local assistance overtime, augmentation of personnel and equipment, an Intelligence Analyst and specialized training for a variety of federal, state and local law enforcement officers. During 1998 there were 61 federal state and local agencies participating in the HIDTA Program.

*North Dakota.*—Has recently been added to the Midwest HIDTA. Two elements will be introduced into North Dakota to help in the battle against the spread of the methamphetamine problem. First is increased training for law enforcement officers to provide them with the basic skills to translate street contacts into workable intelligence, leading to increased seizures and arrests. The second is a sharing of intelligence/information among and between law enforcement organizations operating in the state of North Dakota.

In addition, a supplement to the fiscal year 1998 HIDTA Program budget provided \$8.8 million in special funding to specifically address methamphetamine reduction. Information available to ONDCP indicated that the top methamphetamine production and distribution areas are California, Missouri, Arizona and Utah/Colorado. This HIDTA effort was to concentrate on the most critical areas first and address other areas in the outyears. The emphasis was on the development of a centerpiece task force in the most critical areas and a network of task forces in the next most critical areas. The centerpiece HIDTA task force develops and shares state-of-the-art investigative methodologies to reduce methamphetamine trafficking. The following HIDTAs were funded in this first phase in the following amounts: Las Angeles HIDTA (\$2.25 million), Midwest HIDTA-Kansas City (\$1.5 million), Rocky Mountain HIDTA-Utah & Colorado (\$1.5 million), San Francisco HIDTA (\$.75 million), Southwest Border HIDTA-Arizona (\$.75 million), Southwest Border-California (\$.75 million), HIDTA Assistance Center (\$.75 million), EPIC-National Database (\$.55 million). The HIDTA methamphetamine task forces will be electronically tied to the National Clandestine Laboratory Database at EPIC. The HIDTA Assistance Center established a methamphetamine reduction "best practices" evaluation, collection, and dissemination capability and support for mobil training teams to all HIDTAs.

Available information and trend patterns indicate that the Midwest HIDTA region will continue to experience an increase in the clandestine manufacturing and importation of methamphetamine. Intense efforts by the various HITDA task forces, coupled with harsher penalties in recently enacted legislation have impacted the clandestine lab situation in Missouri. The Midwest HIDTA continues to adjust to the importation of Mexican methamphetamine as well as the displacement of local methamphetamine production operations. However, these positive forces have caused the clandestine lab operators to become more mobile, increasing the number of labs in other states in the region.

#### GOVERNMENT-WIDE DRUG BUDGET

*Question.* There is a disparity between the amount dedicated to law enforcement (\$11.74 billion or 66 percent) and the amount provided for education, treatment, and prevention (\$4.6 billion or 34 percent).

ONDCP supports both components, supply reduction and demand reduction, but requests funds indicating that supply reduction has twice the level of impact on the nation's drug abuse problems.

Please provide the committee with some statistics that quantify the benefits received from the increased spending on law enforcement activities.

*Answer.* For the fiscal year 2000 budget request, the supply/demand reduction split is \$11.74 billion (66.0 percent) vs. \$6.04 (34.0 percent). Of the \$11.74 billion for supply reduction, \$9.16 billion (51.5 percent) is for domestic law enforcement.

We have seen significant benefits from the funding of domestic law enforcement. There is a clear and substantial nexus between crime and drugs. The FBI reports each year on crime in the United States through its Uniform Crime Reports (UCR). The UCR data includes the Crime Index, a summary of seven selected offenses: murder, forcible rape, robbery, aggravated assault, burglary, larceny theft, and motor vehicle theft. While it is not known what proportion of these offenses are drug-related, police and researchers acknowledge that drugs play a major role. Between 1996 and 1997 there was a 3.2 percent drop in the rate per 100,000 population of Crime Index offenses (from 5,086.6 per 100,000 to 4,922.7 per 100,000). This decrease in Crime Index offense rates was led by murders (down 8.1 per 100,000 population) and robbery (down 7.8 per 100,000 population). The arrest rate for drug abuse violations increased from 594.3 per 100,000 population in 1996 to 601.6 per 100,000 population in 1997. Arrests for drug abuse violation in 1997 are up 48 percent from 1988, 38 percent from 1993, and 2 percent from 1996.

#### NATIONAL MEDIA CAMPAIGN

*Question.* How Much of the ONDCP'S Media Campaign Resources Are Dedicated to Methamphetamine? How Does ONDCP Provide Coverage in the Sparsely Populated Midwestern Areas, Where Methamphetamine Is Experiencing Some of its Largest Growth?

*Answer.* Approximately one-third of ONDCP's local media communication in areas where methamphetamine usage incidence is above national norms is dedicated to an anti-methamphetamine message. Since local delivery represents half of the youth-targeted effort (as opposed to adult-targeted efforts which are national for reasons of cost efficiency), the total resources dedicated to anti-methamphetamine advertising represents roughly 8.3 percent of the aggregate adult and youth budget in these markets. In general, however, the campaign is designed to address entry level drugs (primarily marijuana and inhalants) for young teens.

All available statistical studies have been employed to target the methamphetamine message. The markets which receive special anti-methamphetamine emphasis are as follows: Phoenix and Tucson, Arizona; Sacramento, California; Denver and Colorado Springs Colorado; Honolulu, Hawaii; Indianapolis, Indiana; Des Moines, Cedar Rapids and Davenport, Iowa; Kansas City, Kansas; St. Louis and Springfield, Missouri; Omaha Nebraska; Albuquerque, New Mexico; El Paso, Texas; Salt Lake City, Utah; and Milwaukee, Wisconsin.

*Question.* Were there any methodological data collection or analysis limitations or problems that have affected the Phase I report?

*Answer.* No, there have not been any methodological data collection or analysis limitations or problems that have affected the Phase I report. The evaluation has employed standard data collection and analysis procedures that have yielded a thorough and informative evaluation of Phase I. Briefly, the ONDCP evaluation used a matched comparison design wherein the 12 target sites were matched with 12 comparison sites on the basis of region, size, demographic composition, drug problems, and level of prior anti-drug advertising. Data were collected through school-based surveys (for youth and teens) and telephone interviews (parents). Analyses fo-

cused on net differences (i.e., the difference between the target and comparison sites on pre/post measures) in awareness of the campaign, particularly recall of specific ads. The results were consistent with media data indicating the reach and frequency of the advertising. A detailed description of our methodology is presented as an appendix in the evaluation report.

*Question.* When will the final Phase II report be available to the Subcommittee? Your report on the Phase I evaluation states “due to cost constraints, qualitative data will be collected during Phase II in 12 markets areas only. Why are you experiencing cost constraints in the evaluation of the program?”

*Answer.* ONDCP anticipates submitting the Phase II report to the Subcommittee by May 1999. Baseline data for Phase II were collected in May and June, 1998. Followup data for Phase II were collected in October and November, 1998. The evaluation contractors are currently analyzing the quantitative (nationally representative surveys of youth, teens, and parents) and qualitative (focus groups and key informant interviews in 12 selected metropolitan areas) data, after which they will draft the report.

For the first year of the Media Campaign (fiscal year 1998)—the period that included Phase II, Congress appropriated \$195 million, \$17 million of which could not be obligated until September 30, 1998. During Phase II \$145.656 million was spent, \$140 million on advertising and \$5.546 million on nonadvertising components (clearinghouse activities, consultants, invoicing support, travel, and the evaluation). Of the \$5.546 million in nonadvertising costs, \$2.4 million was spent on the evaluation. It has always been ONDCP's priority to use as much of the congressional appropriation as possible to get ads in front of the American public. To do so requires that we hold the costs down for items not directly related to placing the advertising. The budget of \$2.4 million for the Phase II evaluation was considered sufficient to fund the national surveys of youth, teens, and parents, visit 12 sites around the country to collect qualitative data, and produce the report. Conducting the site visits in the selected metropolitan areas is labor intensive (two contractor staff spend approximately one week at the site conducting focus groups and interviews with key community leaders). Typically several teams of evaluators cover the 12 sites within a 2 to 3 week window. In order to have sufficient funds to conduct the surveys and produce the report, it was determined that we could include 12 sites for qualitative data collection in the evaluation.

*Question.* Will the delay of Phase I report have any impact on the completion of Phase II or in the “start-up” of Phase III?

*Answer.* The fiscal year 1999 appropriations bill required ONDCP to submit to Congress a report on the evaluation of Phase I of the Media Campaign prior to obligating up to 75 percent of the fiscal year 1999 funds. This report was submitted on October 1, 1998; it presented the results of focus groups conducted with youth, teens, and parents and interviews with key community leaders in the target and comparison sites 8–10 weeks into the Campaign. ONDCP prepared a second or final report for Phase I, submitted to Congress on March 22, 1999. This report presented the results of the surveys of youth, teens, and parents. It was originally scheduled for submission in to Congress in December 1998. The delay in submitting this report has been due primarily to ONDCP's efforts to cooperate fully with the ongoing audit by the General Accounting Office (GAO). We have been working closely with GAO to ensure an accurate, thorough, and timely report. We have provided GAO with full access to our evaluation contractors and to the data and drafts of the report as they were being analyzed and prepared, and devoted considerable time responding to GAO's technical questions. This has been a very helpful process in focusing and clarifying our description of the evaluation methodology and results. It also has unavoidably delayed the submission of the final report to the Committee. However, we believe the final report has benefited greatly from this process.

We anticipate that the delay in submitting the Phase I final report will have minimal impact on the submission of the Phase II report. Followup data collection was completed in November 1998. Since that time the contractors have been analyzing the data. This task is nearly complete, after which the report will be drafted. ONDCP's schedule is to submit the report to the Committee by May 1999.

The delay in submitting the Phase I final report will have no impact on the start-up of the Phase III evaluation because the two evaluations are being conducted by separate contractors, and the Phase III evaluation is not the primary focus of the GAO audit. The Phase III evaluation is currently in the final stages of planning. Draft survey instruments are being tested prior to submission to OMB for approval. Upon OMB approval the instruments will be pilot tested. Assuming a successful pilot test, the Phase III baseline data collection will be fielded in August/September 1999.

*Question.* Will the evaluation of any of the phases specifically address documented changes in national drug use rates and attitudes?

*Answer.* The underlying concept of the Media Campaign is that through intensive targeted paid advertising, supported by community and corporate involvement, we can affect changes in people's attitudes toward drug use and subsequently their drug use. The first step in this process is to increase the target audience's (in our case, youth, teens, parents, and other adult influencers) awareness of the messages. With effective and memorable advertising, this can be done within a few months. Because Phases I and II were test phases lasting only 6 months, the only outcome measure for which we expect to be able to detect changes is awareness. In fact, for Phase I we have found significant levels of awareness among the target audiences. Phase III marks the implementation of the fully integrated Media Campaign. We expect to see changes in attitudes within 1 to 2 years of the start of Phase III. These changes in attitudes will be followed by changes in behavior, which we expect to see within 2 to 3 years of the start of Phase III. It is only in Phase III, which is scheduled to run for the next 4 years, that the Media Campaign will have been in place for a sufficient length of time to affect changes in attitudes and behavior (i.e., drug use).

*Question.* Will ONDCP be able to provide quantitative results from its surveys or will it have to rely on qualitative (anecdotal) information?

*Answer.* ONDCP's evaluation plan for the Media Campaign calls for the collection of both quantitative and qualitative data. The quantitative data includes surveys of youth (9–11 year olds), teens (12 to 18 year olds), and parents. The qualitative data includes focus groups with youth, teens, and parents and interviews with key members of the community. It is inaccurate to describe the qualitative data as "anecdotal". Qualitative evaluation data are collected in a systematic manner by trained researchers so that data across sites can be compared. The resulting data are analyzed using sophisticated content analysis computer software. Collecting both types of data is standard evaluation methodology. The two types of data compliment one another; the qualitative data provides detailed insight from respondents that helps to illuminate and provide context for the quantitative data. A detailed description of the evaluation methodology accompanies each evaluation report.

For Phase I, we surveyed approximately 18,000 youth and teens and 4,200 parents. We conducted 384 focus groups composed of approximately 2,300 youths, teens, and parents. We conducted approximately 1,200 key informant interviews. The quantitative data were collected at two points, baseline (November 1997 through February 1998) and followup (May and June 1998). The qualitative data were collected at three points, baseline, intermediate (8–10 weeks into the campaign), and followup. The intermediate data were collected in order to provide a quick snapshot of the early impact of the campaign. Our primary outcome measure for Phase I was awareness of the campaign, which advertising experience tells us can be achieved within a few months with an effective campaign. Results from the intermediate data collection were presented in the Phase I, Report No. 1 issued in September 1998. This report was followed up by the results from the quantitative, survey data collection, which are presented in Phase I, Report No. 2, issued in March 1999.

For Phase II, we are conducting nationally representative surveys of youth and teens and parents. We also conducted a similar number of focus groups and interviews with key community members in 12 cities as we did in Phase I. The quantitative and qualitative data were collected at two points, baseline (May and June 1998) and followup (October and November 1998). The Phase II report will be submitted by July 1999.

For Phase III, we are conducting nationally representative surveys of youth and teens and parents. The youth and teen surveys will be linked with the parent surveys in that a parent and one youth or teen from the same household will be surveyed. We also will be collecting detailed longitudinal (i.e., the same people will be surveyed once a year for four years) data in four sites. Data collected at these four longitudinal sites will be both quantitative and qualitative. Data for Phase III will be collected every 6 months, starting with baseline data collection in August/September 1999. Reports will be issued every 6 months starting in May 2000.

*Question.* Given ONDCP's Milestone Schedule, Was There Sufficient Time to Implement the Lessons Learned from Phase I into the Program and Evaluation Component of Phases II and III? (What Was the Purpose of Having Three Phases If You Were Not Going to Incorporate the Findings of Phase I or II into III?)

*Answer.* Because the Media Campaign was implemented in three distinct phases, ONDCP decided to conduct three distinct and independent evaluations. Additionally, since the plan was to have the phases run one after another without interruption, it was not intended that the evaluation for one phase be completed prior to the start of the next phase. However, the Phase I evaluation was able to inform the planning

for the Phase III evaluation. The primary lesson learned from Phase I was that school-based surveys have several severe limitations, including active parental consent requirements, schools refusing to participate due to being over-surveyed, and district or individual school scientific review boards that require prior approval of survey methodology and instruments. These limitations affect access to schools, cause delays in implementing surveys, and tend to reduce response rates. As a result of ONDCP's experience with school-based surveys in Phase I and following the recommendation of an expert panel of survey design experts convened by NIDA, ONDCP decided for Phase III to switch from a school-based survey to a household-based survey.

The purpose of having three Phases was to use Phase I and Phase II to test the implementation of the advertising component. The first Phase gathered data from twelve cities. This provided the opportunity to gather information on copy rotation, served as the impetus for feedback on ads, allowed us to learn more about the advertising's effects on communities. Phases I and II also improved communication between ONDCP and its drug abuse constituencies.

*Question.* Media Campaigns Can Be an Effective Way of Selling a Product. And, The Committee Understands That These Ads Target Behavioral Changes Which Are More Difficult Than Just Getting Someone to Buy a Product. But, Is ONDCP Providing The Target Audience Enough Information to Make Informed Decisions About The Next Steps or Where to Go For Help And/or Assistance? The Already Know Drugs Are Bad, But Do The Ads Give The Viewer Enough Information, Such as a Phone Number or Locations, Where They Can Receive Additional Information?

*Answer.* All locally targeted messages in any medium provide a phone number or location where viewers or listeners can receive more information. In addition, we have requested that PDFA include phone numbers on a greater percentage of ads, including all numbers on all messages directed at parents and other adult influencers of youth. Other components of the media campaign (interactive, public education, partnerships, and collaborations with entertainment industry) also provide comprehensive information to both youth and parents. The most recent examples are the Parent Resource Center on SOL and Disney's youth oriented freevibe.com which are exclusively devoted to providing information on drugs to these audiences. The response to the media campaign has been extraordinary. Calls to the National Clearinghouse for Alcohol and Drug Information are up 318 percent. Calls to many local prevention or treatment organizations have also approached that level.

*Question.* According to GAO, at least some of the Phase I ads did not get aired in the media at the appropriate times nor with the appropriate frequencies. Can you explain this situation? Do you have any information about how this impacted the evaluation of Phase I? What about for Phases II or III?

*Answer.* It is inaccurate to say that some of the Phase I ads did not get aired at appropriate times and frequencies. Phase I of the Media Campaign consisted of over 60 individual advertising messages for television, radio, newspapers, and billboards. These messages were targeted at three general audiences, youth, teens, and parents, and both African American and Spanish language media outlets. For Phase I, 60 percent of the advertising was directed at youth and teens. Parents, at 40 percent were a secondary target, particularly for television; therefore, parent ads had a lower frequency and reach than did teen ads, by design. For parents radio and newspapers played a more prominent role in delivering the message. Because parents were a secondary target, with fewer television ads aimed at them, the increases in awareness were smaller as measured by the evaluation. However, responses to other questions that asked parents about their perceived effectiveness of anti-drug messages (including radio and newspapers) suggest that parents were receiving the messages and found them to be effective. We do not anticipate this being a problem in Phases II and III. For these Phases, parents and other adult influencers will be targeted with 50 percent of the advertising, including an increase in television ads. As the Campaign enters the fully integrated phase, all audiences will be receiving the Campaign's messages through television, radio, print, newspaper, outdoor, and newspaper ads, over the Internet, and through programming.

*Question.* How Can You Be Sure Whether Reports on Increases in Ad Awareness Are Due to The National Anti-drug Media Campaign as Opposed to Some Other Extraneous Events or Conditions?

*Answer.* This is one of the key questions for the Campaign evaluators—how do we know whether observed changes in outcomes are the result of the Campaign. There are three key outcome measures for the Campaign: awareness of the Campaign's message, anti-drug attitudes (e.g., perceived harmfulness of drugs, and disapproval of drug use), and drug use. ONDCP expects to be able to detect changes in awareness within a few months of the implementation of the Campaign, changes

in attitudes within 1 to 2 years, and changes in drug use within 2 to 3 years. Given the short time periods of both Phases I and II (i.e., 6 months), the only outcome measure for which we expect to observe change is awareness. This indeed has been the case for Phase I (we are currently preparing the final report for Phase II). If all ONDCP was interested in was whether the outcome measures improved over the period of the Campaign, we could simply track annual data from the National Household Survey on Drug Abuse and the Monitoring the Future Study. However, that is not all that ONDCP is interested in; we want to know whether any observed improvements in the outcome measures are attributable to the Campaign rather than other “extraneous events or conditions.”

ONDCP has taken a number of steps in designing the evaluations for the three Phases of the Campaign to ensure that we have this ability. For Phase I, which was implemented in 12 cities across the country, we matched the 12 target (treatment) sites with 12 control sites. This is the classic experimental design of matched treatment and control groups. The underlying theory is that, all things being equal between the target (treatment) and control sites, then any differences observed between the two after the implementation of the program (the intervention), can be attributed to the program. This design is the only methodological approach that can demonstrate cause and effect; it is typically used in clinical trials where conditions between the treatment and control groups can be manipulated by the researcher. When applied to a social experiment, as with the Media Campaign, it is considered a naturalistic experiment in which the conditions between the target and comparison sites cannot always be manipulated and controlled by the researcher. To compensate for this limitation, the researcher attempts to match the target and control sites as closely as possible. For the Media Campaign, we attempted to match sites on the basis of region, population size, population demographics, level of prior anti-drug media activity, and drug problem. Additionally, we conducted extensive site visits to identify any local activities, such as local anti-drug media campaigns, increased police activity directed toward drug dealing/use, and overdose deaths, that may have impacted results. As a result of this methodology, ONDCP is confident that the positive outcomes of increased awareness of the anti-drug message observed for Phase I can be attributed to the Campaign. For Phase I we consistently observed increases in awareness outcome measures in the target sites from baseline to followup and either decreases or no change in the control sites.

For Phases II and III, the Campaign is national in scope; therefore, we do not have the ability to use control sites. Consequently, ONDCP employed other means to attribute positive outcomes to the Campaign. In Phase II we selected 12 sites to conduct extensive site visits to identify possible competing explanations for observed outcomes, similar to the approach used in Phase I. For Phase III, which is being managed for ONDCP by NIDA, we convened a panel of survey and instrument design experts to advise on this and other issues. Based upon their recommendations, ONDCP and NIDA have incorporated two design elements that, in the absence of matched treatment and control sites, will provide assurance that future increases in anti-drug attitudes and decreases in drug use can be attributed to the Media Campaign. First, ONDCP and NIDA are implementing a nationally representative household-based survey that will sample a parent/guardian and one child from the same household, thereby linking parent and child responses. This will enable the evaluators to associate responses between parents and their children on the perceived and observed impact of Campaign messages. This analytic capability will strengthen our ability to attribute outcomes to the Campaign. Second, ONDCP and NIDA have selected four sites around the country in which to collect extensive longitudinal data (i.e., we will be surveying the same individuals each year) over the course of the Campaign. This approach will enable researchers to ask respondents from year to year whether they believe the Campaign was responsible for any perceived or observed changes in their attitudes or behavior. ONDCP is very confident that with this methodological approach, we will be able to attribute changes in the outcomes to the effect of the Media Campaign.

#### INTERNATIONAL—MEXICO

*Question.* The Current Law States That Countries That Do Not Fully Cooperate in Fighting Illegal Drugs Will Be Decertified. However, it Appears That the Decertification Process Is Losing Some of its Credibility. What Should Be Done to Ensure That the Threat of Decertification Remains a Real One? Should the Standards for Evaluating Countries and the Penalties Be Changed?

*Answer.* The certification process has been a valuable tool in the past. In 1998 alone, we have seen major performance improvements in several countries, including Peru and Bolivia—based upon a concerted USG effort utilizing certification in

conjunction with other tools. However, the following shortfalls in the current certification process have been identified:

- Certification encourages confrontation.*—Many countries resent the idea of the United States unilaterally “grading” their performance on drug control, particularly when the demand for drugs in the U.S. is so great. The certification process is, in effect, an annual public airing of these most sensitive issues. Resentment and concerns about national sovereignty—both of which damage counterdrug cooperation—are the inevitable result. Certification promotes an “us versus them” mind set which is damaging to common efforts against drug trafficking.
- Certification as a foil for nationalism/anti-Americanism.*—In many countries, opposition parties seek to cast the government as the lackeys of the U.S. The directive nature of the certification process (i.e. the U.S. issuing an annual demarche with specific steps to be taken and then assessing compliance with the demarche) is certainly not in keeping with the concept of a community of nations united in pursuit of a common goal. There is a very real threat that the certification process will lead to the popular association abroad of counter drug activities with servility to America and, conversely to the popular association of drug trafficking with independence and rejection of U.S. domination. Most states on the majors list have a long and unhappy familiarity with colonialism and great power intervention. The current flawed certification process conjures up these unhappy memories more readily than it does the ideals of multinational alliances.

The solution would be a certification system that maximizes the following principles:

- Accountability.*—Americans have a right to demand results of the efforts of their government. Results must be determined from objective indicators as well as from the subjective evaluations of policy makers, law enforcement personnel, diplomatic and intelligence analysts and other informed observers. These indicators must be constant and evaluated in the same manner over time so as to allow the drawing of valid comparisons and conclusions.
- Flexibility.*—The issues and concerns surrounding drug abuse are multifaceted, and must be dealt with in different manners. An effective joint campaign against drug production and trafficking must take the unique circumstances and characteristics of each nation into account. Any certification or alternative process must allow the U.S. government to respond to drug production and trafficking with agility and adaptability.
- Cooperation.*—The United States cannot solve the problem of drug abuse single-handedly. The use of our allies and multilateral organizations is key. We must continue to convince the rest of the world to see drug abuse as a shared problem. We must continue to work cooperatively with other nations in developing criteria in which to assess drug control programs, such as the joint U.S.-Mexico performance measures of effectiveness.
- Complimentarity.*—Certification or post-certification should be structured so as to enhance, rather than degrade, existing and proposed international counterdrug efforts.

ONDOP looks forward to working with Congress on implementing a more effective certification process which maximizes each of these principles.

*Question.* Is Mexico Concerned That the U.s. Demand for Extradition Is Impinging on Mexico's Sovereignty?

Answer. Mexico is always very sensitive to issues involving national sovereignty. However, in recent years the government of Mexico has worked closely with the government of the United States in extradition cases. Twelve fugitives were physically extradited from Mexico to the United States in 1998, including three Mexican nationals (two accused child molesters, one accused narcotics trafficker/murderer of a Border Patrol agent). By comparison: 1997, 13 extradited (no Mexican nationals); 1996, 13 extradited (five for narcotics offenses, one Mexican national, and one dual U.S./Mexican national on non-narcotics offenses); and 1995, Five extradited (none for narcotics offenses, no Mexican nationals)

In 1998, the Mexican Foreign Secretariat (SRE) entered extradition orders against 19 fugitives, including 10 for serious narcotics offenses and also including five Mexican nationals. Of the total of 19, six have already been surrendered; the others are appealing their extradition, serving sentences on Mexican charges, or had their extradition cases overturned by the Mexican courts.

Progress in the area of extraditions and deportations between Mexico and the United States has been sustained and productive over the past three years. Although no major Mexican narcotics trafficker has yet been extradited, there have been favorable signs, at least from the Foreign Ministry, that one would eventually

pass through the long Mexican judicial process and be turned over to U.S. authorities. Recent judicial decisions in Mexico pose potentially serious threats to our expectations, in particular because the limited capacity of the Executive branch to influence court decisions.

*Question.* Does ONDCP Think the Threat of U.S. Economic Sanctions Has Had an Impact on Mexico's Efforts to Reduce the Supply of Drugs into the U.S.?

*Answer.* The threat of economic sanctions resulting from decertification has probably influenced Mexico to attempt spectacular actions in time to influence the certification decision. It is not clear if this influence on the timing and profile of Mexico's efforts has had much of an impact on real reduction of drug production or impact against drug trafficking organizations.

President Zedillo and his government recognize the threat that drugs poses to Mexican institutions, and have made combatting drugs their top priority. To this end, they have focused their military efforts and geared their institutional reform efforts to combatting drugs. It is difficult to separate the influence of the threat of U.S. economic sanctions, but it is hard to believe that the threat of sanctions was ever a major factor. Geography and a recognition of the importance of Mexican economic development to the United States dictates that sanctions were never a real possibility.

*Question.* There Have Been Questions about Whether the Certification Process Is Good Foreign Policy. Isn't it Possible That Decertification of a Country Could Lead to an Economic Situation Where Drug Production Would Be More Attractive?

*Answer.* Congress granted the President sufficient discretion in administering the certification process—to include imposing economic sanctions that could actually harm our counterdrug interests. There are mandatory penalties associated with decertification. Most of these penalties are economic in nature, and could harm business and infrastructure development in the decertified country. These penalties include: Denial of sales or financing under the arms export control act; Denial of non-food assistance under Public Law 480; Denial of financing by the Export-Import Bank; Withholding of most non-humanitarian assistance under the Foreign Assistance Act and U.S. must vote against proposed loans from six multilateral development banks.

The President also has the discretion to avoid these penalties by granting a country a Vital National Interest Certification. In such cases, the country has not made sufficient progress to be certified, but applying the penalties inherent in decertification would damage U.S. interests. For example, this year Haiti received VNIC. The law as enacted grants the President the discretion to manage the certification process to avoid the situations described in the question.

*Question.* In February, the Mexican Government Announced a \$400 Million Three-year Anti-drug Plan. As Part of the Program, Mexico Will Buy Counter-drug Equipment Such as Infrared Cameras for Airplane Surveillance, Special X-ray Machines at Border Crossings, and Encrypted Satellite Communications Gear. They Said 40 New Speed Boats and Three New Airplanes Will Be Added to the National Anti-drug Fleets. Does ONDEP Believe That Increased Spending on Technology Will Increase Mexico's Viability as a Partner in the War on Drugs, or Do You Think the Overall Strategy must Be Revamped Before the Mexican Government Invests in Technology?

*Answer.* The Government of Mexico informs us that the current initiative builds upon President Zedillo's August 1998 call for a National Crusade Against Crime and Delinquency. The August plan is a more general move against crime, it is not focused on drug trafficking and thus may have received less attention in the United States than the February 1999 announcement. The National Crusade initiative provides for: Better training of judicial police officers, public prosecutors and expert investigators; Expanding preventative coverage, and improving crime investigation and criminal arrest capabilities; Establishment of modern communications, information and intelligence systems; Improving equipment and infrastructure; Improving the legal framework; Strict control over private security services and Promoting civic participation.

The February 1999 plan focuses on drug trafficking and technological enhancements. It also includes increased personnel vetting and performance monitoring for the counterdrug law enforcement officials.

Increased spending on technology can be effective against drug trafficking. Whether technology will have the desired effect in this case cannot be known in advance. The decision to spend such a large amount of money in a time of declining resources is clearly one that the government of Mexico has considered carefully and one in which it has considerable confidence.

*Question.* What guarantees does the committee have that the funds provided are actually being used to reduce drug supplies?

*Answer.* Colombia has long been the processor and transshipper of about 80 percent of the cocaine entering the United States. In the past, Colombian drug traffickers imported the majority of their coca base from growers in Peru and Bolivia. Over the last several years, however, successful counterdrug programs in Peru and Bolivia have disrupted trafficker activities there resulting in significant decreases in the amount of coca cultivation. This, in turn, caused the traffickers to grow more and more coca in Colombia so that they have more control over the supply of their raw material. Colombia's coca cultivation has doubled since 1992, and, beginning in 1997, Colombia became the leading coca cultivator in the world. (It is important to note, however, that overall coca cultivation has decreased 11 percent in the Andean Region since 1995, and overall potential cocaine production dropped from an estimated 750 metric tons in 1995 to an estimated 550 metric tons in 1998.)

Colombian heroin is an increasing problem in the United States as well. Though Colombia accounts for only a small percentage of the world's heroin supply (potentially 6 metric tons annually), DEA reports that, in 1997, 75 percent of the heroin seized and acquired in Federal undercover buys was identified as Colombian heroin. The prevalence of Colombian heroin in the US market can be explained in part by the high purity of the product combined with aggressive marketing techniques that "piggyback" on already-established cocaine distribution networks.

Given that Colombia has become the center of gravity for drug production and distribution in this hemisphere, our cooperative counterdrug programs have been designed to attack Colombia's drug trade in a comprehensive manner. The vast majority of the support provided directly to Colombian counterdrug forces goes to the Colombian National Police who are responsible for the eradication of both coca and opium poppies, lab interdiction, chemical control, disruption of trafficking organizations and arrest of major traffickers, registration and inspection of general aviation aircraft, and other programs. The USG also provides funds to train and support prosecutors and judges to assist them in carrying out their duties such as prosecution of drug traffickers and handling money laundering and asset forfeiture cases. We also provide some funding to support alternative development projects that help give the small drug crop farmers licit alternative means to make a living. The Colombian military also receives some direct counterdrug assistance because they have counterdrug responsibilities such as air interdiction; riverine, coastal and sea operations; lab interdiction; and support to the National Police, especially in areas controlled by the heavily-armed guerrilla or paramilitary groups that are involved in narcotrafficking. The USG also provides some indirect assistance such as detection and monitoring assistance and the development of target packages for counterdrug operations.

All USG support to the Colombian government is governed by memoranda of understanding (MOU) or other agreements between our government and the entity receiving the support. These agreements state clearly that the assistance is for counterdrug purposes. We have worked extensively, both within our government and with the Government of Colombia, to create programs targeting the most critical and vulnerable nodes of the drug industry. We have end-use-monitoring program in place to ensure compliance with the terms of the MOUs. We also monitor these programs to ensure that they are working well and that we can adapt to the ever-changing drug trafficking trends.

*Question.* The fiscal year 1998 Supplemental Included \$96 Million for Black Hawk Helicopters; \$40 Million for Upgrading and Arming 34 Huey Helicopters; Gun-ships; and \$40 Million for Helicopters, Transport and Surveillance Planes, Patrol Boats and Weapons and Equipment for the Colombian Military and National Police. What Commitment Is the United States Getting for That Level of Investment? How Much Is Being Provided for Crop Eradication and Agricultural Research and Education?

*Answer.* The USG has historically had a good and mutually cooperative relationship with Colombian counterdrug entities at the tactical level even in the worst days of our bilateral relationship. The police, military, prosecutors and judges have long demonstrated a commitment to fighting the drug industry and its corrupting influence, often paying with their lives. Hundreds of police and military personnel have been killed, wounded or captured in the course of performing counterdrug operations, and many remain in the hands of their guerrilla captors.

In 1998 the combined Colombian National Police/US State Department eradication program sprayed a record number of hectares of coca, often receiving ground fire from guerrilla groups protecting their investment. An eradication surge campaign against opium poppy was started in November 1998 with the goal of com-

pletely eliminating Colombian opium poppy, and therefore Colombian heroin, in the next two to three years. The National Police continue to pursue trafficking organizations aggressively; they arrested several major traffickers in 1998. In 1998, the police seized over 57 metric tons of coca products, 57 tons of marijuana, and 418 kilograms of heroin, most of which was destined for the United States. They also destroyed 145 cocaine base labs, 40 cocaine HCl labs, and 10 heroin labs. In addition, the police seized or grounded over 80 aircraft, 300 vehicles, and 300 boats, and they destroyed 39 illegal airstrips. More than 1,400 persons were arrested on drug trafficking charges in 1998.

The Colombian military have shown great commitment to counterdrug efforts. The military forces carried out 9,970 counterdrug operations in 1998 resulting in the seizure of 27 metric tons of cocaine, 174 vehicles, 24 airplanes, and 38 boats. They also destroyed 229 cocaine laboratories and 75 illegal airstrips. The Colombian Air Force increased fourfold the number of successful end games against drug trafficker flights over the previous year. The Colombian Navy continues to cooperate with the USG in maritime search and seizure operations. The Navy also significantly increased (almost wholly at their own expense) the number of riverine combat elements which are responsible for patrolling the extensive river network in search of traffickers, drugs, and precursor chemicals. The creation in March 1998 of the Joint Task Force at the Tres Esquinas Base in southern Colombia was an important step in establishing enhanced military/National Police cooperation in counterdrug efforts. The Army is in the process of establishing a dedicated counterdrug battalion to further increase their participation in counterdrug efforts.

Since the Pastrana administration took office in August 1998, cooperation with the USG and unilateral counterdrug efforts at all levels of the Colombian government have improved. President Pastrana signed a "Declaration of Alliance Against Illicit Drugs" with President Clinton during the State Visit in October 1998. President Pastrana has put together an honest and competent team committed to the fight against drug trafficking, and his administration produced a national counterdrug strategy that creates a framework for aggressive action against the narcotraffickers. We continue to work with the Government of Colombia to ensure that our counterdrug assistance is used appropriately and effectively.

INL will provide approximately \$43 million in fiscal year 1999 funding to the Colombian National Police to support the aerial eradication program which, is the cornerstone of our program in Colombia. That amount includes funds from the Colombia country program and INL air wing support to the Colombian eradication program. It is difficult to quantify exactly how much goes to the program, since both eradication and interdiction operations use many of the same air assets and host nation personnel, and the program can be adjusted throughout the year to adapt to changing trafficker patterns and trends. The \$43 million figure does not include the funding from the Emergency Supplemental Bill earmarked for acquisition and upgrade of aircraft and base construction, most of which is directly related to the eradication program.

The State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) provided \$500,000 to the Government of Colombia in 1998 to assist them in developing an alternative development plan. Additionally, INL will provide \$15 million over the next three years to implement the program which will be designed to provide licit alternatives to small farmers currently engaged in cultivation of illicit crops.

#### SUBCOMMITTEE RECESS

Senator CAMPBELL. General, we appreciate you being here very much. I know you have a tough job to do and I think you have found a lot of support with this committee. I look forward to working with you for the remainder of this Congress.

General MCCAFFREY. Yes, sir. Thank you.

Senator CAMPBELL. Thank you. This subcommittee is recessed.

[Whereupon, at 11:11 a.m., Thursday, March 4, the subcommittee was recessed, to reconvene at 10:04 a.m., Thursday, March 25.]



# **TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2000**

**THURSDAY, MARCH 25, 1999**

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

The subcommittee met at 10:04 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Kyl, Stevens, and Dorgan.

## **DEPARTMENT OF THE TREASURY**

### **OFFICE OF THE SECRETARY**

#### **STATEMENT OF ROBERT RUBIN, SECRETARY**

#### **ACCOMPANIED BY NANCY KILLEFER, ASSISTANT SECRETARY**

##### **OPENING REMARKS**

Senator CAMPBELL. The Subcommittee on Treasury will be in order. Good morning, Mr. Secretary. We appreciate your being here today.

The Treasury Department has a unique role in the Federal Government. Though the overall budget may be small in comparison to some of the other appropriations bills, I cannot think of another agency with such a variety of responsibilities, printing money, minting coins, protecting the President, ensuring a sound domestic financial market, regulating and monitoring the banking industry, collection of taxes, fighting financial crimes, combating the drug trade, and a number of other things it is probably the broadest mission in the Government today. That is just to name a few.

While the Treasury's responsibilities are limitless, available resources are not, as everyone knows, regardless of the need or worthiness. Therefore, it is our responsibility as appropriators to seek a way to do all we can to further the work of the department and still stay within our fiscal constraints. This requires us to make tradeoffs, sometimes most of us would prefer not to do. As you know, every tradeoff has a consequence and I think that we need to be able to understand the full impact of the choices that we have to make.

The fact that the Administration is proposing to fund the salaries of approximately 4,000 Customs personnel already on board with a user fee bothers me. I think it is a budget gimmick, very frankly, and nothing more. I do not understand how the Administration ex-

pects Congress to respond to that. Essentially, what they are telling us is that Congress has to either enact new fees or extend the existing fees to cover these salaries, or force the Customs Service to lay off the workers.

Coming from a State which is near the southwest border, I am sure Senator Kyl would agree with me, that is a political game of chicken that has no positive future for this country.

Mr. Secretary, I look forward to your testimony and thank you for being here.

#### RANKING MINORITY MEMBER'S OPENING REMARKS

Senator Dorgan, did you have an opening statement?

Senator DORGAN. Mr. Chairman, let me just ask to submit my entire opening statement. I want to say to the Secretary that I especially appreciated his stewardship at the Department of the Treasury.

I noted in one of our national magazines his face prominently displayed in the context of the success of our economy. It is probably not accidental that we have the world's strongest economy at this point, but our strong economy exists in a world of great uncertainty with plenty of challenges in Asia, Russia and Brazil. I know the Secretary spends much of his day with his staff working on these challenges.

The day to day issues in Treasury, I was surprised to learn when I became ranking member of this subcommittee, includes a substantial responsibility for law enforcement. As much law enforcement exists in the form of resources in the Treasury Department as it does in Justice.

Also the Customs Service is a very important function. I am especially interested in making certain that we have the resources and the capability in Customs to protect our economy and border, not in a manner that is exclusive to fair competition, but in a manner that does prohibit the import of unsafe food, pornography, products produced with children's forced labor in other countries. Those are the kinds of things that are very important in the conduct of our economic affairs and the Treasury Department is pivotal and central to all of those issues.

I want to say that I have in my career in Congress, had the opportunity to really hit very hard the Secretary of the Treasury when he would come to the Congress. I can recall one Secretary of the Treasury who said, this junk bond situation—this is in the late 1980s now—this junk bond situation is just fine. Do not worry about it, Mr. Dorgan. If there are any problems, they will be self-correcting.

Well, that Treasury Secretary did not last all that long.

Secretary RUBIN. Nor did a lot of the junk bonds.

Senator DORGAN. Nor did a lot of the junk bonds. And the hood ornament of that excess, of course, was that the United States Government ending up owning much of the non-performing junk bonds that were parked in savings and loans, and that was precisely the case I was making to the Treasury Secretary. I will not revisit all that.

But my point is, that while I have had a lot of trouble with some Treasury Secretaries, I think that your stewardship at the Depart-

ment of Treasury is something that this country can feel very good about. Let us hope that you will stay around for a while and that our economy will remain strong.

But I will want to talk about Customs and some other issues.

I would say to the chairman that I believe I am the second amendment after the Kennedy amendment on our side, so at some point I will have to go to the floor to offer an amendment to try to strengthen the farm program.

One final point. While our country is doing very well, in the center part of our country we are being depopulated. I should show you the chart on that. But people are just leaving.

Senator KYL. We appreciate that, by the way.

Senator DORGAN. We do not, as a matter of fact. It is true that some of them end up in Arizona. But the fact is our farm program is a terrible failure and we have just desperate conditions, Depression-era farm prices at the moment with massive failure ahead of us unless we do something, and that will be the subject of the amendment I offer in the next hour or so. But we also have to work very hard on that. I know the Secretary is well aware of that.

#### PREPARED STATEMENT

Mr. Chairman, thank you, and I will have some questions.  
[The statement follows:]

#### PREPARED STATEMENT OF SENATOR DORGAN

Thank you Mr. Chairman. Secretary Rubin, it is pleasure to have you appear before us today. There are a number of issues I would like to discuss with you, Mr. Secretary, and I appreciate having this forum for that discussion.

Over the last few years we have seen the economic turmoil that can occur when the fiscal stability of a nation changes. Understanding the world's economy requires a detailed understanding of the behavior of financial markets and how they can cause and direct capital changes.

I believe that the continuing strength of the Department of the Treasury will be based on its ability to focus on both the financial markets of the major industrial nations and on emerging market economies. But, the international expertise must be balanced by providing the appropriate level of resources to formulate and recommend domestic financial, economic, and tax policies.

I hope we will discuss the Department's resource requirements while we discuss the resource requirements of Russia and their request for renewed funding from the International Monetary Fund.

As you mentioned in your written statement, the need to provide resources to allow the Internal Revenue Service to comply with the requirement of the Restructure and Reform Act of 1998 is an important part of the Treasury's fiscal year 2000 request. Those requirements along with the need to increase IRS's customer services, particularly in the rural states, are areas I am very concerned about, and are ones that I hope we have an opportunity to discuss during this hearing.

During our discussions on the IRS, I also hope to address transfer pricing. As you may know, this committee instructed the IRS to study this issue and to determine the amount of revenue lost as a result of abuses by multinational companies. Transfer pricing is a problem I am planning to address in this year's appropriation bill. And, I hope that you, Mr. Secretary, will take a personal interest in this issue.

The very important issue of Y2K compliance must also be discussed. Setting policy, directing programs, and having reliable information systems are all important components of successfully managing the financial operations of the Department of the Treasury. The Office of Management and Budget's Report "Progress on Year 2000 Conversion" stated that certain IRS and Financial Management Service systems may not meet the government-wide goal. I want to make sure this is not a pervasive problem or one that will negatively impact Treasury's ability to fulfill its mission in fiscal year 2000.

Finally, I want to discuss Treasury's law enforcement agencies and the need to continue our support of these activities. I know there has been a lot of debate on

whether Treasury has received the same level of resources as the Justice Department for its law enforcement activities. I am not interested in that argument. What I want to know is whether the resources provided the Treasury law enforcement agencies is adequate to perform their mission.

In particular, I want to be sure that Customs has adequate resources to enforce our laws and strengthen our borders against the importation of child pornography, unsafe foods, and products made by forced labor. I want to know that ATF can provide children with the necessary training to avoid the violence of guns or gangs. And, I want to be sure that Secret Service and FinCEN can protect our citizens against credit card and other financial frauds.

Mr. Secretary, I look forward to having a discussion on these and other Treasury related topics. Thank you Mr. Chairman.

#### TRADE FACILITATION

Senator CAMPBELL. Thank you.

Senator Kyl, did you have a statement?

Senator KYL. Mr. Chairman, yes. I did not mean to make light of specific economic conditions in any region of the country. As a matter of fact, because of the strong performance of the economy, as you know, we have a wonderful, robust trade between the United States and Mexico.

My own State of Arizona, however, lags far behind in the infrastructure capability of handling that two-way trade. As much in the way of imports from Mexico as exports to Mexico. Our border stations are totally inadequate in Nogales and Yuma to handle the traffic. Douglas is also very difficult. And the request of zero funding for new Customs agents is simply totally unworkable, and I will be asking you some questions about that.

Thank you, Mr. Chairman.

Senator CAMPBELL. With that, Mr. Secretary, if you would like to proceed, we will be delighted to hear from you. Your complete written testimony will be included in the record. If you would like to abbreviate or expand on that, please do.

#### TREASURY'S BUDGET REQUEST

Secretary RUBIN. Thank you, Mr. Chairman. Let me make a few comments if I may, and then why don't we discuss whatever you would like.

As you know, our overall request is for \$12.659 billion. We can get into a discussion later, Mr. Chairman, about the offset with respect to the Customs fee. I agree with you that the fee is a difficult offset, and it is not clear to us exactly how this is going to work its way through. But we have had similar situations in the past. Somehow or other, Congress is going to have to deal with the fact that there is more need for non-defense discretionary spending than the caps allow.

I do not know how that is going to be dealt with. We thought this fee was a way to try to deal with this. But I do not disagree with your comment that it is a very difficult way to go, and there may be other, better ways. My instinct is to think that just as happened last year, this debate will go on until the end of the year and then Congress and the Administration together are going to have to find some way to fund these programs.

The thing we wanted to get on the record was the full program, particularly the full request for Customs, for the reasons that you all have discussed.

There is also an offset from the forfeiture fund, as you know. The net appropriation is \$12.205 billion. There are detailed presentations in the materials in our request. I will not go into those. I will comment very briefly on five items: reforming the Internal Revenue Service, international economic affairs, law enforcement, financial systems, and Y2K conversion.

#### IRS MODERNIZATION

With respect to the IRS, I think under our new commissioner there really has been a remarkable job done on the path back, but that path is going to be a long path, and none of us have any illusions about that. There are, as you know, substantial mandates in the IRS Restructuring and Reform Act, which turned out to be a good piece of legislation. We had a lot of back and forth on that through its life and there were a lot of problems, at least in our judgment, and Senator Dorgan was very helpful in trying to get this into a decent place.

I think we actually wound up with a good piece of legislation. But there are a lot of mandates in there and we have to implement those mandates, and the funding for that implementation plus commitments more generally to reform the IRS are an important part of this budget.

There is \$197 million requested for both implementation and other aspects of moving forward and reforming the IRS. We focus particularly on taxpayer protection, on improving customer service.

Let me emphasize a third focus, transforming the organization. Charles Rossotti, our new commissioner, who is a businessman out of the private sector, created a new structure which realigns the IRS to be in accord with the taxpayer groups that it serves. It is our judgment that this will be a far more efficient and far more effective way to function, and also far better serve taxpayers. But it does take money to accomplish that.

Secondly, the legislation requires us to have to have a separate Treasury inspector general for tax administration. We have now gone through setting that up, but that will require funding to carry forward with.

Finally, there is modernizing information systems. We have now awarded our PRIME contract. We did that in December of 1998. I think we now have a very effective systems management program in place between our assistant secretary, Nancy Killefer, Charles Rossotti, and the others in the IRS.

We have requested funds for Y2K for the IRS in our budget, roughly \$250 million as I recollect it. We did not request additional money this year for the modernization program because we have an ITA fund set up and we can use that. But we are requesting advance funding for next year.

Senator Dorgan said, Mr. Chairman, that while our economy is doing very well, we do exist really in a global economy, unfortunately, of considerable uncertainty. We are the only major part of the global economy right now that has strong domestic demand-led growth.

## DEPARTMENTAL OFFICES BUDGET

The Treasury Department is critically involved in providing leadership not just for this country but really for the world in many ways on dealing with these issues over the last year and-a-half. We are asking for 14 additional FTEs in our international group in the departmental offices.

What they will do is work across country lines so as to bring the analysis of the different countries together so that we can have cross-country analysis more readily available. I think that is a very important function. In addition, some of them will function like a SWAT team that can move to whatever issue they are most needed at a particular time.

## CUSTOMS BUDGET REQUEST

In terms of drugs and crime, a lot of our focus here is on Customs, as you have suggested. There is focus on additional x-ray equipment, because that is a very effective way of trying to deal with drugs coming into the country, and also x-ray equipment to deal with money laundering with cash that people are trying to take out of the country.

In our Customs request we also request additional money for training and to focus on internal affairs and integrity, and there is an IG request that relates to putting more IG capability in the areas that Customs is most active in.

## SECRET SERVICE AND ATF

We have a Secret Service request that relates to the year 2000 campaign and the need for additional protection for candidates, and additional security measures at the White House.

Then finally, the fourth key area is the reduction of criminal misuse of firearms, and that basically builds on the work that the ATF does in preventing violent crime with firearms, including ATF's youth crime gun interdiction initiative, which is a very good program, the Brady law, and various and other matters.

I would like to mention two other features of the law enforcement budget, if I may. Number one, ATF needs a new building, and the consideration here is safety. In this budget we have \$15 million in our budget to acquire a site, and then the GSA budget has, I believe, \$85 million, if I remember correctly—\$83 million. That is an advance appropriation for next year, for 2001, so that we can get this building done. That is a safety—

Senator CAMPBELL. Will that be here in Washington?

Secretary RUBIN. Yes, it will be in D.C., and that is driven predominantly by safety concerns.

## AUTOMATION ISSUES

The other law enforcement item I would like to mention is the automation system within Customs. The existing automation system is woefully inadequate and it breaks down from time to time. We strongly endorse a new system, ACE, but we propose spending this year working to develop a sound system. We are going to learn from what happened to the IRS. We do not want to have another

IRS modernization effort. We want to develop a sound system this year and then we will begin implementing it next year.

A fourth major priority in the budget is modernizing governmental financial systems, and that includes the Bureau of Public Debt and FMS.

Then finally, there is Y2K. We expect to have virtually all of our major critical systems completed by the end of March; that is, by the end of this month. Obviously, testing and so forth will lie ahead. In the year 2000 itself there will still be some additional work to do, and there will be testing, and then of course, there will be contingencies to deal with anything that might not be functioning correctly.

Let me just conclude, if I may, by saying that, having been at Treasury now a little over four years, I think we have a truly remarkable group of people. I had that impression when I was in the White House, and even when I was in the private sector for that matter. But it really is a remarkable group. This is one, and there may well be others—I do not know. But this is one agency of Federal Government that really is able to attract extremely good people, and retain them.

As a consequence, Mr. Chairman, Senator Dorgan, I think all of us can feel very comfortable about the hands into which we are putting the funds that are appropriated. I think the key for us is to continue to build on this excellence. One of the highest priorities that we have had is to focus on the management of the institution and maintain its excellence going forward.

We have worked very well with this committee in the years that I have been Secretary. We look forward to working with you this year.

#### PREPARED STATEMENT

Nancy Killefer, our assistant secretary for management, and I would be delighted to respond to any questions.

[The statement follows:]

#### PREPARED STATEMENT OF ROBERT E. RUBIN

Mr. Chairman, Senator Dorgan, and members of the Committee, I appreciate the opportunity to testify on the Treasury Department's fiscal year 2000 budget request.

Mr. Chairman, for fiscal year 2000, Treasury is proposing a program level that totals \$12.659 billion for all operations. This level is offset by \$454 million from proposed fees as well as the use of Treasury Forfeiture Fund, resulting in a net appropriation request of \$12.205 billion. Our request is critical to supporting Treasury's important and wide-ranging mission.

As you know, the Treasury plays a key role in the core functions of government, including tax administration, revenue collection, law enforcement, financial management, tax policy, banking policy, international economic policy and domestic economic policy. Our budget supports Treasury's core current service requirements, maintaining a balance of restrained staffing growth with enhanced technological investments and capital support to strengthen Treasury's ability to manage its programs efficiently and effectively.

We have provided the Committee detailed presentation materials on our fiscal year 2000 budget request. Let me now highlight five major priorities in the budget: reforming the Internal Revenue Service; exercising leadership in international economic affairs; strengthening our ability to fight drugs and crime; modernizing our financial systems; and Y2K conversion.

Let me begin by discussing the IRS. Last year, Congress passed the IRS Restructuring and Reform Act, building on the process of reform the Administration began nearly four years ago. This legislation mandates changes to tax laws and proce-

dures, and the modernization of IRS's organization and systems. In addition, in this spirit, IRS, Congress and the Administration have pledged to the American people to reform the IRS RR-3038 and give taxpayers the service they deserve and have come to expect from the private sector. To follow through on this commitment and to implement the Act, the IRS budget supports a major investment of \$197M to meet the reform and restructuring goals.

IRS restructuring and reform is centered on four areas.

First, protecting the taxpayer: The Reform legislation includes more than 70 tax law changes to improve taxpayer protections. The Act also strengthens the Taxpayer Advocate's organization and has provisions to help ensure internal accountability and integrity.

Second, improving customer service: The Reform Act mandates efforts to increase electronic filing and improve assistance to taxpayers. This budget supports 24 hour-7 days a week phone access, expanded walk-in service, enhanced service to small business, and Spanish language telephone assistance.

Third, transforming the organization: The IRS has in place a new management team with a new mission and vision. In 1998, the IRS Commissioner unveiled a new IRS structure which focuses on service from the taxpayer's point of view. IRS will be organized around specific taxpayer groups, consistent with the mandates of the Reform Act. In addition, the Restructure and Reform legislation established the Treasury Inspector General for Tax Administration. The budget supports the independence of this organization through transfer of funding from the IRS, as directed by the legislation.

Fourth, modernizing information systems: In December 1998, IRS awarded its PRIME systems contract for systems modernization. IRS is currently working in partnership with the PRIME contractor to revamp the systems modernization blueprint to reflect organizational changes and business process re-engineering. Concerning technological needs at the IRS, the IRS request funds the continuation of the Y2K program. Recognizing the difficult funding restraints present this fiscal year, we are also foregoing a deposit into the IRS Technology Account in fiscal year 2000 because we believe we have sufficient funds in this account to fund system modernization through fiscal year 2000. Instead, we are asking for an advance appropriation for fiscal year 2001 of \$325 million to continue funding for this multiple year program of systems modernization.

The second major priority in the budget is to continue exercising leadership in international economic matters. Treasury plays a critical role in domestic and world economic affairs by providing expertise and analysis vital to formulating sound economic policy. Never has this role been more important than during the last year and a half, when we at Treasury have been enormously focused on and involved in the effort to restore stability and growth in countries affected by the international financial crisis B which in turn very much affects our own economic well being. To strengthen these efforts, this budget expands the market analysis capability in the Office of International Affairs.

Our third major priority in the budget is to strengthen our ability to fight drugs and crime. As this committee well knows, Treasury has critical and extensive law enforcement responsibilities in a number of agencies including Customs, the Secret Service, the Bureau of Alcohol, Tobacco and Firearms, the IRS, FINCEN, and the Federal Law Enforcement Training Center.

To strengthen these critical efforts, our budget requests moderate increases to support the Administration's major law enforcement policy emphases. Specifically, our budget is focused on four key law enforcement areas.

The first key area is the reduction of trafficking, smuggling and use of illicit drugs. The Customs Service is committed to improving the efficiency and effectiveness of its drug interdiction at U.S. ports. This budget supports additional x-ray and telecommunications equipment to examine suspected drug couriers in a less intrusive and more effective fashion. In addition, the request of Customs, the IRS, and FINCEN all support efforts to combat money laundering, which often provides an effective means for prosecuting drug traffickers. Customs continues to improve its interdiction of the illicit proceeds of drug sales and the budget funds additional x-ray inspection equipment for use at border crossings to prevent the exit of drug proceeds.

Second is the integrity of law enforcement operations. As part of Treasury's ongoing effort to improve law enforcement effectiveness, this budget supports Customs' goal of strengthening its integrity awareness and operational oversight activities. The Customs request also supports the establishment of a comprehensive education, training, and workforce development program which covers the entire cadre of Customs personnel, with a special emphasis on law enforcement personnel. Further-

more, this budget also supports strengthening of Treasury's Inspector General's investigative unit.

Third is protection of high-level U.S. and foreign officials. The Secret Service continues efforts to ensure that protectees are safe from increasing threats of counterterrorism. This budget supports protection for candidates and nominees in the 2000 campaign and additional security measures at the White House complex.

The fourth key area is the reduction of the criminal misuse of firearms. The budget continues to build on Departmental and ATF initiatives started during the past two years to prevent violent firearms crimes, including those committed by the nation's youth. This efforts include expansion of ATF's Youth Crime Gun Interdiction Initiative; full implementation of the Brady Law; and strengthened efforts to investigate and help prosecute persons who illegally attempt to purchase firearms at gun shows and similar venues.

Let me mention two other features of our budget related to law enforcement. For several years, Treasury has understood the need to provide a safe headquarters building for ATF employees and the budget supports funding in GSA for this effort. In addition, funding is also included in this budget to shore up Customs' current system for commercial processing, which is struggling to meet the needs of today's modern trade community. We support the need to replace Customs' aging system and intend to use fiscal year 2000 to develop an integrated plan for a new system, and then launching implementation of that plan in 2001.

Our fourth major priority in the budget is modernizing government financial systems, including re-targeting and realigning existing resources to meet workload changes at the Financial Management Service, and upgrading financial technology and systems infrastructure at the Bureau of Public Debt.

The final major priority in the budget is completing system conversion to operate smoothly in the Year 2000.

As the agency responsible for the distribution of most government payments, the collection of most government revenue, and with operations that affect virtually every aspect of government and the private sector, we at Treasury are enormously focused on the Y2K problem. We have made a great deal of progress; February, for example, marked the fifth month in a row that distribution of Social Security payments were Y2K compliant.

However, there is still much to do. At Treasury, every mission critical system is being upgraded or replaced to ensure smooth operations in the year 2000. The IRS is the largest part of the date conversion effort. The bulk of its fiscal year 2000 activities will involve the completion of its data center consolidation and the last three months of preparation before the end of the century, including end-to-end system testing, as well as any contingencies that must be implemented to deal with potential but unexpected failures.

I would like to bring to your attention to one final item that has been of great interest to the Department, and that is the North American Development Bank. We have been working hard to make the domestic window of the North American Development Bank fully productive, and I urge you to support this year's request.

Mr. Chairman, let me conclude on a personal note. Throughout my four years as Secretary of the Treasury, I have been continually impressed by the intelligence, professionalism and dedication of the Treasury people with whom I've had the opportunity to work. I think this should give you and the Committee confidence in the uses that are being made of taxpayer's funds. In that spirit, I ask that you approve our fiscal year 2000 budget request to support the work of the Treasury Department in fulfilling its wide range of responsibilities in serving the American people. The Treasury Department has had a very productive relationship with this Committee and we look forward to working with you throughout this year. Thank you very much.

Senator CAMPBELL. Thank you. I might say from my own perspective, it has been difficult for the Federal Government to attract people of Mr. Rossotti's credentials, and yours too, and I have enjoyed working both of you. I have heard some gossip, for whatever it is worth, that sooner or later people go back to their private life, and you may be going to it sometime. I just want to tell you that we certainly wish you good luck whether you stay with the agency or go back to your private life. I think you have made the Nation a little better by deciding to do some public service.

I guess it is out of the question to ask you if we can have that ATF building in Colorado, so let me ask you something else that is within—

Secretary RUBIN. We will take it under advisement, Mr. Chairman. You could speak to Eleanor Holmes Norton about that if you would like.

Senator CAMPBELL. Right. I understand the tug of war on new buildings.

#### GUN VIOLENCE

President Clinton announced this past weekend during his radio address that the Treasury and Justice Departments are working together on a plan to reduce gun violence, and I am sure all of us, on both sides of the aisle, really support the reduction of gun violence. Have you begun to develop the plan that he mentioned in his radio address, and do you envision any further restrictions on private gun ownership?

Secretary RUBIN. My recollection is the radio address—and correct me if I am wrong—focused on gun shows where I think they do—

Senator CAMPBELL. It may have.

Secretary RUBIN. I believe that there is a view that there is a real problem and a problem that needs to be dealt with. And also on minors who have a history of violence having access to guns. Those were, as I recollect at least, were the two focal points of the radio address.

Senator CAMPBELL. There are a lot of places where guns are bought and sold in America that do not come under the purview of many of the bills that have been passed and signed into law, including classified ads, in newspapers and things of that nature, which are private sales, and so on.

The Project Exile in Virginia, are you familiar with that by any chance?

Secretary RUBIN. I am not, but—

Senator CAMPBELL. It is a process to utilize existing law to get criminals off the street that have used guns. But if you are not familiar with it, I will not ask any questions about that.

#### TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

The office of the Treasury inspector general for tax administration was established as part of the IRS Restructuring and Tax Reform Act. Many of us here on Capitol Hill applaud that effort, and feel it has really been a step in the right direction. I want to make sure that we support the new tax IG any way we can. We do have one concern, and that is the issue of overlapping responsibilities.

Can you explain how the role and responsibilities of that office will relate to the Treasury IG and how are you going to keep them from duplicating their efforts?

Secretary RUBIN. That is a good question. As you know, we now have two IGs. In fact, under Nancy Killefer's aegis I met with the new tax IG and his top management. There are about 1,000 people in that group. It is really a very large group. It almost doubles the size of the departmental office.

In any event, what has been done is to lay out a distinct list of responsibilities for each of the two, the regular IG and the Tax IG. But, as you correctly say, some of these may overlap, and where they overlap they have agreed to coordinate and to work together to figure out how to do this right. Nancy can expand on that, but I think I at least am satisfied, having discussed this—

Senator CAMPBELL. Do you have some type of working group now to define what may be the overlap?

Ms. KILLEFER. Yes, immediately after the bill we set up a task force to set up the new IG. It went into effect, as you know, in mid-January. So, a joint task force worked together and laid out the issues. We actually transferred many of the cases that were in the Treasury IG on January 18th over to the tax IG. They have clearly delineated responsibilities in terms of the handling of cases, as well as the audit function.

I think what the Secretary refers to is that the work has already been done. What the Secretary is referring to is, invariably other issues may arise over time. The Treasury IG and the Tax IG are working together and have a joint meeting weekly to resolve any issues that may arise. We have actually arranged for them to be co-located in one office. It is not their permanent offices, but an office in the Treasury building to ensure that communication happens as necessary.

Senator CAMPBELL. With the tax IG, will people be able to send complaints or problems directly to them?

Ms. KILLEFER. Yes.

FISCAL YEAR 2000 IMPLICATIONS OF FISCAL YEAR 1999 EMERGENCY  
FUNDING

Senator CAMPBELL. Thank you. The Senate budget resolution also assumes that emergency spending programs funded by the fiscal year 1999 omnibus bill late last year will not continue unless the funding is again designated as emergency funding. As you are aware, the Secret Service received \$80.8 million for antiterrorism, much of which was for additional personnel.

The fiscal year 2000 budget for the Secret Service requests a continuation of \$30.6 million of that amount as part of their base appropriations. What would be the impact to the Secret Service if that funding is not available as part of the fiscal year 2000 budget?

Secretary RUBIN. My recollection—but Secretary Killefer, correct me if I am wrong—is that we included \$54 million, but we did it within the caps. So we did not do it on an emergency basis because we felt it was requisite to perform their protective functions with respect to terrorists.

Ms. KILLEFER. We have included it in caps because it does allow for additional agents for protection in terms of antiterrorism and the additional threats that we are seeing.

Secretary RUBIN. But we took it out of the emergency status and put it in, as Secretary Killefer said, under the caps.

Senator CAMPBELL. Fine. By the way, I just had an opportunity about an hour ago to spend some time with Brian Stafford, the new head of the Secret Service. A very fine man and I commend you for having him on board. The only complaint I have is that you cut short his Daytona bike week vacation.

Secretary RUBIN. He was on a motorcycle down there. It occurred to me that you might relate to that.

CUSTOMS AUTOMATION AND FEE FUNDING

Senator CAMPBELL. Yes, that is what he told me. He had to leave it at the airport to fly back for his appointment.

Mr. Secretary, the Congress has provided approximately \$66.8 million for the Customs automation effort. As you are aware, there have been numerous GAO reports confirming Congressional concern relating to the development, the timing, and the cost of this project. In your fiscal year 2000 budget submission there is appropriated funding for the Customs automation effort. Instead, as I have it, you have proposed the enactment of a user fee to offset the program's cost.

How does the Treasury and Customs expect to meet those demands if the user fee is not enacted by the authorizers?

Secretary RUBIN. Could I ask just one question, if I may, for clarification? Are you talking about the general fee right now, the \$312 million fee or the ACE fee?

Senator CAMPBELL. Staff tells me that it is not the general fee.

Secretary RUBIN. You are talking about the ACE fee? I think we have got a very difficult problem. The ACE fee was fenced off for use next year.

Let me tell you our overall approach to this. Having suffered through a very difficult situation which some of your staff are familiar with with respect to the Internal Revenue Service systems modernization, the conclusion, and I think rightly, that we drew here was that we wanted to go about this very carefully and make sure we had a plan that not only worked as a systems plan but also was congruent with the business needs of the Customs Service.

That work is going on right now, and it is really a joint project, if you will, between the Customs people and Treasury. It is a Customs project, but the systems people at Treasury, and Assistant Secretary Killefer, are very much conversant with systems problem. The systems people at Treasury are working with the Customs people on that.

We do not need any funding for the ACE this year, but we are seeking the fenced-off fee for next year. If we do not get it, then we are going to have to figure out some other way to fund this. But I do not think there is any question, zero question if you speak to people who are involved in trade in this country, cross-border trade, that the existing system is breaking down and we have to have a new system.

Senator CAMPBELL. All right. I have some other questions, but I know Senator Dorgan has to leave.

Secretary RUBIN. By the way, I might add, Mr. Chairman, the private sector is going to participate with us in developing this system which, number one, will give us access to their capabilities. And number two, it may give them more of a sense of investment in and ownership of the system, which might help get support for the funding.

Senator CAMPBELL. Thank you.

Senator Dorgan.

## CALLABLE CAPITAL

Senator DORGAN. Mr. Chairman, thank you very much.

Mr. Secretary, last night the U.S. House passed their version of the emergency supplemental, and it is critical that this thing get completely through Congress. We have got ag loans, emergency loans for producers, family farmers who need to get some short term loans to buy some fuel and some seed to get in the field this spring in just a matter of weeks. The Agriculture Secretary says they have got 13,000 loans—they are not making any loans—13,000 loan requests that are unfunded. Now this is critical in the next 24, 48 hours that this thing get done.

Now last night the U.S. House passed their version and they used as an offset \$648 million in reduction in callable capital, or the money that is set aside to guarantee loans by international development banks. We have an aggressive debate here in the Senate about whether emergency funding should be offset. I happen to think that it is a terrible precedent to set, to decide that emergency funding must be offset. We specifically provide in law that it need not be. But those who suggest it always must be, one day are going to get caught in an awful bind with this precedent.

But having said all that, tell me what the impact of the House action would be on the \$648 million they are using on this reduction in callable capital. Does that have consequences? If so, what are they?

## FINANCIAL MARKET REACTION TO CALLABLE CAPITAL RESCISSION

Secretary RUBIN. I think it does have consequences, Senator. I think it has very substantial potential consequences. It is deeply disturbing to me. I spoke this morning to the president of the World Bank, Jim Wolfensohn, who is, to say the least, at least equally disturbed. And I spoke to their chief financial officer, whom I knew when I was in the private sector, and he was in another private sector institution. He too is very deeply disturbed.

The problem is that the AAA rating and the view of the World Bank by the underwriters and the creditors are very much affected by the appropriated callable capital of the United States. They do not look at the total callable capital. There is a skittishness about U.S. support for international institutions. So they limit their focus to the appropriated callable capital.

It is the view, and it is a view I share, of several people I spoke to who are familiar with the financing of the World Bank—something that I used to do when I was in the private sector, or at least I did some of it—that the skittishness is such that even a small rescission could be viewed, and might well be viewed by those who provide credit, as foreshadowing a much larger withdrawal of appropriated callable capital. Such a rescission could have a substantial impact on the cost of money to these institutions, which in turn would adversely affect what they can do in the world.

I think it is a very serious problem. We sent a letter to the effect that the senior advisors to the President would recommend a veto based on this item.

But we agree with you about the importance of the supplemental, and I think the thought has really been to get this issue

into conference, and then work and find a solution. We also agree with you, by the way, that the emergency should not be offset. In 1997, as you well said, in the balanced budget agreement, there was specific provision for not offsetting emergency funding.

But leaving that aside, our view is to deal with this in conference in some acceptable fashion.

#### NO TAX RETURN FILING SYSTEM

Senator DORGAN. Mr. Secretary, let me talk to you just about two policy areas. I know we are talking about appropriations here, but the two policies are, first, the IRS. I am not going to talk to you about formulary apportionment and all those issues which you feel so strongly about and which I feel we are not doing well on.

But let me talk to you about the area—I have introduced legislation in past Congress and will reintroduce it, on the opportunity to create a no tax return filing system. Some 30 countries have variations of systems where you do not have to file an income tax return.

Now there is a way for us to allow 70 million, 80 million Americans to not have to file any tax return. I have described it to you where when you check in at your workplace you file a W-4. You add about two boxes to the W-4 and it becomes a rough justice form of an income tax system. But you say, I am in the \$40,000 bracket, I own a home; a couple extra checks. I have less than \$2,500 in capital gains and interest income. Therefore, my withholding becomes my exact tax liability and I do not have to file a tax return.

You could have 70 million to 80 million people achieve that form of rough justice, which would be a much better tax system, and have 80 million fewer tax returns, 80 million fewer people worrying about audits. It is a remarkable way to simplify dramatically the income tax system for tens of millions of Americans.

I know that you are working on electronic filing down at the IRS. I hope you will work with me to see if we can create some variation of what 30 countries already have, a no tax return filing system, using the W-4. The fact is, we could use the W-4 with very few variations that would not impact businesses. I have met with many of the business groups and they do not have any heartburn about it. We could, with one stroke, dramatically simplify the income tax system by eliminating the requirement to file a return at all for some 70 million Americans.

Secretary RUBIN. Do you know offhand, Senator, whether that would have a budgetary—whether on net we would collect less money or more money or the same?

Senator DORGAN. Those are details. [Laughter.]

I am talking policy, Mr. Secretary. It is a fair question.

Secretary RUBIN. But it may not have a negative effect.

Senator DORGAN. You are right.

Secretary RUBIN. It actually sounds like a very constructive idea to pursue.

Senator DORGAN. It is a fair question. You do have some small effect, because in order to achieve rough justice you would have to say there is a threshold of both capital gains and interest income below which you do not have to report. The reason for that is, if

you are trying to track every penny that someone has in other than wage income, you cannot use a W-4 for a rough justice tax system and a no return filing system.

But I was not trying to be funny. The details, obviously, are a little more complicated than I have described. But this is a very achievable system. I have talked to folks at the White House about it. I have talked to some of my colleagues about it. We could do this. If ever we had a notion that we could dramatically simplify the income tax system, this is one way to do it.

#### IRS

Ms. KILLEFER. I think one of the things that will help this is, when we move to what I describe as a business unit structure at the IRS aligned with taxpayers. What I would describe as the wage and income group, which are those people that largely receive wages from an employer that are reported, 80 million taxpayers, will actually be a single unit. That unit will focus on actually how to ensure compliance, but also make the job easier for these taxpayers in terms of complying with the law.

I think this is an important point to look at. I know a study is being done that was actually requested by Congress and we will be working with you on that. I would only point out that there is experience in other countries such as the U.K. that is not positive, where they are thinking about going back. There are complications to this.

So I think it is an interesting idea. We are certainly desirous of making filing easier for people, and I think many of the electronic programs have done exactly that. But I think we need to be cautious about this program.

Senator DORGAN. There are some other experiences that are very positive, and I think there is a way to make this—

Secretary RUBIN. The answer is we would be delighted to work with you in a constructive way, because if you can make it work it would be a terrific thing to do, as Secretary Killefer said, if Great Britain is pulling back, their reasons and so forth. But we would be delighted to work together.

Ms. KILLEFER. Yes, and we are.

Senator DORGAN. Great Britain is not a repository of progressive thought, as you know, in a lot of areas. But this is something—

Secretary RUBIN. We will pass that on to them.

#### THE TRADE DEFICIT

Senator DORGAN. With my compliments.

Let me just ask about one additional area, and that is trade. Mr. Secretary, you are in the pivotal position of dealing with this country's economic policy. I have always found it interesting, the trade deficit, which is the one dark spot on the horizon. It is record high, growing nearly every month, expected to be much higher.

The numbers that the Washington Post reports, of course, really minimize it because they do, rather than the merchandise trade which I am much more interested in. The merchandise trade describes what is happening to the productive sector of our economy. That merchandise trade deficit is going to be probably what, \$250 billion, \$280 billion in this coming year?

So I am wondering, some economists have said, the reason we have a trade deficit is because we have a fiscal policy deficit. That is what they used to say. And if we just balance the budget we will not have a trade deficit any more. Now the same economists are still making money downtown giving advice, but we have largely dealt with our fiscal policy problem and our trade deficit is getting worse.

I want to ask you this question. Are you concerned about the size of the trade deficit? And will it continue to get worse? And are there things we can do to make it better?

Secretary RUBIN. I think my answer would be fourfold, if I may, to your three questions. I think what economists were saying several years ago was that if you increase the national savings rate then you will reduce the trade deficit. And at the time we had a fiscal deficit constituted Federal dissaving.

Yes, I think that the trade deficit is sustainable for some period of time. You and I have had this discussion before. But I think over time it is clearly a problem. And the larger it gets, the larger that foreign claims become as a percentage of our economy, the more of a problem that could become.

Having said that, I do think we can sustain it for quite some period of time. And at this particular moment in history, with respect to the global economy that you and I were discussing before, since we are the only part of the world's economy that has robust, domestic demand-led growth, I think what we need to do is to continue to grow, to continue to maintain our open markets, to work with the countries that are in trouble and try to help them get back out.

Unfortunately, countries that have crises initially do have to export their way out. I think when people engage in unfair trade practices we should be enormously vigorous in using our trade laws. And I think that we should work with the industrial countries, the G-7, particularly Japan and Europe, to do everything we can to encourage them to do two things. Number one, increase domestic demand-led growth. And number two, to open their markets.

The one silver lining in what I agree with you is, in a long run sense, a problem is that unlike the 1980s when the deficit was going predominantly to fund consumption, investment in equipment and machinery is either at record highs, or close to record highs as a percentage of GDP. So we are funding investment, and assuming that the judgments being made are reasonable, then the return should exceed that which we have to pay back.

But your point, nevertheless, is still a valid one in the long run sense. I think it is a concern. But I think the absolutely wrong thing to do would be to close our markets as a result.

Senator DORGAN. I would just observe that—

Senator CAMPBELL. We are getting pretty far outfield from this budget request.

Senator DORGAN. I understand, but I did not ever think I would meet a Secretary of the Treasury in my lifetime, and having the opportunity—

Senator CAMPBELL. Now that you have him.

Senator DORGAN. Coming from a town of 300, and having the opportunity to visit with him about policy is important.

Secretary RUBIN. I never thought I would meet a senator.

CUSTOMS' TECHNOLOGY, TRADE FACILITATION, AND FEE-FUNDING

Senator DORGAN. Let me just ask one additional question about the Customs Service. Their job is a pretty awesome job, given the increasing global economy, the globalization of our economy and the amount of goods moving in and out. Are you pretty satisfied at this point that we have the resources that we need to deal with the issues confronting Treasury on the quantity of goods coming in, and meet their responsibilities?

Senator Kyl asked a question that kind of related to that, or made a comment about that. Are you pretty confident that we have the resources that are required at that point?

Secretary RUBIN. Let me give you several pieces to the answer. One is that we do have the problem the chairman raised, that part of our funding this time comes from a fee that is not universally popular. And on the off chance that that fee is not enacted, we are going to have to find some other way to provide the funding. I think that problem, it seems to me, permeates the entire budget and that this is a broader appropriations question that is going to have to be dealt with somehow or another.

There is tremendous promise in technology that is already being used to do things more efficiently and more effectively. I have actually seen, these x-ray machines at the border, both the coming in and the going out. So there is a lot to be gained there.

Having said all that, I do think the Customs does have a very difficult job. What we did, the Administration functions on—I serve as Secretary of Treasury in terms of our budget. But then we have a small group around the White House, which I am on, that does the overall budget, and we try to make judgments within the constraints that we have. I think Customs could use more resources.

But on the other hand, I think within the constraints we had, and weighing and balancing everything, the Administration made the best judgment they could as to how to allocate its very scarce resources, and that is how we came up with this number for Customs. But they are clearly hard-pressed. They have got a very strong new leader, and I think that is very constructive. But I agree with you, they are hard-pressed.

Senator DORGAN. Mr. Chairman, thank you.

Senator CAMPBELL. Senator Kyl, I just bet you have some questions about Customs.

COMPETING INTERESTS OF TRADE FACILITATION AND CONTRABAND INTERDICTION

Senator KYL. Yes, and it goes right to the point that Senator Dorgan just raised.

In your statement, Mr. Secretary, you said the third major priority in the budget is to strengthen our ability to fight drugs and crime. The first key area is the reduction of trafficking, smuggling, and use of illicit drugs. The Customs Service is committed to improving the efficiency and effectiveness of its drug interdiction at U.S. ports.

Now from fiscal year 1997 to fiscal year 1998, the number of inspectors in Tucson, Customs inspectors I am talking about, is reduced, not increased. I know that in your budget, in the 2000 budget request to Treasury, the Customs Service requested 506 full-time equivalent inspectors for land ports of entry. But OMB reduced that to zero. No increase in Customs inspectors.

The wait times at the ports of entry in San Luis, south of Yuma, Nogales, Douglas, if we could get it down to two hours people would be happy. For commercial traffic, they have to wait overnight in many cases. Talk about an inefficiency in commerce.

Then we talk about the drugs. The State Department's 1999 international narcotics report says Mexico is the principal transit route for cocaine produced in South American countries. Estimated that 60 percent, several hundred metric tons of the Colombian cocaine that makes its way to the U.S. passes through Mexico, and it is coming in more creative ways than ever. Containerized cargo, commercial trucks, rail, automobiles, off-road vehicles, as well as the individuals.

I could ask you why the Administration zeroed it out. You would answer, well, they had to balance interests. But what I really want to ask you is this. Do you believe that a zero increase in Customs agents is good policy? If not, will you work with us to restore the funding at least for the request of Customs for 506 new Customs full-time equivalent inspectors? And will you do so by helping us find offsets so that we do not have to get to the end of the year with an omnibus appropriation bill and fund the new programs that the Administration took money out of Customs and INS to fund?

For example, there is about \$600 million in new cops programs. Now cops are local responsibilities, and State responsibilities. We may have a national crime problem, but that is not a Federal crime problem. Whereas, the control of our borders is a Federal issue. We are the only ones with responsibility. And you have part of that responsibility with respect to Customs.

So what we need is your support in restoring the funding and finding the offsets in other requests that the Administration has made. There are about three major questions in there, and I will engage you in a dialogue on them.

#### ALTERNATE APPROACHES TO FUNDING SUFFICIENCY FOR CUSTOMS

Secretary RUBIN. Let me see if I can pick them up in response. I do think that Customs, if the resources were available, could use additional resources very effectively.

I do think the Administration made very difficult judgments in choosing amongst different possible uses of resources, and we could disagree about them. I was part of the group that was originally involved in the 100,000 new cops decision. It seemed to me a very sensible decision. Law enforcement people seemed to think it was a very useful addition.

Senator KYL. I supported that original program.

Secretary RUBIN. Yes, it was a good program. So then the question is, do you continue this in the manner we just described or do you allocate the resources someplace else; for example, Customs. I personally think we made a pretty sensible decision myself.

I think we are going to come out, Senator—this is my view and time will tell whether it is right or it is wrong. I think across the whole budget you find similar kinds of problems. The non-defense discretionary part of the budget is a part of the budget that has very little political appeal to people. It is the part of the budget that people very often will most quickly diminish in order to accomplish various other purposes. But as your comments made clear, and I think you are absolutely right, it is a part of the budget that serves the American people very well.

I think what is going to happen at the end of the year is in some fashion or other, the Congress and the Administration working together are going to have to find more resources for the non-defense discretionary area. That is my view.

#### LAW ENFORCEMENT POLICY CHOICES

Senator KYL. Here is the point. The Administration created new programs. This \$600 million is a new program. And part of the reason for it was that there were reports that some police reports had some ethical problems, some public relations—well, they were more than public relations. They were not treating people properly, for example. And the President said, we need more police training to ensure that people's civil rights are not degraded in any way by our law enforcement.

Now at the border we have Customs agents who are harried from the moment they take their station to the moment they leave. They have an impossible job to do, and frankly, a lot of them get frustrated and I hear stories from my constituents who say they got harassed. I hear a lot more reports of harassment by Customs agents than I do of local police in Arizona.

So if we are going to pay attention to harassment of people, and if we are going to try to increase, as you said, our ability to fight drugs and crime—and we know that they are coming across the border. And if—and I know you share this goal—we are going to try to enhance our commercial opportunities, it is absolutely impossible to do all of those things without an increase in Customs agents.

So I am stunned by your comment that you agree with the Administration's decision to have zero increase in Customs agents, and that you think it is better to balance these needs by having Federal dollars go to local cops programs, and that you support that Administration decision. I am stunned by that, given your responsibilities to protect the border, to enhance trade, and to prevent drugs coming in.

Secretary RUBIN. Senator, I take very, very seriously our responsibilities with respect to Customs and we have, I think, done a great deal to try to make Customs a stronger institution. I might have—I will get to the last piece of your question in a second. And I might point particularly in this budget to the places we most need help. We need to have the x-ray technology because that is a more efficient way of doing—

Senator KYL. I am going to get to that in just a minute. I agree with you.

Secretary RUBIN. And we need to have it going in both directions. We also need to have additional resources to deal with training and

internal affairs, because these are both issues in which there are difficulties in Customs.

I would very much like to see Customs get additional resources. But I think within the existing caps you do get competing priorities, and one has to make a judgment. These are the judgments the Administration made. You may disagree with them. You may be right, you may be wrong.

I think, as I said a moment ago, that that is not where the debate—at least in my opinion, that is not where the debate is going to end because I think the Nation needs more in terms of the kinds of services that get covered in the non-defense discretionary part of the budget and that a budget allows. So I think somehow or other, just as we did last year, this year there is going to have to be some way of dealing with that at the end of the year. At that point, it seems to me, we can address the kinds of issues that you are raising.

Senator KYL. I will just say it one more time. I think the time to address it is in the budget. Now it is true that—

Secretary RUBIN. I agree you need to deal with it in the budget. I just do not think that these caps can be the way this budget ultimately gets resolved.

#### TREASURY RESPONSIBILITY FOR BORDER ENFORCEMENT ISSUES

Senator KYL. I agree with you that reasonable people can differ about where to put the money and how to create the budget. But you have the responsibility on the border, and that is why I am stunned that—and you have a tremendous amount of authority in this Administration and influence. You are deemed to have successfully presided over a department and been responsible for successful—been part of our successful monetary and economic and trade policy. So I am just greatly disappointed that you are not acting as an advocate here.

Secretary RUBIN. Do not misunderstand me, Senator. Within the debates within the Administration, I am, and we are, very strong advocates for—

Senator KYL. Well, you got zero. You requested 506 and you got zero.

#### PURPOSE OF CUSTOMS FUNDING INCREASE

Secretary RUBIN. No, I think we had about a 5 percent increase in funding, did we not?

Senator KYL. I am not talking about overall funding, I am talking about for Customs.

Secretary RUBIN. No, in Customs we had about a 5 percent increase.

Senator KYL. I am talking about for Customs agents.

Ms. KILLEFER. Not agents; funding.

Secretary RUBIN. They are not agents. We decided to use the money for technology and other things. That is another debate.

Senator KYL. How many new x-ray machines are going to be put on the border in the Tucson sector as a result of the funding?

Secretary RUBIN. I do not know. Do you know, Nancy?

Senator KYL. What is the request?

Ms. KILLEFER. No. As you know, Nogales has just put in theirs. I have been down and visited and I know what you are talking about. I think about 8 x-ray systems are going to the Arizona border.

Senator KYL. But the point is that x-ray machines—I mean, I would love to see new x-ray machines in San Luis and Douglas as well as a sufficient number in Nogales. It is fine to have more x-ray machines because there are new, unique ways of bringing this stuff in, and you need the handheld units as well. I mean, all of these things are very useful.

But you need people to operate them. And it is unacceptable to have two-hour lines as the norm, to have overnight stays for commercial truck traffic. This is an emergency situation. Even if we put in money right now, we could add 500 Customs agents a year for five years and still not have enough. That is why I am just so disappointed that essentially your answer is, you think you would like to have more resources too and maybe at the end of the year we will all agree to a big omnibus bill appropriation bill so we can fund everything.

GOVERNMENT-WIDE COMPETITION AMONG MERITORIOUS PROPOSALS  
WITHIN FUNDING CAPS

Secretary RUBIN. No, that is not my answer, Senator. No, that was not my answer. My answer is that I think the Customs could very effectively use additional resources. When we have our discussions within the Administration we are very strong advocates for Customs and I think we have been very effective advocates for Customs. In a budget that overall has very little room we are increasing funding for Customs by about 5 percent. I think within Customs you can argue what the money should be used for.

What I said was, and I do believe it is the case, that the Customs instance is a good example, and there are large numbers of similar instances all over the Government, of various important public needs of the kind that you have identified that cannot be met within these caps. That is why I believe that in the final analysis when this all gets resolved, as we did last year, something is going to have to be done so that the non-defense discretionary part of the budget has funds in addition to those that are permitted by these caps. That is my view.

I can assure you that in that context we will continue to be very strong advocates, if that happens, to make sure the Customs is appropriately treated at that time.

Senator KYL. Mr. Chairman, what we have here is a budget in which Customs asked for 506 new Customs agents. You have the department saying one of their top priorities is to improve the drug interdiction at the border as well as—you did not say it but I am sure you would add the commercial needs at the border as well. We all agree on that. Yet when the budget comes out it has zero money for new Customs agents.

I have been trying to get the Secretary to say he will help us fight for that. I do not have a specific answer, but we have a general answer that by the end of the year there will be more money for everything, and therefore, we will not have to make difficult off-sets, I guess.

Secretary RUBIN. No, that was not my answer. Let me, just to characterize my own answer. My answer was that you have identified a very important public need. This was weighed and balanced against a lot of other important needs. We were extremely strong advocates for Customs within our budget process.

When I then changed hats from the advocate for Customs to part of this small group in the Administration that does make the ultimate decisions about budgets, I was part of the group that arrived at these decisions and all of us support the decisions that the Administration made.

I think that the public needs that are not met within the current caps are such that at some point there is going to have to be, just as there was last year, some way to find additional resources to meet public needs. And I would, once again, be an extremely strong advocate for Customs sharing appropriately in those funds because I think what you said is absolutely correct.

#### COST OF 500 NEW CUSTOMS AGENTS

Senator KYL. Just one more. Do you have an idea off the top of your head about how much it would cost? Is it about \$50 million for 500 new Customs agents?

Secretary RUBIN. The \$50 million for 500 agents comes out to \$100,000 agent. The cost per agent in the first year is closer to \$130,000 when you consider the equipment and other items required to support an agent. If 500 agents came on the rolls, the cost in the first year would be approximately \$65 million.

Ms. KILLEFER. The \$130,000 figure is an all inclusive figure for the agent. 500 additional agents would require some additional support personnel and additional supervisory personnel.

Senator KYL. Thank you.

Senator CAMPBELL. Let me defer to the chairman of the full committee. Did you have any statement or any questions?

Senator STEVENS. I do not want to interrupt the process.

Senator CAMPBELL. Go ahead.

#### INTERNATIONAL—OFFSETS AND OUTLAYS

Senator STEVENS. I am concerned, Mr. Secretary, as I am sure you are, about the overall process that we are going through right now in terms of offsets for the emergency bill. I think that has a lot to do with the end game that you were talking about with the senator from Arizona. I would be pleased to have your comments before we go to conference on some of the items that are in that bill.

There is no question that the House has targeted some of the IMF funds and other funds. I am going to have a meeting with Mr. Griffin, and the head of CBO, and Senator Gramm this afternoon to go over the principles involved in that bill.

The difficulty is that we have a series of senators who believe that when we reprogram emergency money for expenditure in the same year that there has to be reanalysis of the outlays of the expenditures on the program to which the funds are transferred. There was no analysis in the first instance of the funds as they were appropriated. Both outlays and budget authority were outside the confines of the budget process and therefore, deemed an emer-

gency, approved by the President as well as the Congress as an emergency.

And now that we want to reuse them within the same year for another prospect, they say that we must now take into account the outlay scoring. That is what really has led us into the quagmire we are in now, because we have one amendment that cuts \$2.9 billion off the omnibus bill of last year. It has the unfortunate consequence of having such a large offset that all these other amendments were offset, so I could not oppose them. We were taking a lot of things to conference that would otherwise not be in conference because of that one amendment.

But I do need your guidance in terms of some of those monies. It may be that some of those monies will not be obligated this year. And if they are not going to be obligated, our deferral is just the same as a total offset. We can defer funds to the next fiscal year, or even the following fiscal year if it is possible. I do not know what the obligation rates might be in terms of some of those funds, and I would seek your assistance before we go to conference on how the outlay problem affects your monies.

Secretary RUBIN. I cannot give you an answer offhand, but we can certainly have somebody take a look at it and I will continue to work with you to reach a solution in conference. But which offsets are you thinking of specifically, Mr. Chairman?

Senator STEVENS. IMF and those accounts that they just offset last night.

#### DEFERRAL OF CALLABLE CAPITAL AVAILABILITY

Secretary RUBIN. You are talking about the callable capital issue?

Senator STEVENS. Yes.

Secretary RUBIN. Let me say, Mr. Chairman, if I may—and I think you and I briefly discussed that—I think that is an enormously serious problem and it goes much beyond the money that—

Senator STEVENS. I understand that, and I agree with you.

Secretary RUBIN. But there is no outlay.

Senator STEVENS. What is the effect then of saying there cannot be an outlay until October 1? Up here they score it. This is a problem of scoring on the chart. What is the effect of saying—they offset it by saying, we are going to cut that amount. What is the effect if I just changed that and say, you cannot change it—in any event, you cannot spend it until October 1?

Secretary RUBIN. I understand. In other words, instead of rescinding the BA, you would say we will defer it, the appropriated callable capital, so it cannot be used until October 1.

Senator STEVENS. That way there could be no outlays, and that way it is an offset.

Secretary RUBIN. I understand the question. I think it raises roughly the same problem that you had—in fact, really just about the identical twin of the problem you have right now. The problem that you have in the World Bank the other multilateral development banks is that there is a serious skittishness. I spoke to President Wolfensohn about it this morning, actually. There is a serious skittishness amongst underwriters, creditors, and to some extent,

the rating agencies with respect to American commitment to the institutions, rightly or wrongly, based on the length of time it took to get the IMF funding, and the fact that we are still in serious arrears to the United Nations.

And the concern that the financial officials at the World Bank have—and I have spoken to a few of the people in the financial community so I think this is a valid concern—is that any sort of a rescission or a withdrawal—and I understand you are talking about a deferral rather than a rescission, or I guess it is technically a deferral de facto rather than a rescission—I think anything that looks like we may be pulling back could have—I am not saying it necessarily would have, but I think could have, Mr. Chairman, a very serious negative impact on these institutions in terms of their ability to raise money.

The concern that I had when I first heard about this, which I guess was two weeks ago or thereabouts, was that if members of Congress felt that there was some \$12 billion, which is the total amount—\$12 billion of appropriated callable capital out there that was easier to use because very few people support or understand the importance of these multilateral development banks—I know you do because we have discussed it a lot, but very few people do—that there might be a tendency to look much beyond just the \$600 million or \$700 million that the House was looking for.

Senator STEVENS. I understand what you are saying, but—

Secretary RUBIN. I think the deferral would have an effect not very different than the rescission, because I think people would be afraid that if you defer it once—

The glitch here in using callable capital as an offset is not in terms of budget authority, it is in outlays. There are no outlays. In terms of needing offsets, we just have a tremendous problem this year and probably next year, and then the pressure is gone.

But I think the problem that you are going to run into with the deferral approach, Mr. Chairman—or I should say, we are going to run into, we being the world—is that if we do this I think that it is then going to resubject us to a congressional process, even though it is a deferral to a date certain. After all, access to the callable capital could be then deferred again. I think the effects would be not very different from—

Senator STEVENS. There may be some other funds that are there that have already been appropriated that are not going to be used this fiscal year, if there is any at all that you can identify that we could put behind a wall to defer until October 1st it would have the same effect.

#### OTHER OFFSET OPTIONS TO BE EXPLORED

Secretary RUBIN. Let me say this. I know, because I have talked to Jack Lew about this a lot of times, and you know this because you have spoken to him a lot too. In fact, I was with him this morning. OMB is very intently focused on trying to see what they can do once they get to conference. I would very strongly urge—

Senator STEVENS. They are very innovative right now, I know that.

Secretary RUBIN. Well, the innovativeness—

Senator STEVENS. I am having a hard time finding some of the money they say I have got to spend.

Well, I do look forward to working with you on that. I am constrained to say I think it might be better to talk about some of these things around the 4th of July when the chairman here and I try to do a little marine research up our way. Maybe you ought to come join us.

Secretary RUBIN. Are you going fishing?

Senator STEVENS. Yes. We will talk about that later.

Secretary RUBIN. There is a thought, Mr. Chairman, that is worthy of consideration. [Laughter.]

Senator STEVENS. Nice to see you. And I am anxious to say hello to your colleague. Your last name, Killefer, is the same as one of my great friends for a long, long time. So I need to find out where you are from.

But I thank you very much, Mr. Chairman.

Senator CAMPBELL. Thank you.

#### JUSTIFICATION FOR ADDING POSITIONS TO DEPARTMENTAL OFFICES

Mr. Secretary, the Congress, funded 47 new positions within main Treasury during the last fiscal year, and this year you are asking for 18 more. Will this meet your goals for fiscal year 2000? And what is the status of those positions, the ones last year and this year? What are they doing, the 47 you asked for last year?

Secretary RUBIN. The 47 I think became 33 on a full-time—

Senator CAMPBELL. Say that again.

Secretary RUBIN. I think on a full-time basis there are about 33 or so. I can give you the answer on the 18. I do not know the answer on the 47 or 33, whichever you call it.

Ms. KILLEFER. I want to thank you for supporting us last year. The positions we requested last year actually ranged across the department to address a variety of needs. Based on what you did for us last year we were able to allocate those out to the offices and they are now in the process of hiring to fill those positions.

What we are asking for this year, as opposed to last year, which really put us in reasonable shape, is a very targeted request for international affairs and four people in tax policy for e-commerce issues. We have some requirements in International Affairs that are country-specific. There was a whole range of need last year and they are in the process of hiring.

Senator CAMPBELL. The second part of my question, is this going to meet your current needs, the 18 that you need?

Secretary RUBIN. Yes; 14 of them, as I mentioned before, will be in the international area, and they will do the cross-border stuff, plus there will be a SWAT team. The other four will be in tax policy, and that is really predominantly—or maybe, I think, totally—for this electronic commerce initiative.

It will meet our needs, given that we define our needs in a very constrained fashion because of the caps we are operating under.

Ms. KILLEFER. I must say, people had many more requests than this. These are the critical requests that we narrowed it down to.

## EFFECT OF HIGHER PAY RAISE ON PERSONNEL RETENTION

Senator CAMPBELL. At one of our other hearings a week or two ago we heard some testimony that there is some problem with retention in some of the agencies within Treasury such as Customs and I wanted to ask you a little bit about that. The budget resolution is currently working its way through the Senate this week and it assumes that the historic pay parity between Federal and civilian and uniformed military employees will be maintained, and that any increase over 4.4 percent provided in the President's budget would be absorbed within existing budgets.

Assuming that the uniformed military receives a 4.8 percent increase in their pay—that is in the defense authorization bill which passed the Senate—what would be the impact of the pay parity on Treasury agents? Would that help your retention problem?

Secretary RUBIN. I imagine if you have a larger increase, I presume any larger increase would help retention. The problem is it costs us about \$24 million, and we do not have an ability to absorb that. So somebody is going to have to find some money to pay for it.

## CDFI-NATIVE AMERICAN LENDING STUDY

Senator CAMPBELL. Let me ask you a question that was submitted by one of my other committees, Indian Affairs, that deals with the Community Development Financial Institutions Act.

Secretary RUBIN. CDFI, yes.

Senator CAMPBELL. The requirement of the Department to study the barriers to lending and capital development in Indian country. Do you know what the status of that effort is?

Secretary RUBIN. Yes, I do, Mr. Chairman. The CDFI program is a terrific program. It really is, and something that was started about—it was put in place about three or four years ago. It is up and running. It is providing capital to distressed areas across the country. And unlike much of what is done in the Government, we are even now trying to evaluate the results so that we can determine how effective it is and make course corrections if need be.

We either have two or three—Secretary Killefer advises me it is two. We have two full-time people now at CDFI who are focused on the exact question you are raising, barriers to lending in Indian territories.

Senator CAMPBELL. I know that CDFI is very important to Senator Dorgan's State as well as in Indian country, so could you give the committee a written report on what progress they are making, what they are doing, if you would?

Secretary RUBIN. We will absolutely do so.

[The information follows:]

## PROGRESS REPORT ON THE CDFI FUND NATIVE AMERICAN LENDING STUDY

Congress directed the CDFI Fund under the Riegle Community Development and Regulatory Improvement Act of 1994, Public Law 103-325 to conduct a study on lending and investment practices on Indian reservations and other land held in trust by the United States.

The components of the study were to:

- Identify the barriers to private financing;
- Identify the impact of such barriers on access to capital and credit for Native American populations;

- Make recommendations with respect to any necessary statutory and regulatory changes to existing Federal programs;
- Make policy recommendations for community development financial institutions, insured depository institutions, secondary market institutions, and private sector capital institutions; and
- Submit a final report to the President and Congress.

#### *CDFI FUND PROCESS*

To assist in completing the study, the Fund has incorporated a strategy and action plan process to address key financing issues as defined by the local community. This plan will be developed through 13 regional workshops.

#### *PARTICIPANTS*

At each workshop, Tribal leaders, Tribal economic development professionals, U.S. government officials (federal financial supervisory agencies, other federal agencies, secondary market organizations), commercial banking organizations, and state agencies will identify barriers to private financing, and describe the impact of such barriers on access to capital and credit. In addition, the participants will create strategies and actions to address these barriers.

#### *SCHEDULE*

The workshops will:

- Be conducted over a six-month period starting in mid-March 1999
- Be held in 13 locations in the continental U.S., Alaska, and Hawaii

#### *PROGRESS TO DATE*

The CDFI Fund has hired two full-time experts in economic development in Native American communities to design and conduct the lending study. As noted above, the lending study has incorporated a workshop process to assist in accessing local and regional information concerning the barriers to lending in Native American communities. Two workshops have been conducted in Seattle, Washington and Phoenix, Arizona. The next scheduled workshops will be in Albuquerque, New Mexico on April 28–29, 1999 and in Reno, Nevada on May 12–13, 1999. The response by local participants has been very good. At this point, we have just begun to collect data and have not arrived at any study conclusions. After all the workshops have been conducted, the data collected will be synthesized and included in recommendations in the final report.

As the Fund conducts the lending study, it is anticipated that the following outcomes will be accomplished:

- Through the workshop process, the Fund will be working closely with local organizations seeking their recommendations and adding value to their initiatives.
- The Study/Action Plan process will provide a vehicle to elevate local concerns to the National policy arena.
- The Study/Action Plan process will integrate local recommendations and ideas into a National strategy to expand lending and investment in Native American communities.

Senator CAMPBELL. All right, I appreciate that. The remaining few questions I have, I am going to submit to you in writing, if you would get back to me on those.

Secretary RUBIN. Thank you, Mr. Chairman.

#### FUNDING PRIORITIES WITHIN SPENDING CAPS

Senator CAMPBELL. Senator Dorgan, do you have any additional questions?

Senator DORGAN. Mr. Chairman, I waited to make a comment. I was hoping my colleague Senator Kyl would stay. I frankly would have been stunned if you had come to this committee and not supported the President's budget. I am sure he was tongue in cheek saying he was stunned that you would not somehow be critical of the budget. But he could not be stunned by that.

The point you made about caps is an important point. The priorities that we determine important are going to have to be fitting in some set of circumstances, given all the other needs and all the

other interests that we have. The budget is on the floor right now, and I was hoping to say to my colleague that my understanding is the budget resolution on the floor right now provides \$1.5 billion less for fiscal year 2000 than fiscal year 1999. So the place to take this case is right to the floor right now.

The budget resolution contains \$400-some million for courthouses that the Administration did not ask for. So the place to go get the \$400-some million—if one says, my priority is Customs officers to deal with these issues, go get the \$400-some million from courthouses that are stuck in this budget resolution, build back the number a bit, and put it into Customs.

The question of priorities is a function of the Administration budget, yes. And I respect you waged a fight and lost it in the Administration. Nothing wrong with that. But I would be surprised if you would come up here and trash the Administration budget. That is not what you are hired to do.

But the place to resolve these issues is to go over to the floor and deal with the budget resolution that now exists in which Congress says, not only are we not going to give you more Customs agents, we are going to take \$1.5 billion out of your hide and we are going to build \$400-some million worth of courthouses to boot at the same time. So I would just say to all my colleagues, if you have a problem with the priorities here, rush to the floor right now. This is the time. This is the moment; 24 hours remain before we finish this budget bill and now is the time to go take that case and see what one's colleagues would say about it.

I would say to you, Mr. Secretary, keep waging the fight. You win some and lose some, I am sure. But I am not stunned that you would not come to this table and be critical of the President's budget. You are part of that team and I assume you come to support a budget that was put together with your input.

Secretary RUBIN. Might lose my year-end bonus. [Laughter.]

Senator DORGAN. But let me just finish by saying, Senator Kyl's points are passionate and important. All of us would like to see more resources. But the fact is, you cannot add \$100-some billion to defense and say, by the way, we are going to hold the caps where they are, and we are going to take it out of the hide of the rest of the discretionary programs. That is not going to work. This is all going to come to a screeching halt at some point.

The question of priorities is going to force a choice for every single one of us. Do you want it all? If you want it all, then the caps are going to have to change somehow. But you cannot say, let us keep the caps because we are fiscal conservatives, let us increase defense and say that we want more Customs agents, and then also stick something in to build \$500 million worth of courthouses.

All that does not add up. Somehow, something is going to give. And I think I agree with you, later this year the forced reconciliation between our wants and needs, and the resources that exist to satisfy those, are going to come crashing down on us and we are going to have to figure out a way all of us, Republicans, Democrats, to reconcile the current circumstance that we find ourselves in.

Secretary RUBIN. Senator, I agree with what you said. I actually think you could be a very serious fiscal conservative—not fiscal conservative, but very seriously focused on fiscal responsibility, as

I know you have, and still believe that while this should be capped, these caps simply are not going to—are not the right balance between fiscal responsibility and the needs of the public. And as you say, the budget resolution that is pending right now would substantially reduce discretionary spending, so it takes it in exactly the wrong direction.

Senator DORGAN. Thank you, Mr. Secretary.

Senator CAMPBELL. Thank you, Mr. Secretary. Speaking of courthouses, if I am not mistaken, two are in North Dakota and one in Colorado. [Laughter.]

Senator DORGAN. Let the record show that the only courthouse in America that has been built in a manner in which the senator from that State required that half of the money be cut out was built in Fargo. A \$46 million courthouse was cut in half because I insisted that \$46 million was about twice as much money than ought to be spent, and I cut the appropriation from \$46 million to \$23 million, and made a lot of people unhappy. Now they have a wonderful \$21 million courthouse, and I have no idea what they would have done with the other \$23 million had I let them spend it.

But I truly am a conservative when it comes to those issues, even in my home State.

Senator CAMPBELL. He surely is. He is not much fun, but he is a conservative. [Laughter.]

Senator DORGAN. It was therapy to be able to say that, Mr. Chairman.

#### SUBMITTED QUESTIONS

Senator CAMPBELL. Good, and for the record now, too.

Mr. Secretary, we have additional questions for the Department and we would ask that you respond as quickly as possible.

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

#### DEPARTMENT OF THE TREASURY

#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

YEAR 2000

*Question.* The Office of Management and Budget has just released the latest quarterly report to Congress on efforts to address Year 2000 (Y2K) computer conversion issues. According to MOB, the Department of the Treasury is still listed in Tier Two—making progress but there are still concerns.

While the Department is making good progress in some areas, and most bureaus have achieved compliance, concern was expressed about the IRS and the Financial Management Service. What are you doing to make sure that these agencies are ready?

*Answer.* The Department has been closely monitoring the Year 2000 progress of these Treasury bureaus. Treasury maintains ongoing, daily communications with them from the Executive levels through the Year 2000 Program Offices and staffs. For example, the Assistant Secretary for Management and Chief Financial Officer, and two Deputy Assistant Secretaries including the Chief Information Officer, participate in the monthly Year 2000 executive sessions chaired by Commissioner Rossotti. The Department coordinates with FM to facilitate addressing external interface requirements and cross cutting revenue issues. Treasury is confident that these bureaus will be prepared to continue providing uninterrupted services in the Year 2000 and beyond.

*Question.* Concern was also expressed that there be a Department-wide business continuity and contingency plan. What is the status of that plan?

*Answer.* Each bureau is developing Year 2000 Business Continuity and Contingency Plans (BCCP) consistent with guidelines issued by the General Accounting Office (GAO). The Departmental Offices (DO) BCCP will address unified or Department-wide Year 2000 continuity and contingency planning. The DO BCCP will also encompass bureau issues and provide the linkages required with the bureau plans. Working drafts of the DO BCCP have been developed, and the final plan is scheduled to be completed by the end of May. The BCCP is being developed by the Department's Office of Emergency Preparedness and Automated Systems Division in conjunction with the Treasury Year 2000 Program Office and the bureaus.

#### REDUCE GUN VIOLENCE

*Question.* President Clinton announced over the weekend that he has instructed the Departments of Treasury and Justice to work together to develop a plan to reduce gun violence. He specifically mentioned "Project Exile," a program in Richmond, Virginia designed to prosecute those who use firearms in the commission of a crime under the most stringent laws, usually ATF Federal statutes, in order to get violent offenders off the streets.

Have you begun developing that plan?

*Answer.* Yes. ATF is working with Treasury Under Secretary James Johnson and the Department of Justice to develop documents that will go to ATF Division Directors and United States Attorneys. These documents will direct these officials to develop plans tailored to the firearms violence problems in their geographic areas.

*Question.* Do you envision recommending further restrictions on gun ownership?

*Answer.* No. This initiative involves the development and refinement of strategies to enforce current law. However, the President has made a number of legislative proposals to deal with the unauthorized access to firearms by youth. One of these proposals would ban the possession of semi-automatic assault weapons by anyone under 21 and raise the age of the youth handgun ban from 18 to 21.

*Question.* How much emphasis will be placed on utilizing existing law to get criminals off the streets much like "Project Exile?"

*Answer.* The thrust of the initiative is to have local ATF officials, working with their United States Attorney, as well as State and local officials, develop strategies appropriate to the problems of the area. Project Exile might be appropriate in Richmond but in other areas another approach might be best. In all cases the use of existing laws to get criminals off the streets will be the overall goal.

There is a continuing interest in having ATF get more involved in making sure that the rightful, legal owner of a stolen registered firearm is notified when that weapon has been recovered. As you know, last year the Senate report directed ATF to work with State and local law enforcement to ensure that the legitimate owner has been notified when the firearm turns up.

#### ELECTRONIC FUNDS TRANSFER ACT

*Question.* The Electronic Funds Transfer Act requires that by 2000 all Federal payments are to be made electronically, and so the recipients must have a bank account or a designated agent to receive the funds. The Act allows for waivers for Native Americans—is it the Administration's policy to simply provide these waivers and not work to make sure Indians have access to banking services?

*Answer.* The Debt Collection Improvement Act of 1996 requires that most Federal payments be made electronically by January 1, 1999, subject to waivers granted by the Secretary of the Treasury. A hardship waiver is available to any individual who receives a Federal payment and determines that payment by electronic funds transfer would impose a hardship due to a physical or mental disability or a geographic, language, or literacy barrier or would impose a financial hardship. Treasury's EFT rule also establishes that any Federal benefit payment recipient is eligible to open an ETA (electronic transfer account) at any Federally-insured financial institution that offers ETAs. The ETA will be made available to maximize opportunities for Native Americans and other persons receiving Federal payments electronically to have access to an account at reasonable cost and with the same consumer protections as other account holders. Treasury believes that financial institutions of all sizes will likely offer the account—including financial institutions that serve Native Americans.

Secretary Rubin is committed to helping transition Native Americans and other persons without an account at a financial institution into the financial services mainstream. Treasury considers the ETA to be a critical stepping stone to more full service banking relationships and will conduct a comprehensive ETA public edu-

cation and outreach program targeted at key constituencies, including Native Americans.

#### SOUTHWEST BORDER

*Question.* The Southwest Border of the United States is where a lot of illegal drugs and illegal immigrants cross our borders. Is there any Federal-Tribal-State coordinated effort to join forces and resources to create a seamless border?

*Answer.* Yes. The Border Area Narcotics Network (BANN) is a task force headquartered in Sells, Arizona, on the Tohono O'odham Nation. Participants include Customs; the Tohono O'odham Tribal Council, Department of Public Safety, and police; DEA; and Arizona state law enforcement officers. The task force works to investigate and control smuggling along the 150-mile long Tohono O'odham Nation-Mexico border, and engages in coordinated law enforcement and community outreach throughout the Nation's lands.

BANN is but one example of multi-agency coordination in drug interdiction and enforcement activities along our border with Mexico. The two principal agencies responsible for drug interdiction, however, are the U.S. Customs Service and the U.S. Border Patrol. Coordination among the various organizations involved in drug interdiction is accomplished through the multi-agency Operation Alliance, the regional High Intensity Drug Trafficking Areas (HIDTA), several Organized Crime Drug Enforcement task Forces (OCDETF), and the joint Customs-Border Patrol Border Coordination Initiative (BCI).

Under Operation Alliance, the HIDTAs, and the OCDETFs, several multi-agency multi-jurisdictional task forces which include state and local agency representation cooperate to ensure that agencies work together on major investigations, coordinate and deconflict enforcement operations, and share intelligence and resources.

In August 1998, the Departments of Treasury and Justice established the BCI. BCI is a strategic plan to coordinate efforts between INS and Customs to increase cooperation along the Southwest border to interdict drugs, illegal aliens, and other contraband. BCI is a commitment from INS and Customs to create a seamless process at and between the border ports of entry by building a comprehensive, integrated border management system that effectively achieves the mission of each agency. This includes intelligence sharing, integrated communications, joint air and maritime support, and joint enforcement operations. The 24 BCI Field Areas along the border are linked to each other, as well as to other federal, state, and local agencies through the HIDTAs and OCDETFs.

#### INDIAN ARTS AND CRAFTS

*Question.* Into the U.S. each year comes an estimated \$500 million in fake Indian arts and crafts. What role does the Customs Service play in protecting Native American artists?

*Answer.* Title 18, Section 1158, Counterfeiting Indian Arts and Crafts Board Trade Mark, is the statute that concerns counterfeiting Government trade marks that have been devised or used by the Indian Arts and Crafts Board in the Department of the Interior.

Despite several allegations over the past five years that imitation Native American goods are entering the U.S. without the country of origin markings required by law, Customs has found the great preponderance of these goods to be in compliance. In June 1997, Customs initiated a 60 day Cargo Selectivity criteria operation against importers and exporters identified by the Indian Arts and Craft Association and another source as dealing in imitation Native American jewelry, arts and crafts. Customs established 117 separate criteria for this operation, yielding a total of 230 hits. Of these hits, only 4 detected marking violations, the balance being "clean on examination." With a compliance rate in excess of 98 percent, the criteria were canceled after the 60 days.

If the country of origin markings are being removed after importation, such allegations should be referred to the appropriate Special Agent in Charge office for possible investigation. We believe the U.S. Attorney in Arizona is knowledgeable in this area as well.

#### IMF GOLD SALES

*Question.* I understand that the Treasury Department has expressed support for a proposal to sell a portion of the International Monetary Fund's gold reserve to support the IMF's Heavily-Indebted Poor Countries (HIPC) initiative. As you are aware, there is a statutory requirement that the U.S. representatives to the IMF receive formal Congressional authorization in order to vote in favor of transactions

involving gold. Will the Treasury Department seek this formal authorization? If so, how and when can we expect to receive this request.

Answer. The Treasury Department is seeking formal Congressional authorization in order to vote in favor of a sale of IMF gold, for which the earning on the invested profits of such sales would be directed to the ESAF/HIPC Trust of the IMF. We expect to provide to the Congress a letter requesting such authorization, with draft legislative language, in the near future.

*Question.* The United States ranks second behind South Africa among the gold producing nations. Gold mining is an important part of the rural economics of thirteen of our western states. The current price of gold is at its lowest point in twenty years and the major mines in rural Nevada and elsewhere in the west have had to lay off thousands of workers. What consideration has the Department given to the effect of this proposal on our own domestic gold mining industry?

Answer. We are reasonably confident that any sales of gold would be conducted in a manner that would minimize any adverse impact on gold holders, producers, and the gold market. The amount of sales that is currently under discussion—five to ten million ounces, with sales spread over a number of months or years, as warranted—represents a small part of the 100 million ounces or so that come on the gold market in a typical year.

#### PERFORMANCE-BASED MANAGEMENT

*Question.* What specific steps have you taken as the head of the agency to achieve performance-based management within your agency, as required by the Government Performance and Results Act?

Answer. Treasury has taken several steps to institute performance-based management throughout the Department:

- The Secretary and Deputy Secretary were personally involved in development of Treasury's Strategic Plan during 1997, and will lead the process to update the next version of the plan.
- Beginning in fiscal year 1997, we integrated both the Annual Performance Plan and Annual Performance Report into our budget justification documents, thus ensuring that performance data and resource data are presented in tandem and readily available to Congressional decision-makers.
- We have just instituted a new budget formulation process focused on using our strategic plans and priorities to guide the development of the budget. The process incorporates reviews of bureau program performance and progress toward achieving results in considering resource requests.
- We are piloting a web-based Performance Reporting System, a department-wide tool to eventually allow for frequent reporting of performance data from all of Treasury's bureaus. This system will bring current information to the fingertips of the Secretary and other policy offices to help track performance more regularly and systematically. The Department's longer-range goal is to link performance and financial data under a comprehensive financial analysis and reporting system.

*Question.* How are your agency's senior executives and other key managers being held accountable for achieving results?

Answer. Treasury has taken a number of steps to ensure accountability for achieving results:

- We have developed (and are about to implement for fiscal year 1999) a mandatory Results Act element in all SES performance standards sets. This element addresses 1) program performance as measured by the relevant published performance targets; 2) the timeliness of performance information; and, 3) data accuracy and validity issues.
- Senior policy officials were assigned by the Secretary as "lead" officials in overseeing the implementation of Treasury's strategic objectives. They reported on their progress as part of the fiscal year 1998 Annual Performance Report (included in the budget justification documents and the Budget in Brief) and the Department's fiscal year 1998 Accountability Report.
- The new Performance Reporting System should also improve accountability, allowing for regular, standard and customized progress reports on performance.

*Question.* How is your agency using performance information to manage the agency?

Answer. Treasury is using performance information in several ways to manage the Department:

- As part of our new budget formulation process, mid-year performance reviews are held between the Deputy Secretary, the Assistant Secretary for Management and CFO, and the Bureau Heads. During these mid-year reviews the per-

formance of the bureau is discussed and assessed against its year-end target. Mid-year performance that indicates year-end goals will not be achieved is highlighted and alternative approaches are discussed and agreed upon.

—Bureau year-end performance is reported to Treasury’s senior leadership by means of the Annual Performance Report. This report is integrated with our budget justification document. As out-year budget and resource allocation decisions are being made at both the bureau and Department level, prior year performance is assessed via the Annual Performance Report.

—Treasury’s Performance Reporting System is designed to provide more regular program performance reporting, with the goal of improving overall program management.

*Question.* How did program performance factor into your decisions about the funding you are requesting in fiscal year 2000? Please provide examples.

*Answer.* Treasury presented to OMB all new resource proposals for fiscal year 2000 separated out by Mission areas and Goals in accordance with the Strategic Plan for fiscal year 1997–2002, which was submitted to the Congress on September 30, 1997. Those mission and goal areas that related to resources requested in the Budget Request are shown below. The summary justification materials to the Congress also includes a presentation of fiscal year 2000 initiatives linked to the Strategic Plan in this manner.

*Mission.—Economic*

- (1) Goal: Promote Domestic Growth
- (2) Goal: Maintain U.S. Leadership on Global Economic Issues

*Mission.—Financial*

- (1) Goal: Collect Revenue Due to the Federal Government
- (2) Goal: Manage the Federal Government’s Accounts

*Mission.—Law Enforcement*

- (1) Goal: Combat Financial Crimes and Money Laundering
- (2) Goal: Reduce the Trafficking, Smuggling, and Use of Illicit Drugs
- (3) Goal: Fight Violent Crime
- (4) Goal: Protect our Nation’s Leaders and Visiting World Leaders
- (5) Goal: Provide High Quality Training of Law Enforcement Personnel

*Mission.—Management*

- (1) Goal: Improve Management Operations
- (2) Goal: Improve Program Performance

The deliberative process with OMB to determine final request levels to be included in the President’s Budget was sensitive to concerns about unmet performance expectations. For example, many of the Internal Revenue Service (IRS) Customer Service initiatives use performance measures to benchmark current levels of service (phone coverage in hours and numbers of calls received) and explain how much more would be done with additional money. Other request items focused primarily on the large number of program stakeholders and constituents, who are principally concerned about program coverage levels (in terms of staffing, level of effort, and major equipment deployment), and view level of effort as a proxy for expected outcomes. Consequently, budget decisions and outcomes were balanced to include performance assessments and measurable outcomes, as well as responding to stakeholder concerns about equitable resource deployment. Treasury will continue to pursue opportunities to meld performance information with resource decision-making.

*Question.* What specific program changes have you made to improve performance and achieve the goals established in your strategic and annual plans?

*Answer.* The primary focus of Treasury’s strategic management process is performance improvement. This process includes goal-setting, periodically measuring our progress, and using performance information to make necessary adjustments in order to meet our stated goals and objectives. Some examples of changes that have been made to improve performance are presented below:

- IRS expanded the availability of its toll-free telephone service to make filing easier (which supports the IRS Strategic Goal of “Service to Each Taxpayer”). To be available when customers want or need to contact the IRS, they went to a full-service mode of 7 days-a-week/24 hours-a-day availability in 1999.
- In support of that same strategic goal, and to make filing easier and more convenient for taxpayers, IRS put an emphasis on Electronic Tax Administration (ETA). As of April 23, 1999, 29 million individual taxpayers filed their tax returns electronically, a 19.1 percent increase over the same period last year. Over 1 million taxpayers participated in signature alternative pilots, which pro-

vided a paperless filing experience for those taxpayers who were eligible. And over 53,000 taxpayers charged their balance due using a credit card.

—The Financial Management Service (FMS) manages the Department's debt collection responsibilities under the Debt Collection Improvement Act. To achieve its strategic and performance goal to "concentrate Federal delinquent debt collection efforts and produce improved results," FMS worked with the IRS to merge the Tax Refund Offset program into the Treasury Offset Program. Tax refund collections for CY 1999 already exceed those for CY 1998. FMS also improved system functionality that allows matches against multiple taxpayer identification numbers.

*Question.* How does your budget structure link resource amounts to performance goals?

*Answer.* Treasury's budget structure, as presented in the justification of appropriations, consists of one or more budget activities described under each appropriation. Budget activities roughly equate to major programs within each bureau. Beginning in fiscal year 1997, Treasury defined performance goals for each budget activity and integrated into our budget justification the proposed performance plan for the budget year, and the final performance plan for the current year. Therefore, in the budget justification document itself, the resources requested under each budget activity are linked to their respective performance goals and supporting performance measures.

*Question.* What, if any, changes to the account and activity structure in your budget justification are needed to improve this linkage?

*Answer.* Treasury annually asks its bureaus to review budget activity structures, in light of new programmatic emphases or stakeholder concerns. Any contemplated changes to budget activities are considered in light of financial management and accounting issues to ensure that over time bureaus have the capacity to account for appropriated dollars accurately and consistently. While budget activity structure improvements that respond to emerging concerns are generally desirable, we also discourage frequent successive changes, so that Congress can see and review reliable historical information. This is because budget activity restructuring may require complex analytical crosswalks to the former structure if funding decisions require comparisons with prior year levels of effort.

*Question.* Does your fiscal year 2000 Results Act performance plan include performance measures for which reliable data are not likely to be available in time for your first performance report in March 2000? If so, what steps are you planning to improve the reliability of these measures?

*Answer.* We expect reliable data to be available for most, if not all, of our measures in March 2000. In our fiscal year 2000 budget submission, bureaus were asked to rate their performance data as having either "reasonable accuracy"—meaning the data is accurate enough to be used for programmatic decision-making or as having "questionable or unknown accuracy." Nearly all measures received a "reasonable accuracy" rating. Measures for which data has been identified as questionable or unknown, either through self-reporting or by external review entities, are being evaluated to determine what needs to be done to improve the reliability of the data.

*Question.* How will your future funding requests take into consideration actual performance compared to expected or target performance?

*Answer.* As the amount and quality of performance data grows more robust, Treasury will continue to deliberate its budget proposals based on performance gap concerns. The perennial dilemma is whether performance improvements respond better to funding incentives or penalties, or whether funding should be reallocated to a competing activity that might be achieving better results but is less compelling. In many cases, demand-driven workload may be challenging the capacity to achieve acceptable results. Those cases may justify resource enhancements for sensible investments in technology that improve productivity while also improving quality (e.g., non-intrusive inspection equipment for ports and border crossings).

*Question.* To what extent do the dollars associated with specific agency performance goals reflect the full costs of all associated activities performed in support of that goal? For example, are overhead costs fully allocated to goals?

*Answer.* In budget presentations for most Treasury bureaus, administrative overhead and policy oversight are embedded in programmatic budget activities, typically through a pro-rata formula based on program staffing or funding. Hence, those activities reflect the full cost of proposed or realized performance levels. However, there are instances, such as the IRS Rent and Utilities budget activity, where funding magnitude and stability is so critical that it is important to provide explicit information for appropriators and stakeholders. The performance goals for that activity have to do with efficient use of available space rather than with agency program performance goals.

*Question.* What specific performance goals and measures has Treasury established in the fiscal year 2000 performance plans for its major bureaus and offices to resolve major management challenges and high-risk areas identified by GAO and its Inspector General?

*Answer.* The Department and the heads of the three principal bureaus with high-risk areas or major management challenges (IRS, the U.S. Customs Service, and FMS) recognize the need to resolve the issues raised by GAO and the Office of Inspector General (OIG) and have developed and are implementing action plans to do so. In some cases, the performance plan contains a specific measure and target related to the high-risk area. In others, the bureau has taken steps to address the problem.

One FMS challenge, for example, is to effectively fulfill its responsibilities under the Debt Collection Improvement Act. The FMS performance plan includes two related measures:

- Increase collection of the debts referred to Treasury from fiscal year 1998 baseline (\$1.988 billion) by \$8.5 million in fiscal year 1999 and \$93.1 million in fiscal year 2000 through the addition of more Federal payment types and agency referrals into the centralized administrative offset program by fiscal year 2000.
- Increase the amount of delinquent debt that is referred to Treasury for collection, as compared to the amount of delinquent debt that is eligible for referral. Total percentage will reach at least 75 percent by fiscal year 2000. Baseline is fiscal year 1997 (32 percent).

IRS has taken steps to correct management and technical weaknesses in its systems modernization program:

- In December 1998, IRS awarded a prime contract for its major systems modernization program, and the Commissioner hired a new Chief Information Officer to work with him on this program. The use of a prime contractor to serve as the developer and integrator for the IRS represents a significant departure from past IRS practices.
- In addition, the Commissioner set up a management structure that includes an executive oversight board. GAO and the Treasury Inspector General for Tax Administration have been invited to all the board's meetings to provide input on ways to improve the process. IRS expects to submit a plan to Congress in September for the first release under the prime contract.

The U.S. Customs Service over the last year made significant management improvements that resulted in Customs being removed from GAO's high-risk list. Customs now has initiatives underway to address its management challenges, such as short-and long-term plans for controlling access to sensitive data in the Treasury Enforcement Communications System (TECS) and Seized Assets and Case Management Tracking System (SEACATS).

*Question.* Does your agency have the means to capture accurate and useful performance data?

*Answer.* Capturing performance data that is both accurate and useful is critical to implementing GPRA. All Treasury components are required in their performance plan to state how they collect their data and to verify and validate the accuracy of the information. The Office of Budget and the Office of Strategic Planning and Evaluation review information provided by the components, raising questions where information is either unclear or questionable. Additionally, the Treasury OIG plans to review data reliability in a number of our bureaus this year to determine whether sufficient systems are in place to accurately report on performance measures.

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#### QUESTIONS SUBMITTED BY SENATOR DORGAN

##### INTERNATIONAL

*Question.* Last year's global financial market crisis, particularly in Asia and Russia, has appeared to have a more limited effect on the U.S. economy than was initially expected. Although U.S. manufacturing and commodity sectors remain weak, it has been offset by strength in consumer spending and growth in the service sector.

Are the economy's resilience linked to the self-correcting nature of long-term interest rates?

*Answer.* Some financial market observers feel that such an effect has become more prominent in recent years. On this view, interest rates have responded more quickly and predictably to economic conditions than in the past. When the economy has speeded up, interest rates have risen, and dampened the increase in activity. When the economy has slowed down, interest rates have fallen, and provided some

positive cushioning effect. The clearest example of such a mechanism may have emerged in the housing sector with the securitization of the mortgage market and the growing sensitivity of homeowners to refinancing possibilities.

While these developments are interesting and important in their own right, they may not have played a major causative role in the seeming imperviousness of the U.S. economy to financial turmoil late last summer and into the early fall. In the wake of the Russian devaluation and effective debt default at mid-August, there was a massive shift in investor preferences toward less risky assets. In this country, Treasury yields dropped sharply. At the same time, businesses with the lowest credit ratings faced substantially higher costs of borrowing. And across a wide range of credit ratings, the spread between private rates and the rates on Treasuries widened sharply. These developments raised fears of a credit crunch that might slow the U.S. economy in a significant way. In response, the Federal Reserve cut the Federal funds rate by 25 basis points at the FOMC meeting at the end of September, by 25 basis points again in an unexpected intra-meeting move in October, and by another 25 basis points at its November FOMC meeting.

Also during this period, there was a temporary substitution of net lending by the commercial banking system for direct financing in the credit markets. In the first three quarters of 1998, the net lending of the commercial banking system averaged about \$225 billion at a seasonally adjusted annual rate, or about 11½ percent of total net lending. In the fourth quarter, commercial bank lending more than doubled to about a \$555 billion annual rate, or about 22 percent of total net lending.

In summary, Federal Reserve policy actions and a shift of credit demands to the commercial banking system seem to have been the major factors shielding the economy, rather than a self-correcting adjustment in long-term interest rates.

*Question.* What about the equity markets? Last fall, the economists predicted a market plunge would generate negative wealth effects lowering the stock market values. With so many consumers participating in the market, that lowering could have created a noticeable drop in consumer confidence. What occurred to avert that situation?

*Answer.* The stock market reached its 1998 peak in mid-July of that year at about 9340 on the Dow-Jones industrial index. The growing financial turmoil in the late summer and early fall contributed to a correction the dimensions which suggested to some that a bear market had begun. The Dow reached nearly 7600 by the early fall, a downward move of close to 20 percent from the high in July. It was during the late stages of this process that there was considerable discussion in the financial press of the negative wealth effects that might be generated by a plunge in the market. The chief factor that occurred to avert even more serious discussion of that possibility was the return of the market to a strong upward trend, which has continued in 1999 and carried the market to new, higher levels.

Most studies of the wealth effect suggest that the effects of a change in stock market values on consumer spending would be spread out gradually over time. Short, temporary drops in the market seem to have very little, if any, measurable effect on consumer spending. Farther back in time, the drop in the market of more than 20 percent on a single day in October, 1987 and the market uncertainty that followed led many to fear that the economy might be affected seriously. Growth in real consumer expenditure flattened out temporarily in the fourth quarter of 1987, but there was a renewed burst of consumer spending in the first quarter of 1988, suggesting only transitory effects and little lasting impact on consumption from the market decline.

The most encouraging feature of the current situation is the good economic fundamentals that have persisted during the current expansion. Solid economic growth continues to be combined with a very subdued rate of inflation.

#### IMF LOANS TO RUSSIA

*Question.* At the House Appropriations hearing the Secretary said that much of the \$4.8 billion in loans sent to Russia last summer by the International Monetary Fund "may have been siphoned off improperly." And, in a recent U.S. News editorial Morton Zuckerman said that the IMF cannot be expected to advance more money to Russia, since the IMF's credibility as a lender has been hurt by the way Russia has flouted to conditions attached to its loans. Zuckerman said the IMF aid to governments should be tied to economic and political reforms and earmarked for projects that can be monitored. IMF funding decisions are made in response to financial crises.

Isn't it true that a requirement to conduct a programmatic review have a detrimental impact on the need to dispatch funds rapidly?

Answer. The need to formulate a program that will be successful in fostering the needed adjustment of the economy and the ability of the country to repay the IMF cannot be avoided. Every effort is made in urgent cases to expedite the process. In the case of the 1997 programs for Asian countries, they were negotiated very quickly. And the IMF has in place procedures to expedite Executive Board review in crisis cases. However, every effort is and should be made within these constraints to develop a thoroughly well-grounded program.

#### IMF VOTING PROCEDURES

*Question.* The U.S. has about 18 percent of the IMF votes and provides about 22 percent of the money.

Does any other country have enough votes to veto a U.S. decision?

Answer. The United States cannot by itself decide all issues before the IMF Executive Board. Board decisions on country programs require approval by a 50 percent majority of voting power (decisions on certain policy issues require larger majorities). Thus no country by itself can either effect a Board decision or block such a decision. On those major policy decisions requiring an 85 percent majority of voting power, the United States can block a Board decision—no other country by itself holds sufficient voting power to block such decisions.

#### MONITORING IMF FUNDING TO RUSSIA

*Question.* Is there some way the U.S. can ensure the funds are being used appropriately without structuring a number of bureaucratic requirements that could result in slowing down the distribution of funds?

Answer. When a borrower country agrees to an IMF program, the bulk of IMF financing provided is tranching in phased disbursements so that later disbursements can be made based on the country's adherence to the conditions set forth in the underlying arrangement and associated commitments. These commitments range from general undertakings (e.g., to cooperate with the IMF in formulating and implementing policies) to specific, quantified plans for macroeconomic and structural policies. IMF staff closely monitor a country's observance of the qualitative and quantitative performance criteria and overall implementation of its program. This is accomplished through visits of staff, resident representatives (present in over three-quarters of the countries that have IMF arrangements), and frequent communications with the countries' authorities. Periodic reviews of countries' programs are reinforced by selective audits of central banks, such as that being conducted regarding the placement of Russian Central Bank funds in 1994–96. This monitoring does not serve to slow down disbursement of financing unless the conditions set forth in a program are not met and agreement cannot be reached on how to deal with the problem.

With strong U.S. support, the IMF has recently undertaken a number of steps to promote greater openness in public sector activities and other measures that will help ensure that official resources are being used appropriately. Also, the Treasury Department is in the process of exploring the desirability and feasibility of a number of further enhancements to the IMF's traditional means of assuring compliance with the conditions of IMF programs and safeguards on the use of IMF resources, and has discussed the general issues with IMF staff.

#### RUSSIA IMF PROGRAM

*Question.* Russia's Prime Minister Primakov was scheduled to visit the U.S. this week seeking an IMF agreement to borrow enough to cover \$4.5 billion in Russian loan repayments due to the IMF this year. Russia's total debt due this year is \$17.2 billion or 80 percent of its national budget.

What level of resources should the U.S. be providing Russia at this time?

Answer. The U.S. has not and is not contemplating any direct budget support loans for Russia. As regards IMF funding to Russia, the appropriate amount of lending is still being negotiated. The eventual amount agreed by the parties will reflect the level of Russian economic reform and the country's financial situation. Any disbursement will be contingent on the IMF's being satisfied that funds will be used for their intended purpose.

*Question.* Is it possible that the delay could increase Russia's chances of winning approval for reinstating its IMF loans at this time?

Answer. The delay in Prime Minister's Primakov's visit to Washington should not affect Russia's chances of securing an IMF program. An IMF program for Russia depends on Russia's willingness to agree to a set of economic measures that will stabilize the economy and lay the groundwork for economic growth. IMF Managing Director Camdessus traveled to Moscow in late March where he and Prime Minister

Primakov agreed on a framework for an IMF agreement. An IMF mission continues to negotiate with Russian officials on remaining issues.

*Question.* If we do not provide these resources what will be the cost of bailing out an economically devastated Russia?

*Answer.* The implications of a full-scale economic breakdown in Russia are extremely serious and would be detrimental to a range of U.S. interests, including our security interests. Economic breakdown and the possibility an associated political backlash could increase the threat of weapons proliferation, international organized crime, and a humanitarian crisis.

That said, resources alone cannot assure long-term economic stability in Russia. That is why IMF resources provided to Russia must be associated with a program of economic reform and fiscal adjustment coupled with strong implementation.

#### INTERNATIONAL FINANCIAL ARCHITECTURE

*Question.* Last year, discussions were being held on changes to the architecture of the international financial system—changes that would have provided for greater transparency and disclosure of the International Monetary Fund and other international systems.

Are these discussions continuing? When can the committee expect the recommendations and the implementation plan?

*Answer.* We have been working with our G-7 colleagues on a broad range of potential measures to strengthen the international financial system. This is an extremely complex issue which will take a sustained effort to resolve in all its facets. Our approach has been to press forward with concrete steps in line with the framework set out in October of last year by G-7 Leaders.

At a meeting on April 26th of this year, G-7 Finance Ministers and Central Bank Governors assessed progress we have made so far on the broad agenda outlined in October:

- The IMF has adopted a comprehensive format for disclosure of full information on reserves as part of the strengthening of its Special Data Dissemination Standard (SDDS). This enhanced reporting of reserves and related liabilities will go into effect on April 1, 2000. To strengthen the SDDS further, the G-7 has called on the IMF to enhance the requirements for disclosure of external debt data and for release of information on financial sector soundness.
- The IMF Board has agreed to establish a Contingent Credit Line, which will help countries with sound policies insulate themselves from contagion. We believe that the CCL will help to encourage prompt and effective measures to ward off contagion, with appropriate private-sector involvement, and promote adoption of sound policies in areas that we see as crucial for avoiding susceptibility to crisis, notably, debt management, sustainable exchange rate regimes, transparency, a strong financial sector, and adherence to internationally agreed codes and standards.
- We have established a new group, the Financial Stability Forum, which will provide a vehicle for the regular exchange of information on systemic vulnerabilities in the financial system. The Forum held its first meeting on April 14th. Working groups are being established on highly leveraged institutions, to address implications from their role as both lender and borrower; off-shore financial centers; and short-term capital flows' effect on global financial stability. We have emphasized the importance of including representation from a broad range of relevant countries in this work.
- The World Bank is making progress in distilling a set of general principles of good practice in social policy aiming to promote social cohesion, make economies more robust and provide a structure to make countries more resilient to financial crisis. We encourage the World Bank to take forward its work, in cooperation with the IMF, to develop a set of policies and practices that can be drawn upon, by donors and borrowers alike, in the design of adjustment programs to ensure protection of the most vulnerable, particularly during crisis periods.

The United States has also pressed to include a wide range of countries in the discussion of the reforms to the international financial architecture. Two seminars have been held (on March 11 and on April 25) to exchange ideas on economic architecture issues with a diverse group of economies. Representatives of 33 governments and central banks participated in the discussions of a broad range of ideas and initiatives. These seminars have been valuable, and we have emphasized the need for inclusive dialogue and broad consultation on issues of systemic importance.

The G-7 Finance Ministers and Central Bank Governors will report to G-7 Leaders on progress to date and recommendations for the implementation of further reforms at the Cologne Summit in June. We expect this report will be endorsed by

the Heads of Government and made public at that time. Our work between now and then will continue to focus on the broad range of issues we have identified, including: the scope for strengthened prudential regulation and supervision in industrial countries; further strengthening of financial systems in emerging market economies; sustainable exchange rate regimes in emerging market economies; crisis prevention and response, including proposals for ways to improve IMF programs and procedures in this area; and minimizing the human cost of as well as improving the social policy response to financial crisis.

In addition, as required by statute, we will provide a written report to Congress on these efforts by July 15.

*Question.* Are the resources requested in the fiscal year 2000 budget (e.g. 14 FTE and \$1.1 million) going to address the changes in the architecture of the international financial system?

*Answer.* The 20 additional positions (14 FTE and \$1.1 million, annualized to 20 FTE in fiscal year 2001) are needed to improve coverage of emerging markets; expand macroeconomic analyses of country and regional economies; and broaden Treasury's expertise to monitor financial and economic transactions between and among foreign countries including direct capital flows, financial reform, structural integrity, openness and transparency, and crisis resolution. Treasury's Office of International Affairs is the primary organization in the Executive Branch tasked with understanding and responding to international financial complexities and with developing and articulating global economic development policy. This increase will reverse a decline in staff of 10 percent since 1993. The 20 additional positions will help Treasury implement reforms in the architecture of the international financial system, as initially outlined in October 1998 by the G-7.

*Question.* What kind of change will be made? Will the Office of International Affairs be working on plans to bring the private sector into these discussions on how to structure aid requirements or to take up specific ventures that would be guaranteed by the U.S. government?

*Answer.* Our recommendations for reforms of the international financial architecture will focus on the key areas outlined by the G-7 for work in October, 1998. They are: the scope for strengthened prudential regulation and supervision in industrial countries; further strengthening financial systems in emerging market economies; exchange rate regimes in emerging market economies; crisis response and greater participation by the private sector in crisis containment and resolution; proposals for strengthening the IMF and the Interim and Development Committees; and minimizing the human cost of financial crisis.

The appropriate form of private sector involvement in the resolution of crises will depend on the circumstances. In response to the particular needs of the Asian economies hit by the financial crisis, the United States has played a key role in formulating the Asian Growth and Recovery Initiative, which is designed to help revitalize private sector growth. One aspect of the initiative, the Asian Growth and Recovery Program, envisages use of credit enhancements by bilateral or multilateral donors to help governments in the region in financing the cost of bank recapitalization. However, the United States government does not plan to act as a guarantor under this program. The U.S. Export-Import Bank and Overseas Private Investment Corporation are supporting the initiative through the provision of trade finance, risk insurance, project financing and other traditional products that help to mobilize private sector finance.

#### RESIGNATION OF GERMAN FINANCE MINISTER

*Question.* German Finance Minister, Oskar Lafontaine resigned on March 11th. Mr. Lafontaine dominated Germany's financial policy, was instrumental in shutting down the voice of pro-business moderates, and was instrumental in reducing the value of the Euro by demanding the European Central Bank lower its interest rates and campaign for controls over exchange rates.

What kind of changes can be expected in German financial policies now that Chancellor Schroder has the opportunity to develop pro-business financial policies?

*Answer.* The Schroder government, elected September 27, 1998, is still relatively new. Policies are evolving. The new Finance Minister, Hans Eichel, officially assumed his post on April 12. While it is too early to anticipate the direction German financial policies may take, a number of analysts anticipate a more moderate policy stance and relationship with the business community.

#### INTERNAL REVENUE SERVICE

The Internal Revenue Service Restructuring and Reform Act of 1998 requires a number of changes in the way the IRS does business. The initiatives include imple-

menting additional taxpayer protection provisions, expanding electronic filing, and modernizing the IRS. To accomplish these requirements the IRS has requested \$197 million with approximately \$140 million required for a series of organizational investments to restructure, reorganize and retain the workforce.

*Question.* How will the IRS of the future be different from the IRS today?

*Answer.* The Restructuring and Reform Act of 1998, provided the IRS with a clear direction: it must do a better job in meeting the needs of the taxpayers. This direction is expressed in the new IRS mission statement:

“Provide 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.”

The concept for a modernized Internal Revenue Service revolves around the following guiding principles:

- Understand the customer’s point of view, and use this understanding to prevent and solve problems and provide quality service Enable managers to be accountable with the requisite knowledge, responsibility and authority to take action to solve problems and achieve IRS goals Align measures of performance at all organizational levels Foster open, honest communication Insist on total integrity

The goals are:

*Top Quality Service to Each Taxpayer*

- Make filing easier
- Provide first quality service to each taxpayer needing help with his or her return or account
- Provide prompt, professional, helpful treatment to taxpayers in cases where additional taxes may be due
- Increase fairness of compliance
- Increase overall compliance

*Productivity Through a Quality Work Environment*

- Increase employee job satisfaction
- Hold agency employment stable while the economy grows and service improves.

To move us towards our new mission, the Service has also identified five levers of change to modernize the agency. They are:

*Revamped Business Practices.*—Business practices will be geared toward understanding, solving and preventing taxpayer problems. Emphasis will be placed on customer education and service. Compliance efforts will be forward-looking to prevent most common taxpayer problems and geared toward early intervention to keep taxpayers compliant. These changes will enhance the many customer service initiatives already begun this year. For example, telephone customer service will be available 24 hours, seven days a week and e-file services will be expanded.

*Four Operating Divisions.*—The IRS will reorganize into four customer segments with end-to-end responsibility for serving taxpayers with similar needs. They are: Wage and Investment; Small Business & Self-Employed; Large & Mid-Size Business and Exempt Organizations

*Balanced Measures of Performance.*—Current IRS performance measures are oriented toward IRS internal operations. The new measures will be externally validated and entail a balanced system tied to the agency’s goals. The new measures will take into account business results, customer satisfaction, employee satisfaction, and the agency’s continuous improvement.

*Management Roles with Clear Responsibility.*—Managers in the new organization will have end-to-end responsibility for meeting the needs of their customers. The new organization will have fewer management levels.

*New Technology.*—the IRS is committed to move forward on upgrading and improving its technology. The award of the PRIME contract identifies those private-sector organizations IRS will partner with over the next 10–15 years to build the new technology. While it will take the better part of a decade to modernize our fundamental computer systems, taxpayers will be able to see results as early as calendar year 2000.

The benefits of this modernization apply to taxpayers as well as to IRS employees. For taxpayers, the benefits are:

- More useful help in understanding and filing their taxes
- Fast, accurate service if they have a question about taxes they owe or their refund
- Professional, courteous help if they fall behind in paying their taxes
- Professional, courteous treatment if their return is selected for examination

—Greater confidence that their fellow citizens are paying their taxes as required by the tax law in the same way they are, regardless of their occupation, location, type of business or income level

—Clear, effective means of identifying problems of law or regulation that cause unfairness or disproportionate administrative burdens on particular groups of taxpayers and communicating the information to the right level of authority to fix the problem.

For IRS employees, the benefits are:

—Greater respect from the public

—Balanced measurements comprising three categories—customer satisfaction, employee satisfaction, business results

—Flatter organization structure will connect them better

—Stabilization of work force Increased emphasis on training and quality

*Question.* Ultimately, how much will it cost to move the IRS into that improved position?

*Answer.* The IRS has not yet determined the total cost of organizational modernization as the final design is still under consideration.

The Reform Act includes other tax law changes to improve taxpayer protections. The Act also strengthens the Taxpayer Advocate organization and has provisions to ensure internal accountability and integrity.

*Question.* What steps are being taken to ensure these requirements are being met? In other words what changes have been made to fulfill the Act's requirements?

*Answer.* The IRS is vigorously working on the implementation of the Restructuring and Reform Act of 1998 (RRA98). Extraordinary steps have been taken to ensure the process is managed and appropriate actions are taken throughout the agency.

RRA 98 includes 143 provisions, of which 115 require IRS action. 87 percent of the provisions were effective within six months of enactment; 20 percent were retroactive, 47 percent were effective on date of enactment (July 22, 1998), 20 percent were effective by January 19, 1999. The remaining 13 percent become effective between February 1, 1999 and 2007. 432 amendments were made to the Internal Revenue Code.

75,000 employees are receiving technical training and all employees are receiving training on section 1203, Termination of Employment for Misconduct. 132 million taxpayers were affected.

On July 24, 1998, an RRA98 Executive Steering Committee (ESC) was established and began bi-weekly meetings to review implementation progress and resolve issues.

The IRS has identified approximately 1300 actions required to implement all of the provisions in the Act, many of which have been completed. The actions are grouped by provision. The actions include the development of 2 new forms (706C/706D); the revision of 153 forms; and the modification of 39 publications. Chief Counsel has published 30 items (14 regulations, 5 revenue procedures, and 11 notices/announcements). To date, 66 guidance memoranda have been issued to the field.

With respect to the Taxpayer Advocate's organization a number of actions have been taken. Local taxpayer advocate telephone numbers have been placed in telephone directories or are scheduled to be listed pending updates of those directories. The Taxpayer Advocate's program and new toll-free telephone number have been highlighted in the 1998 Tax Packages and in national publicity. Advocates have been designated for each state and reporting has been established through the Taxpayer Advocate organization independent of District or Service Center Directors. A web site "National Resource Center" has been created to answer field questions on RRA98, and new TAO procedures have been developed and training for all employees is in process.

*Question.* Great strides are being made in electronic filing and I give you and your staff tremendous credit for moving the IRS in that direction, but, what about walk in service, particularly in rural areas. North Dakota has lost a number of customer service representatives. Does the IRS have any new plans for expanding that face to face contact? I have heard that the IRS leases three mobile units (taxmobiles) that provide customer assistance in Georgia, California and the Pacific Northwest. Has any thought been given to leasing additional units to provide these types of services to rural states, such as North Dakota? How much could those leases be \$19 or \$20 thousand—that plus the cost of a couple revenue agents and maybe someone from the tax advocates office? It sounds like a cost-effective way to provide customer services?

*Answer.* As part of modernizing America's Tax agency, we intend to significantly expand walk-in assistance by redirecting in excess of 500 staff years to this oper-

ation. Not only will we be adding employees, we will provide service utilizing new and improved methods. A key component of our strategy will be the use of mobile vans staffed by trained personnel that can not only assist our customers in the preparation of their tax returns/answer tax law questions, but also enter into payment agreements and/or resolve examination issues. We believe the mobile van initiative will be particularly helpful in our effort to provide assistance in less populated, rural areas. Additionally, we intend to offer service through kiosks in retail locations. We believe the kiosk concept will enable our customers to conduct their transactions with IRS, and, at the same time, allow them to complete other commercial interactions. We also envision renting space for temporary offices, which would make us far more accessible to our customers. Such temporary office space may be open for a portion of the year and/or for certain days of the week.

All three of these avenues (mobile van, kiosk and temporary space) will enable us to spread our staff over more locations thereby providing greater access to our customers. While these initiatives will benefit all of our customers, we believe they will be of particular interest to individuals in rural areas.

We have gathered some preliminary data on the number of taxpayers served by these mobile units: The Georgia District "We're on Wheels" project assisted 1,574 taxpayers during the first two weeks of operation (February 1-12, 1999). The Pacific Northwest (PNW) Taxmobile assisted 1,490 taxpayers from February 1 through March 12, 1999. We are waiting for the data from the remaining PNW tours and the final results will be evaluated at the end of this filing season.

One of the key components of the design team vision for Walk-In will be the expanded use of mobile vans in an effort to provide assistance in less populated, rural areas.

*Question.* In order to meet both the concept of providing walk-in service and to move toward expanding electronic filing, can you outfit the mobile units (taxmobiles) with computers that would show people how to file electronically?

*Answer.* We will look into the cost and feasibility of providing computers for electronic filing demonstrations in future taxmobile units.

#### TRANSFER PRICING

*Question.* Last year, this committee, instructed the IRS to report back to the committee after determining the amount of revenue lost by transfer pricing, to determine if adequate systems are in place to prevent transfer pricing abuses by multinational companies, and to make recommendations for improving IRS enforcement tools to ensure that multinational companies doing business in the United States are paying their fair share of United States taxes.

*Answer.* IRS appreciates and understands the ongoing concerns the committee has with the issue of transfer pricing. In response to these concerns, and in accordance with a specific directive found in IRS's fiscal year 1999 Appropriations legislation, the Service is currently preparing a report to the Congress on transfer pricing which will address the specific areas raised by the committee. This report should be ready by the middle of April 1999, and will focus on estimates of potential tax revenue lost due to transfer pricing, detailed information on IRS's current administration of Internal Revenue Code section 482, and suggestions for improving transfer pricing enforcement.

#### YEAR 2000

*Question.* In fiscal year 1999, \$570 million was provided to the Department of the Treasury from the Emergency Reserve to resolve Y2K problems. The Department's fiscal year 2000 budget requests an additional \$255 million to meet the continuing requirements. We have constantly been assured that the Department would be able to meet the Y2K validation and implementation deadlines. On March 19th the Office of Management and Budget issued its quarterly report on the "Progress on Year 2000 Conversion". According to the report: "The rate of renovation, validation, and implementation must improve if IRS and FMS (Financial Management Service) are to meet the Government wide goals. Treasury must continue to work toward a unified Department-wide business continuity and contingency plan." In addition, the report states that three systems with the Bureau of Alcohol, Tobacco and Firearms (ATF) will miss the March 31st deadline for implementation.

What is Treasury's plan for meeting the government-wide goals for Y2K compliance?

*Answer.* The following by March 31, 1999 Treasury bureaus and offices met the goal of attaining Year 2000 compliance for their mission critical systems: Office of the Comptroller of the Currency, U.S. Customs Service, Departmental Offices, Bu-

reau of Engraving and Printing, Financial Crimes Enforcement Network, U.S. Mint, Bureau of the Public Debt and Office of Thrift Supervision.

The following bureaus are projected to complete compliance for their mission critical systems by the end of April: Financial Crimes Enforcement Center, Office of the Inspector General and Secret Service.

Treasury has 328 mission-critical systems, nine of which are being retired and 298 (91.3 percent) of which are Year 2000 compliant as of March 31. The three bureaus above are projected to implement 11 of the remaining 26 systems by the end of April. The remaining 15, belonging to the Bureau of Alcohol, Tobacco and Firearms, the Financial Management Service and the Internal Revenue Service, are expected to be implemented by mid year, with the exception of two new IRS systems that will be implemented in the fall. Treasury has consistently monitored the progress of the systems and is confident that they will be operational in a compliant mode well before the year 2000 rollover. In addition, Treasury is continuing with an aggressive approach in addressing Non-IT devices that contain embedded chips and telecommunications systems. To date, Treasury is over 90 percent compliant in our Non-IT mission critical systems and expects to be fully compliant by mid June. We expect to complete interoperability testing and analysis, and independent verification and validation (IV&V) of Treasury's corporate voice telecommunications systems in May, and of the data network, the Treasury Communications Systems, shortly thereafter. Contingency planning and continuity of business planning have long been an area of emphasis by Treasury. As we near completion of achieving Year 2000 compliance for the mission critical systems, Treasury is focusing more on the development of contingency and business continuity plans to ensure that all of Treasury's key processes will function normally on January 1, 2000 and thereafter.

*Question.* Has the department developed unified contingency plans if the agencies do not meet the government deadlines?

Answer. The Departmental Offices (DO) Business Continuity and Contingency Plan (BCCP) will address unified or Department-wide Year 2000 continuity and contingency planning. The DO BCCP will also encompass bureau issues and provide the linkages required with the bureau plans. Working drafts of the DO BCCP have been developed, and the final plan is scheduled to be completed by the end of May. The BCCP is being developed by the Department's Office of Emergency Preparedness and Automated Systems Division in with the Treasury Year 2000 Program Office and the bureaus.

*Question.* The Financial Management Service oversees the collection and the processing of more than \$2 trillion in federal revenues and issues over 869 million payments a year. What is the status of these tax collection and FMS payment systems?

Answer. FMS manages the collection and processing of more than \$2 trillion in federal revenues each year. The Electronic Federal Tax Payment System (EFTPS) through which FMS collected \$1.1 trillion or 56 percent of the government's total collections in fiscal year 1998 was determined to be compliant in December, 1998. The collection systems, including the Internal Revenue Service (IRS) Lockbox, General Lockbox, Plastic Card Network and other collection systems, that account for the remaining 44 percent in federal government revenue were compliant as of the end of March, with the exception of one of the 25 IRS Lockbox applications, one plastic card application, and two applications in the Electronic Data Interchange System. Three of these applications are expected to be compliant by the end of April, and the fourth will be implemented in June 1999.

As of March 31, 1999, FMS is able to make 90 percent of its payments—over 775 million annual payments—using Year 2000 compliant and tested systems. This includes monthly Social Security and Supplemental Security Income payments, Veterans' benefit payments, IRS tax refunds, Railroad Retirement Board annuity payments, Federal salary payments, and vendor/miscellaneous payments. The remaining payment systems are on target for implementation in April, including the Office of Personnel Management Payment System through which FMS issues Federal annuity payments. The system is already compliant but cannot be implemented until mid-April due to a dependency on required interface control changes.

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#### U.S. CUSTOMS SERVICE

#### QUESTIONS SUBMITTED BY SENATOR DORGAN

#### USER FEES

*Questions.* Under the various user fees legislation, the Government collects a separate fee to pay the cost of inspecting arriving international passengers by three

Federal Agencies. Although the three agencies (Customs/INS/Agriculture) user fee legislation was enacted at different times for different reasons, they are all similar as to purpose and collection process.

The Office of Inspector General conducted an audit of the Customs Passenger User fees. The audit, published last spring, indicated that the government could have realized nearly \$49 million of additional user fees revenue if the agencies had applied a coordinated single audit approach to the user fees over a five-month period. Customs would benefit the most, with recoveries increasing from \$7 million to over \$30 million. Customs agreed with the audit and said they would take action to implement the recommendation.

What actions has Customs taken to correct this system?

Answer. Customs finalized a Memorandum of Understanding (MOU) with the Agriculture Plant and Health Inspection Services (APHIS) and the Immigration and Naturalization Service (INS) in which the agencies agreed to share information regarding the collection of air passenger fees. Customs signed an Interagency Agreement with APHIS in which APHIS will perform a total of twenty-six (26) air passenger fee audits on behalf of Customs. Sixteen (16) audits have been completed as of March 22, 1999.

*Question.* What increase in recoveries has been realized?

Answer. The total findings to date—from 16 air passenger fee audits by APHIS—are approximately \$5,962,215 with actual collections of \$3,429,302. The realized return on investment for this agreement is 3,760 percent with an overall potential return of 6,537 percent.

Customs has collected \$57,990,846 in delinquent air passenger fees due from fiscal years prior to fiscal year 1998. Estimated receivable for air passenger fees due prior to fiscal year 1998 total \$10,432,177 (16 percent). This represents 16 percent of the total estimated air passenger user fees due as of the close of fiscal year 1998. The estimated receivable for air, vessel, and rail user fees was reduced from a fiscal year 1997 receivable of \$101,116,074 to an estimated year end receivable for fiscal year 1998 of \$68,838,323. This represents a 32 percent reduction in the estimated year end receivable from fiscal year 1997 to fiscal year 1998.

#### FUNDING THE ACE SYSTEM

*Question.* The fiscal year 2000 budget proposes a fee for the use of Customs automated systems. The fee would be charged to users of the Customs automated system and would be based on the amount of user data input. This fee would offset the cost of modernizing the automated system.

Has the authorizing legislation to establish these fees been transmitted to the appropriate authorizing committees?

Answer. No, the authorizing legislation has not yet been transmitted to the committees.

*Question.* When will that legislation be transmitted to Congress if offered by the Department?

Answer. The Administration is preparing a package to be sent to the Congress which includes proposed legislative changes and new user fees to support all the fee proposals included in the President's Budget.

#### INTERNATIONAL TRADE DATA SYSTEMS

*Question.* The International Trade Data System (ITDS) is a Federal government information technology initiative to implement an integrated, government-wide system for the electronic collection, use, and dissemination of international trade and transport data. What is the problem with the current environment that the ITDS will correct? What trade agency missions will ITDS support? How will ITDS be funded?

Answer. There are several problems with the current environment. One is that multiple agencies of the federal government, in carrying out their enforcement or regulatory responsibilities at the border, impose paperwork (data reporting and record keeping) requirements that duplicate requirements of other agencies. The cumulative effect of these requirements, imposed in an uncoordinated manner, places a substantial burden on private commercial parties and on the economy as a whole. The duplication of efforts also causes unnecessary costs for the Federal government.

A second problem is that the lack of coordination among agencies in collecting and using information reduces their effectiveness in carrying out their enforcement and regulatory missions at the border. Some of the methods by which agencies compensate for these limitations create yet more burdens on the trade.

Finally, the current environment does not produce for Congress, the Executive Branch, or the public the kind of consistent, timely data on international trade that they need to make policy and business decisions.

ITDS is aimed at (1) reducing the cost and burden of processing international trade transactions and transport for both government and the private trade community by substituting standard electronic messages for the multiple and redundant reporting-often on paper form-that occurs today; (2) improving administration of laws and regulations that apply at the border to carriers (for example, highway safety and vessel clearance), people (drivers and crews of commercial conveyances), and goods (several hundred laws including those addressing public health and safety, animal and plant health, consumer protection, enforcement of trade agreements, etc.); and (3) providing convenient access for Congress, Executive Branch agencies, and the public to international trade data that are more accurate, complete, and timely.

ITDS will support the missions of all Federal agencies that have responsibilities for regulating the movement of goods, people, or carriers into or out of the United States. It will also support the missions of Congressional and Executive Branch staff who need convenient access to better and more timely data in order to make decisions about legislation or other policymaking.

Development of the ITDS to date has been paid for out of direct appropriations to the Treasury Department. The fiscal year 2000 Budget proposes to fund ITDS through user fees in fiscal year 2000 and fiscal year 2001.

#### U.S. MINT

##### QUESTIONS SUBMITTED BY SENATOR DORGAN

###### LEWIS AND CLARK COMMEMORATIVE COINS

*Question.* What is the status of the legislation issuing a Lewis and Clark commemorative coin?

*Answer.* The Lewis and Clark Commemorative Coin legislation is currently pending before the House Banking Subcommittee on Domestic and International Monetary Policy.

*Question.* Last year there were some problems on the mintage level. Have those problems been resolved?

*Answer.* These issues have been resolved. The current legislation calls for 500,000 one-dollar silver coins, which is within the specified guidelines of the Commemorative Coin Reform Act of 1996.

###### DOLLAR COIN

*Question.* How are things proceeding on the dollar coin? Have the designs been confirmed?

*Answer.* The Mint is on schedule to have the new dollar coin available to be distributed for public use in early 2000.

Transitioning from the Susan B. Anthony (SBA) dollar to the Sacagawea dollar is expected to be successful. Minting this new dollar coin presents the same level of difficulty as the SBA, but the challenges are in different areas of production. According to a dollar coin study performed by Oxford and Associates, the vast majority of current SBA dollar coin usage is associated with the automated vending industry (i.e., vending machine operators, mass transit systems, car washes, automated postage stamp machines). The greatest challenge is to design an alloy with a magnetic signature that cannot be economically duplicated in slugs, but can be easily accommodated by vending machines. There are two possibilities: the Mint could develop an alloy that matches the SBA's magnetic signature exactly or the Mint could create a hard-to-duplicate signature that is completely distinct from the SBA. We continue to partner with the vending industry to ensure that the industry is ready to accept the new dollar coin alloy.

The Secretary of Treasury charged the Dollar Coin Design Advisory Committee with developing a single design concept recommendation for the obverse of the new dollar coin. The Dollar Coin Advisory Committee sought public input, conducted hearings, reviewed historical United States coin designs, and ultimately recommended that the obverse of the new dollar coin bear a design of Liberty represented by a Native American woman, inspired by Sacagawea. The Secretary accepted their recommendation and asked the Mint to proceed with creating a coin design representing Sacagawea. The Mint commissioned over a dozen outside artists and Mint engravers to prepare sketches. A public viewing was held to narrow down

the design alternatives. We solicited and received over 120,000 emails as well as other comments and preferences, including comments from the Commission on Fine Arts. This response rate from the public represents more input than the Mint has received for any other coin design. After receiving this input, several designs were recommended to the Secretary, who is expected to announce the final design decision this Spring, 1999.

*Question.* When and where will they be publicly announced?

Answer. These plans have not been finalized pending various scheduling requests. We anticipate that the designs will be unveiled by late Spring of this year.

#### FINANCIAL MANAGEMENT SERVICE

##### INDIVIDUAL INDIAN MONEY ACCOUNT LITIGATION

*Question.* As part of Treasury's statutory responsibilities they report the balance of the Individual Indian Money (IIM) account to Congress. The Interior Department who has primary fiduciary responsibilities for this account, selects the investment vehicles and make the distributions from the central account to the individual Indians. On June 10, 1996, a class action suit was filed by approximately 300,000 beneficiaries that have alleged that the Secretaries of Interior and Treasury have mismanaged the account.

What are the respective roles of Interior and Treasury in overseeing the Individual Indian Money account? Does Treasury control the debits and credits made by Interior to the IIM account?

Answer. By statute, the Secretary of the Interior has complete responsibility for managing the IIM funds. Since the IIM account at Treasury is a deposit fund account, Treasury does not control whether funds are deposited into or withdrawn from the account. Therefore, Interior deposits funds received from outside sources, for example, from leases and royalties, into either the IIM deposit fund account at Treasury or into accounts held outside of Treasury. Interior also has statutory authority to disburse payments from the IIM deposit fund account at Treasury to individual Indians and issues Treasury checks to individual Indians. In addition, Interior determines how funds in the IIM deposit fund account should be invested and either directs Treasury to invest in Government securities with a maturity specified by Interior or Interior invests the IIM funds itself outside of Treasury.

Treasury has three roles with respect to the IIM deposit fund account. First, as part of Treasury's statutory responsibilities to provide central accounting and reporting to Congress, Treasury reports to Congress the total IIM deposit fund account balance. The total balance is based on information Treasury receives from Interior which reflects net withdrawals from and deposits to the IIM deposit fund account. Second, at the direction of Interior, Treasury invests IIM funds in Government Account Series securities. Third, Treasury reports to Interior—as it does for all Government agencies—the status of outstanding checks, that Interior writes on the IIM deposit fund account which are not negotiated within one year from date of issuance. Treasury recredits unnegotiated funds to Interior, and all other Government agencies, through Limited Payability Cancellations. Funds are reccredited because the payee's entitlement to the funds still exist and the agency is responsible for maintaining records on the reccredited funds.

*Question.* What is the status of the litigation?

Answer. On February 22, 1999, the court issued an order after a contempt hearing held in January 1999, that held the Secretary of the Treasury, the Secretary of the Interior and the Assistant Secretary for Indian Affairs at Interior in civil contempt based on the failure to substantially comply with the Court's November, 1996 document production order.

The court acknowledged that Treasury was not asked to produce canceled checks until early November 1998 and that Treasury's compliance is dependent on receiving certain prerequisite information from the Department of the Interior.

A trial date has been set for June 10, 1999, to address the issue of "fixing" the Interior trust accounting system. A second trial date will be set at a later time to address the issue of providing a proper accounting to the IIM beneficiaries.

*Question.* What has Treasury done to bring itself into compliance with the court's order?

Answer. Treasury has produced and delivered to the Department of Justice all information that it can identify as being responsive to the Court's discovery order. However, in response to the Court's contempt order, Treasury has filed a document production protocol with the Special Master appointed by the Court to oversee document production. The protocol provides that when the prerequisite information is re-

ceived from Interior, Treasury will search its systems to determine if the checks were negotiated.

In addition, Treasury has selected an individual to serve as project manager for document production in this litigation. This individual's responsibilities include working with the Legal Division and the Special Master to ensure that, with respect to Treasury, discovery in the litigation proceeds promptly, efficiently, and without inadvertent destruction of relevant records.

*Question.* What agency is responsible for auditing the account? Does Treasury have responsibility for independently auditing the account balance?

*Answer.* The Department of the Interior is responsible for auditing this account because this account is included on the Department of Interior's financial statement.

Treasury does not have responsibility for independently auditing the account balance.

#### SUBCOMMITTEE RECESS

Senator CAMPBELL. Mr. Secretary, thank you very much for appearing.

Secretary RUBIN. Thank you, Mr. Chairman.

Senator CAMPBELL. This subcommittee is recessed.

[Whereupon, at 11:11 a.m., Thursday, March 25, the subcommittee was recessed, to reconvene at 9:33 a.m., April 15.]



# **TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2000**

**THURSDAY, APRIL 15, 1999**

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

The subcommittee met at 9:33 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 THE TREASURY (ENFORCEMENT)**

#### **OPENING REMARKS OF SENATOR CAMPBELL**

Senator CAMPBELL. Good morning. The Treasury Subcommittee will be in session. This is the final hearing of the Treasury and General Government Appropriations Subcommittee for this fiscal year. Today we will hear from the Department of the Treasury law enforcement bureaus, including Customs, ATF, Secret Service, FLETC, and FinCEN.

There are a number of new people with us here this morning. But before I talk about them, I would like to welcome a very special group of guests in our audience. If they would stand up. They are the students from the Academy of Law, Justice, and Security at Anacostia High School. We are very happy to see you.

This academy provides these students with an in-depth study of law enforcement and the criminal justice system in partnership with many of the law enforcement agencies that are here testifying this morning. For you young people, as you look towards your future in law enforcement, I would suggest you consider the Secret Service. Who knows, you may go from there to being the heads of some of the agencies that you see sitting here, and then you can sit in front of this committee and be scalded regularly about the budget. [Laughter.]

In any event, we are very happy that you are here this morning, and I would like to welcome you and recognize LaKeda Martin, Michael Matthews, David Craddick, Kelly Bryant, Al Ashby, Mary Watson, Andrew Washington, and Cameron Shield. Thank you.

I would also like to welcome Mr. Johnson, who has been at Treasury for quite a while. I think it has been about three years, Mr. Johnson, but this is the first time that he has appeared in

front of this committee, and we will be looking forward to talking to him.

The new director of the Secret Service, Brian Stafford, who has been the director for about a month and-a-half. I understand Brian, by the way, to my colleagues, that our new head of the Secret Service is a big biker, as I am. So I am looking forward to going riding with him.

Jim Sloan, who was sworn in as the director of the Financial Crimes Enforcement Network, or FinCEN, just about three days ago, so we will be rather gentle for your first appearance here.

And John Magaw, my friend who has been here so many times before us, the director of the Bureau of Alcohol, Tobacco, and Firearms. Welcome back.

Ralph Basham, who has taken over the responsibility for FLETC. We met with you once last year. Glad to have you back.

And Ray Kelly, who switched roles and is now the commissioner of Customs.

Today is tax day in this committee, and as I was preparing for this hearing it occurred to me that many of our Treasury law enforcement agencies work hand in hand in trying to reduce the individual tax burden. As an example, the Customs Service is responsible for collecting about \$22 billion in revenue. ATF collects \$12.5 billion in taxes and fees.

The consolidation of the majority of Federal law enforcement training under the FLETC umbrella saves an estimated \$160 million a year, not to mention that all the Federal law enforcement agencies are helping to protect taxpayers from losing some of their hard-earned money because of schemes, frauds, misrepresentations, thievery, and assorted efforts by those people that would rather prey on their fellow man than work for a living.

This is going to be a difficult bill. The needs are great. Resources are not there as much as we would like them to be. But it is not a matter of deciding whether to fund it or not, or to go with some kind of whiz-bang technology or some important initiative. It will simply come down to trying to decide what programs have to be reduced or eliminated to stay within our caps and to accommodate greater needs.

In any event, I am looking forward to all the testimony here and I will ask Senator Dorgan if he has an opening statement.

Senator DORGAN. Mr. Chairman, thank you very much.

I would say to Mr. Stafford that I traveled all of last week with Senator Campbell, and it did not matter where we were in the world, he was looking for a Harley Davidson.

I appreciate very much the appearance of the students. Welcome to Capitol Hill this morning. And welcome the witnesses.

Most Americans, I believe, have scant understanding that a substantial portion of our Federal law enforcement is in the Treasury Department. Our job, of course, as appropriators, is to make certain that the money we appropriate here is used for good purpose and to accomplish important goals for our country.

I would say from the review that I have done, Mr. Chairman, that the agencies before us here have a proven track record in combating crime, and I am very appreciative of their efforts and the efforts of their many agents, the men and women around this coun-

try who do dedicated work often at risk to themselves. I think it is important for us to say we appreciate that work.

The initiatives that will be discussed today and for which we will appropriate money are as diverse as investigations into forced and child labor. That is done over in the Customs agency. Youth crime gun interdiction initiative, which is ATF. And so many others. I know that each of these agencies have some very valuable and some very important programs to discuss with us today. I look forward to hearing from them.

My hope is that we can once again, through these hearings, not only determine what kind of funding we want for the current initiatives, but to evaluate with these agencies what kind of additional initiatives might be appropriate to further complete their mission. So I want to thank them.

Mr. Johnson, welcome to you. And Mr. Kelly, Mr. Magaw, and Mr. Stafford, thank you for appearing today.

Senator CAMPBELL. Senator Kyl, I know you can only be with us a short time this morning because of a conflict. Did you have some comments?

Senator KYL. Yes, thank you, Mr. Chairman. I would advise the witnesses, unfortunately, that we are marking up the bankruptcy bill in the Judiciary Committee and that is a big deal and I am going to have to go in just a few minutes to that. But I thank you very much, Mr. Chairman. I will look forward to reading the testimony.

Senator CAMPBELL. Okay, with that we will go ahead and start. The first panel will be the Honorable James Johnson, Under Secretary of the Treasury, the Honorable Ray Kelly, Commissioner of the United States Customs Service, John Magaw, the director of the BATF, and Brian Stafford, director of the Secret Service. So why don't we just start in that order with Mr. Johnson first.

#### UNDER SECRETARY'S OPENING STATEMENT

Mr. JOHNSON. Thank you, Mr. Chairman, Senator Dorgan, Senator Kyl. It is a pleasure for me to be able to appear before you this morning to support the fiscal year 2000 budget for Treasury's law enforcement bureaus and offices. With me are the heads of each of Treasury's law enforcement bureaus, John Magaw, the director of the Bureau of Alcohol, Tobacco, and Firearms; Ray Kelly, the commissioner of the U.S. Customs Service; Ralph Basham, the director of FLETC, the Federal Law Enforcement Training Center.

And we are pleased, more than pleased, to be joined by two new members of the Treasury enforcement team, Brian Stafford, the director of the U.S. Secret Service, and James Sloan, the new director of the Financial Crimes Enforcement Network. I believe as you get to know the new members of the team you will find that we have strengthened Treasury's enforcement team with the addition of these two members. Both were appointed by the Secretary within the last month. Both bring a wealth of law enforcement experience to the challenge of their new roles.

Mr. Chairman, I would ask that my full written statement be entered into the official record of these proceedings.

Senator CAMPBELL. Without objection, all statements will be included in the record. You may all wish to abbreviate.

## TREASURY LAW ENFORCEMENT MISSION

Mr. JOHNSON. What I would like to do is take the remainder of my time to share briefly with you my thoughts summarizing that statement. And of course, I would be available for questions and to discuss the issues as we proceed.

Each year, as the world becomes a more complex place, Treasury's law enforcement mission grows in complexity, and scope, and in importance. Secretary Rubin has repeatedly noted that our bureaus must continue to meet these challenges as they perform their critical role in advancing America's law enforcement priorities, which include but are not limited to, as you noted in your opening statements, protecting our leaders, protecting our borders from drug traffickers, and our streets from the threats of bombs, arson, and gun violence, safeguarding our financial institutions from money launderers and fraud, and importantly, collecting revenue.

To ensure excellence in achieving these missions and in keeping with the spirit of the National Performance Review and the Government Performance and Results Act, Treasury continues to engage in a comprehensive, strategic management process to enhance and improve the results we deliver every day to the American people. Overall, the bureaus performances against established strategic plans have been excellent, and while not every goal was met, our results were very significant.

With the objective in mind of continuing to perform our varied mission at the highest level of excellence, the President's fiscal year 2000 budget seeks a Treasury enforcement program level of approximately \$3.5 billion, which would support 27,422 direct FTEs. This excludes, of course, the Internal Revenue Service criminal investigative division. They perform an integral role in Treasury law enforcement and their budget request is \$384.3 million which would support approximately 4,049 FTE.

We believe these budget requests take a pragmatic approach to two goals, contributing to balancing the Federal budget and supporting effective approaches to law enforcement. It is also important to note that the requested Treasury program level allows us to combat crime while depositing more than \$34 billion in revenues collections into the U.S. Treasury. This is a tremendous return on investment.

## OFFICE OF ENFORCEMENT STRATEGIC PLAN

Mr. Chairman, I will focus in the remainder of my time on two things. First, the Office of Enforcement and the goals of our five-year strategic plan developed by the bureaus in conjunction with the Office of Enforcement. This format highlights our bureaus specific requests and areas of expertise, as well as our cross-cutting expertise on financial crimes matters.

As you know, through the strategic management process, Treasury Enforcement, all of us together have developed a set of five goals that provide a comprehensive overview of our bureaus' mission: reducing the trafficking, smuggling, and use of illicit drugs; combating financial crimes and money laundering; fighting violent crime; protecting our Nation's leaders and visiting world leaders; and providing high quality training for law enforcement personnel.

The Office of Enforcement's goal is to assist our bureaus in enhancing their performance in the context of these overarching goals.

What do we do in the Office of Enforcement? We recognize that the role of our enforcement bureaus is enhanced through the support, oversight, and policy guidance provided at the departmental level. In this regard, I am pleased to report that the Office of Enforcement has worked diligently over the past year to fulfill these responsibilities.

#### OFFICE OF ENFORCEMENT—SUPPORT

I will talk first about support. As Senator Dorgan mentioned, it is often the case that the substantial contingent of Federal law enforcement within the Treasury Department is not always given as high a prominence in discussions about law enforcement. So part of our goal is to provide support for these bureaus.

Over the past year we have worked in support of each of our bureaus individual goals as well as for the advancement of issues of significance to all of the enforcement bureaus. We have done this by bringing together working groups including bureau personnel to work on challenging issues. Such working groups have addressed issues ranging from the development of a fleet management policy, to the development of an implementation plan for the demonstration pay project.

We also provide and need to provide oversight. During the course of the last year we have worked with our bureaus to identify issues before they have become problems, and to work on problems before they become crises. This subcommittee's support of the Office of Professional Responsibility is helping us to meet this goal.

Since receiving funds in the fiscal year 1998 appropriations bill, we have made considerable progress in staffing this unit, which assists in the provision of oversight on such important issues as internal affairs, training, and inspection.

#### OFFICE OF PROFESSIONAL RESPONSIBILITY

Among other things, OPR has carried out work begun by former Under Secretary Raymond Kelly by continuing to make integrity a priority. Indeed, last February, fulfilling a Congressional request, OPR issued a report on Customs' Office of Internal Affairs. This study represents a thorough and comprehensive analysis and reflects the important oversight role this subcommittee and Congress envisioned for OPR.

Additionally, during the past year OPR has worked with ATF to enhance its enforcement of firearms laws, and operations at the National Tracing Center. We have analyzed EEO and diversity issues at all of the Treasury bureaus, and participated in the implementation committee overseeing the renewal of the Federal Law Enforcement Training Center.

#### OFFICE OF ENFORCEMENT—POLICY GUIDANCE

A third major function of the Office of the Enforcement is providing policy guidance, providing leadership in the formulation and coordination of policy for Treasury Enforcement. In the last year, we have convened the financial crimes policy steering committee,

which again brings together the bureaus as well as Office of Enforcement personnel, to look at financial crimes policy across our bureaus. This group is developing a strategic response to what we believe to be a dangerous and highly profitable money laundering system, the black market peso exchange, which is a process by which Colombian narcotraffickers, drug kingpins, convert their ill-gotten dollars into ostensibly clean pesos.

The financial crimes policy steering committee is also the primary vehicle by which the Office of Enforcement is leading the development of a national strategy against money laundering.

We have taken other steps to enhance our support and oversight missions. Among other activities, we continue to work closely with Customs, with ONDCP and others, to ensure close cooperation on anti-narcotics matters. We have maintained a lead role within the Administration on the national church arson task force. And in conjunction with the ATF and the Department of Justice we have responded to the President's directive to analyze the problems on a variety of firearms issues.

On the trade and regulatory side, the Office of Enforcement has taken the lead in initiatives to streamline and modernize the regulatory and trade law enforcement operations of the enforcement bureaus.

#### HIGHLIGHTS OF LAW ENFORCEMENT BUREAU MISSIONS

You have before you the bureau heads who will go through and detail their missions. I would just like to highlight how their missions fit into our overall strategic plan.

Goal one of the strategic plan is to reduce the trafficking, smuggling, and use of illicit drugs. The Customs Service has the primary role for the Treasury Department and one of the primary roles for the Nation in interdicting drugs and other contraband at the border, and in ensuring that all goods and persons entering and exiting the United States do so in accordance with the law.

The Customs Service discovers or seizes more illegal drugs than all Federal authorities in the United States combined every single year. Customs seized over 1 million pounds of cocaine, heroin, and marijuana in fiscal year 1998, exceeding its target of 953,000 pounds.

Goal two, combating financial crimes and money laundering. One of the Treasury Department's most important missions is the fight against money laundering and financial crimes. In addition to its substantial efforts to counter illicit drugs, Customs also plays a vitally important role in combatting money laundering.

The Financial Crimes Enforcement Network also plays a significant role in Treasury's efforts to fight financial crime and to fight money laundering. As a network, FinCEN is a vital link between the law enforcement, financial, and regulatory communities. It brings together Government agencies and the private sector in this country and around the world to maximize information sharing among these communities, and thereby further efforts to prevent and detect money laundering activities.

Your support for FinCEN's fiscal year 2000 budget request, as well as your support for the Customs Service's fiscal year 2000

budget request will further strengthen the quality of our efforts in this area.

Goal three, fighting violent crime. One of the goals of the Clinton Administration has to be to reduce violent crime on our Nation's streets. During fiscal year 1998, ATF received over 180,000 gun trace requests from Federal, State, local, and international law enforcement agencies.

It also expanded its youth crime gun interdiction initiative from 17 to 27 cities. We are grateful for the support that this committee has already provided to that very important program which is designed to supplement and strengthen ATF's illegal firearms trafficking program. We ask that you support the expansion of the program for an additional 10 cities for a total of 37 cities in fiscal year 2000.

I would also like to note in this context that the efforts to fight violent crime in Treasury Enforcement bureaus extend beyond the ATF: To provide effective responses to fighting terrorist attacks; guarding against the smuggling of weapons of mass destruction; enforcing laws directed at the most common instruments of terror; protecting potential terrorist targets; and enforcing economic sanctions against countries and groups that promote terrorism.

Treasury's central role in the counter-terrorism effort is performed by the ATF, by the Secret Service, by the Customs Service, by the Office of Foreign Assets Control, by FinCEN, and by FLETC; all of our enforcement bureaus.

Our fourth goal is to protect our Nation's leaders and visiting world leaders. During fiscal year 1998, the Secret Service successfully managed protective service for its protectees as well as for several major events. In the last year, the President signed Presidential Decision Directive 62 which names the Secret Service as the lead agency for security design, planning, and implementation at designated national special security events.

During fiscal year 2000, the Service will continue its preparations for the 2000 presidential campaign and has budgeted \$35.247 million to come from the department's asset forfeiture fund to cover the cost of providing protection for the candidates and nominees involved in campaigns and the two national party conventions.

Finally, all of this would not be possible without meeting our fifth goal, which providing high quality training for law enforcement personnel. One of the reasons that the Treasury law enforcement is so successful is the quality of training that its agents receive and its inspectors receive at the Federal Law Enforcement Training Center.

Currently, 71 agencies participate in more than 200 different training programs at the FLETC. Additionally, FLETC has been involved in providing law enforcement training overseas for 20 years and has trained more than 5,000 foreign law enforcement officials for more than 102 different countries.

As reflected in this overview of bureau activities, the responsibility of Treasury law enforcement is wide-ranging. Guided by the five strategic goals set forth previously, we in our bureaus remain committed to ensuring that Treasury Enforcement remains at the vanguard of Federal law enforcement into the 21st century and beyond.

The President's budget request will enable Treasury law enforcement bureaus to work toward meeting the challenges that we all face together. I am confident that you will find this to be a responsible budget as it considers the growing demands of law enforcement in the constrained budget environment.

PREPARED STATEMENT

I would like to express my appreciation for all the support this committee has provided to Treasury Enforcement in the past, and I would be pleased, Mr. Chairman, to answer any questions that you and members of the committee have at this time or after you have heard from the Treasury Enforcement bureau heads. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF JAMES E. JOHNSON

Thank you Mr. Chairman, Senator Dorgan, and members of the Subcommittee. It is a pleasure for me to be here today to support the fiscal year 2000 budget for Treasury's law enforcement bureaus and offices.

With me today are the heads of the Treasury law enforcement bureaus: John W. Magaw, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF); Raymond W. Kelly, Commissioner of the United States Customs Service (USCS), and W. Ralph Basham, Director of the Federal Law Enforcement Training Center (FLETC). We are pleased to be joined by two new members of the Treasury Enforcement Team: Brian L. Stafford, Director of the United States Secret Service (USSS), and James F. Sloan, Director of the Financial Crimes Enforcement Network (FinCEN). Both were appointed by Secretary Rubin last month. Both bring a wealth of law enforcement experience to the challenges of their new roles.

I welcome this opportunity to share with you my thoughts on Treasury Enforcement's mission today and into the 21st century, and on how President Clinton's fiscal year 2000 budget request supports us in achieving this mission.

Each year, as the world becomes a more complex place, Treasury's law enforcement mission grows in complexity, scope and importance. Secretary Rubin has repeatedly noted that our bureaus must continue to meet these challenges as they perform their critical role in advancing America's law enforcement priorities, which include, but are not limited to, protecting our leaders, protecting our borders from drug traffickers and our streets from the threat of bombs, arson, and gun violence, safeguarding our financial institutions from money launderers and fraud, and collecting revenue.

To ensure excellence in achieving these missions, and in keeping with the spirit of the National Performance Review and the Government Performance and Results Act, Treasury continues to engage in a comprehensive strategic management process to enhance and improve the results we deliver to the American people. Overall, the bureaus' performances against established strategic plans were excellent. And while not every goal was met our results were very significant.

With the objective in mind of continuing to perform our mission at the highest level of excellence, the President's fiscal year 2000 budget seeks a Treasury Enforcement program level of \$3.5 billion and 27,422 direct FTE, excluding the Internal Revenue Service Criminal Investigation Division (IRS/CID). IRS/CID, however, does play an integral role in Treasury law enforcement efforts with its fiscal year 2000 \$384.3 million and 4,049 FTE request. We believe the President's budget request takes a pragmatic approach to two goals. On one hand, it permits Treasury to contribute substantially towards balancing the federal budget. On the other, it supports effective approaches to law enforcement. Also, it is important to note that the requested Treasury program level allows us to combat crime while depositing more than \$34 billion in revenues and collections into the U.S. Treasury. This is a tremendous return on investment.

My remarks today will focus on two things: the role of the Office of Enforcement and the goals of our five-part strategic plan that was developed by the bureaus working with the Office of Enforcement. This format highlights our bureaus' specific areas of expertise, activities and budget requests, as well as our cross-cutting expertise on financial crimes matters. During my testimony, I will highlight several key initiatives that Treasury is undertaking in the law enforcement context.

## OFFICE OF ENFORCEMENT

We recognize that the role of our enforcement bureaus is enhanced through the support, oversight and policy guidance provided at the Departmental level. In this regard, I am pleased to report that the Office of Enforcement has worked diligently over the past year to fulfill these responsibilities, and has a plan in place for maximizing such efforts over the next year.

*Support*

Over the past year, we have worked to support each of our bureaus' individual goals, as well as for the advancement of issues of significance to all of the enforcement bureaus. We have often done this by bringing together working groups including bureau personnel, to work on challenging issues. Many of these efforts are led by bureau personnel either dedicated to the project or detailed to the Office of Enforcement to work on such matters.

For example, working groups consisting of personnel from the Office of Enforcement, the Office of Management and the enforcement bureaus developed a fleet management policy that balances the needs of law enforcement with Congressional concern for assurance that vehicles are being used in conformity with sound management principles. A combined team of Enforcement and Management staff recently reported to the Subcommittee on the results of those efforts. Similarly, a working group was formed to develop an implementation plan for the demonstration pay project. It is our hope that the use of personnel interventions identified by this working group will enable us to improve our capacity to recruit, develop, and retain high-caliber employees. Finally, the Office of Enforcement, Office of Management, and enforcement bureau representatives have jointly undertaken a major effort to respond to the Congressional request that we analyze the implications of the imminent agent retirements.

*Oversight*

Over the last year we have worked with our bureaus to identify issues before they become problems, and work on problems before they become crises. The Office of Professional Responsibility (OPR) is helping us to meet this goal. Since receiving funds in the fiscal year 1998 appropriations bill, we have made considerable progress in staffing this unit, which assists in the provision of oversight on such important issues as internal affairs, training and inspection. Among other things, OPR has carried on work begun by former Under Secretary Kelly, by continuing to make integrity a priority. Indeed, last February, fulfilling a Congressional request, the Office of Enforcement issued an OPR report on Customs' Office of Internal Affairs. This study represents a thorough and comprehensive analysis and reflects the important oversight role envisioned for OPR.

Additionally, during the past year, OPR has worked with ATF to improve enforcement of the firearms laws and operations at the National Tracing Center, analyzed EEO and diversity issues at the Treasury bureaus, and participated in the Implementation Committee overseeing renewal of the FLETC. OPR also conducted an assessment of training at the Customs Service. Its findings and recommendations fully support Commissioner Kelly's decision to establish an Office of Training at the Assistant Commissioner level.

*Policy Guidance*

A third major function of the Office of Enforcement is to provide leadership in the formulation and coordination of policy for Treasury Enforcement. In this regard, in the past year, we convened the Financial Crimes Policy Steering Committee which consists of representatives from all of the Treasury Bureaus and offices, at the Assistant Director level, who are tasked with helping to formulate policy in the area of Treasury's financial crimes jurisdiction. Among other things, I have tasked this group with the development of a strategic response to what we believe to be an insidious money laundering system, the Black Market Peso Exchange, which is a process by which Colombian narco-traffickers convert their ill-gotten dollars into ostensibly clean pesos. On a broader level, this group is the primary vehicle by which the Office of Enforcement is leading the development of a nationwide strategy against money laundering.

As a former prosecutor, I understand that the effectiveness of our bureaus is constrained by the legal and administrative infrastructure under which they operate. We are working to ensure that those rules function to make our bureaus work as effectively as possible. For example, the impact of successful investigation may be undercut by Sentencing Guidelines that do not adequately reflect the severity of the crime. The Office of Enforcement and General Counsel within Treasury have been

working with our bureaus to formulate and recommend to the Sentencing Commission certain changes in the Guidelines.

The Office of Enforcement also has taken other steps to enhance its support and oversight missions. Among other activities, we continue to work closely with Customs, ONDCP, and others to ensure close cooperation on anti-narcotics matters; we have maintained a lead role within the Administration on the National Church Arson Task Force; and in conjunction with ATF and the Department of Justice, we have responded to the President's directive to analyze the problem of the gun show loophole, and remain at the forefront on firearms issues.

On the trade and regulatory side, the Office of Enforcement has taken the lead in initiatives to streamline and modernize the regulatory and trade law enforcement operations of the enforcement bureaus. In recent years, Treasury has been a major force behind changes to the way the alcoholic beverage industry and the firearms industry are regulated by ATF, re-organization of the Customs Service to provide better service to the public, re-invention of Customs' business processes for both import and export transactions, and Customs' enforcement of intellectual property laws.

More globally, the Office of Enforcement represents the United States in an initiative by the G7 governments to develop standard electronic documentation for trade among the G7 countries. This initiative will greatly simplify the experience of exporting for small U.S. companies, and it will reduce the expense of international transactions for all U.S. businesses.

Providing key support, sensible oversight, and sound policy guidance are the principles that govern the work of the Office of Enforcement. I trust they will become clear as we discuss in greater detail the implementation of Treasury Enforcement's strategic plan.

*Goal: Reduce the Trafficking, Smuggling and Use of Illicit Drugs*

Treasury brings essential counter-narcotics and money laundering expertise to the implementation of all aspects of the President's comprehensive anti-drug strategy. Customs plays a leading role in the fight against illicit drugs through our anti-smuggling efforts at the border and our substantial air support to interdict illegal narcotics at the source. Treasury's anti-narcotics role is also pursued through anti-money laundering activities, efforts to reduce narcotics-related violent crime, and demand reduction programs. The following examples highlight in greater detail the roles our individual bureaus play in Treasury's efforts to achieve the goal of reducing trafficking, smuggling, and use of illicit drugs.

The Customs Service has the primary role for the Treasury Department—and one of the primary roles for the United States—in interdicting drugs and other contraband at the border, and in ensuring that all goods and persons entering and exiting the United States do so in accordance with the law. The Customs Service discovers or seizes more illegal drugs than all federal authorities in the United States combined each year.

Customs has tremendous responsibilities. As you know, Customs must deal with significant challenges in its efforts to execute its drug interdiction mission. For example, the Customs Service processed over 460 million people, over 139 million land, air and sea carriers, and \$955 billion worth of imported merchandise. Customs performed the initial checks, processes, and enforcement functions for over 40 federal agencies and applied hundreds of laws and regulations. It performed these tasks by servicing more than 300 ports of entry sprawled across 7,000 miles of land border, and also provided air support to the U.S. Government's source control efforts in South and Central America. Customs pursued all of these enforcement missions while collecting approximately \$22 billion in revenue for the United States in the form of duties, taxes, and fees.

Customs constantly strives to improve its ability to stem the flow of drugs while dealing with the increasing volumes of cargo and passengers into and out of the United States. Indeed, the number one operational priority for the Customs Service is preventing the smuggling of narcotics into the United States. It pursues this mission through interdiction, intelligence and investigative capabilities that disrupt and dismantle smuggling organizations. Customs seized 1,116,000 pounds of illegal drugs in fiscal year 1998, exceeding its target of 953,000 pounds. Customs' increase in seizures resulted, in large measure, from Operation Brass Ring, a six month effort to increase the amount of narcotics seized.

Customs will continue to develop the capabilities to meet the ongoing smuggling threats on our southwest land border, in the Caribbean, and at all borders and ports of entry across the country. Customs also remains an active participant in multi-agency criminal investigations, and continues to strengthen its partnerships with

the private sector, cooperative foreign governments and other federal agencies in order to continue its active role to counter narcotics smuggling.

Customs' fiscal year 2000 budget proposal includes increases for integrity awareness and training initiatives, and non-intrusive inspection technology and automation, all of which will help us achieve our goal of maintaining the best possible workforce while reducing the trafficking and smuggling of illicit drugs in an effective and efficient manner.

We also are proud of such efforts as ATF's campaign against armed narcotics traffickers, through its Achilles Program, and Youth Crime Gun Interdiction Initiative, the work of all of our bureaus on HIDTA and ICDE task forces, the use of our financial crimes expertise to attack the financial underpinnings of the drug trade, and valuable prevention efforts such as ATF's GREAT program.

*Goal: Combat Financial Crimes and Money Laundering*

One of the Treasury Department's most important missions is the fight against money laundering and financial crimes. Treasury's unique structure permits us to use both our regulatory and investigative expertise to follow the money trail and thus undermine criminal enterprises. Since our last appearance before you, there have been several developments in this area. For example, as mentioned earlier, the Treasury Department, in conjunction with federal, state, local and private sector entities, is now in the final stages of developing a national money laundering strategy as directed by the Money Laundering and Financial Crimes Strategy Act of 1998. The Office of Enforcement has taken the lead role in this effort. We have reached out to other agencies as we have worked to develop the strategy, and we look forward to continuing work on its further refinement and, ultimately, its implementation. Indeed, we believe that the strategy will make an important contribution to the battle against money laundering.

We have continued to press forward with international efforts against money laundering. Last May, President Clinton announced the Administration's International Crime Control Strategy (ICCS), which includes as one of its goals countering international financial crime. Treasury's Office of Enforcement and its law enforcement bureaus played an active role in the development of the ICCS and continue to play important roles in its implementation. As advances in technology and the removal of other barriers allow money to move with increasing speed among nations, an effective, long-term anti-money laundering strategy will require other nations to adopt strong anti-money laundering measures in the legal, regulatory, and law enforcement areas. This, too, is a component part of the ICCS and an area in which FinCEN, in particular, is actively involved. Also, we have continued to strengthen the capability of our bureaus to fight money laundering in a coordinated fashion. Treasury Enforcement's Financial Crimes Steering Committee, established in 1998, brings together the full spectrum of Treasury agencies that play a role in efforts to combat financial crime. This group currently oversees an interagency working group that is developing an action plan to combat an insidious form of drug money laundering—the Colombian Black Market Peso Exchange.

In furtherance of our goal of protecting the integrity of our nation's financial systems, we are also focused on continuing to develop anti-counterfeiting strategies that employ all appropriate technological and investigatory methods to combat designers and traffickers in counterfeit currency and instruments. Working with the State Department, we are expanding the Secret Service's overseas presence to combat more effectively the burgeoning international criminal threat to our financial systems. We are also enhancing our leadership role by continuing to develop partnerships with the financial community and others in the private and public sectors. Recognizing the importance of our combined efforts to combat this problem, in 1998, Secretary Rubin asked Attorney General Reno and the Justice Department to coordinate with Treasury in working with the Sentencing Commission to review and enhance the guideline ranges for imprisonment in counterfeiting cases.

Some of our bureaus' individual efforts in the fight against money laundering and financial crimes include:

CUSTOMS SERVICE

In addition to its substantial efforts to counter illicit drugs, Customs also plays a vitally important role in combating money laundering. During fiscal year 1998, Customs' money laundering investigations resulted in 1,035 arrests and 928 criminal indictments. Its investigative strategy is focused on disrupting two key business functions that are necessary for sophisticated international money laundering operations to function: laundering profits and investing the proceeds of their criminal activity. In this context, I note the significance of Operation Casablanca, the largest drug money laundering investigation in U.S. history, which to date has resulted in

the arrests of 168 individuals. While I will defer to Commissioner Kelly to discuss the public details of this ongoing investigation, I note that this case represents a fine example of the important work that Customs is doing to eliminate the scourge of money laundering.

#### SECRET SERVICE

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

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

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

In addition to its work with the private sector, the Secret Service plays an active role in law enforcement task forces aimed at identifying and targeting fraud schemes intended to victimize individuals, banks, credit card issuers, or other financial institutions.

#### FINCEN

While Customs, Secret Service and IRS-CID are the financial crime investigators, the Financial Crimes Enforcement Network serves as Treasury's principal support arm for such investigative efforts. As its name states, FinCEN is a network, a link between the law enforcement, financial, and regulatory communities. It brings together government agencies and the private sector, in this country and around the world, to maximize information-sharing among these communities, and thereby further efforts to prevent and detect money laundering activities.

FinCEN's fiscal year 2000 budget request focuses on those programs that are at the core of its support to law enforcement: the Gateway system; direct case support to law enforcement; sophisticated research and analysis support to the regulatory and law enforcement communities; expanding the use of technology tools to research Bank Secrecy Act databases; expansion of secure communications; financial intelligence unit development; and a study to gauge the magnitude of money laundering. Your support for FinCEN's fiscal year 2000 budget request—which reflects a commitment to essential programs rather than an expansion into new initiatives—will strengthen the quality of the support that it provides to law enforcement.

#### IRS-CID

Although IRS-CID is not a part of this appropriations hearing, I want to say a few words about its important contribution to Treasury's law enforcement efforts. Fighting financial crime is a job well-suited for the special agents of IRS-CID. They are known for their ability to “follow the money trail” and stop the criminal when no one else can. IRS-CID agents are financial experts in combating money laundering and tax evasion. Their expertise is sought in investigations of all types of financial crimes, including health care fraud, pension fraud, insurance fraud, bankruptcy fraud, telemarketing fraud, gaming, narcotics, and public corruption. IRS-CID continues to play an invaluable role in Treasury Enforcement's efforts to combat the range of financial crimes facing us, and we look forward to our continued partnership with them.

*Goal: Fight Violent Crime*

One of the goals of the Clinton Administration has been to reduce violent crime in our nation's streets. Treasury is working to fight violent crime by arresting the most violent armed offenders, denying criminals and juveniles access to firearms, reducing the risk of violent crime in our communities, safeguarding the public from arson and explosive incidents and strengthening our capability to fight terrorist threats to the United States. During fiscal year 1998, ATF received over 180,000 gun trace requests from federal, state, local and international law enforcement agencies. It also expanded its Youth Crime Gun Interdiction Initiative (YCGII) from 17 to 27 cities, focusing on the sources of firearms recovered from juvenile and youthful offenders.

To safeguard the public from arson and explosives incidents, ATF maintains the highest standards of investigative expertise and state-of-the-art technology to respond most effectively to those incidents. We endeavor to prevent criminal misuse of explosives in crimes of arson through enforcement, regulation, and community outreach and investigate thefts and illegal diversion of explosives.

On the international front, we continue to work to maintain appropriate firearms importation and international illegal firearms trafficking policies and to share crime gun tracing and anti-smuggling expertise with the international community in order to combat illegal firearms trafficking.

## ATF

As will be clear from Director Magaw's testimony, ATF plays the leading role for Treasury—indeed for the entire federal government—in the fight against armed violent crime. ATF is responsible for enforcement of the federal firearms laws as well as for regulation of the firearms and explosives industries. It investigates some of the most destructive, dangerous, and controversial crimes in the United States, including bombings of abortion and family planning clinics, church arsons, illegal firearms trafficking, and other firearms and explosives violations.

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

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

Through its YCGII, which was launched by President Clinton, ATF continues its efforts to further reduce the illegal trafficking of firearms to gang offenders and juveniles. As we reported to you last year, due to the positive reception of the program in the 17 pilot cities and to ATF's first comprehensive trace analysis report designed for agents and police departments, the 10 additional cities were added to the program in fiscal year 1998. We are grateful for the support you have already provided to this program, which is designed to supplement and strengthen ATF's illegal firearms trafficking program, and ask you to support expansion of the program for an additional 10 cities (total of 37) in fiscal year 2000.

In addition, as recently announced, the Administration is working to deny prohibited persons access to firearms, including those sold at gun shows. The President's fiscal year 2000 budget includes additional resources for enhanced overall firearms law enforcement.

ATF is also renowned for its expertise in the areas of arson and explosives. Through its certified fire investigators, National and International Response Teams, accelerant and explosives detection canine program, its accredited laboratory, its arson and explosives repository, and numerous other programs, ATF maintains its role as the leader and innovator in these areas. Its expert work on the National Church Arson Task Force has helped produce a 34 percent clearance rate for the arsons under investigation, a rate that is more than twice the average rate for arson crimes in general. In late 1998, the Attorney General established the National Task Force on Violence Against Health Care Providers. This joint effort is required to effectively address the recent increase of violence against women's health care clinics and their providers nationwide.

ATF, having the largest contingency on the Task Force, contributes its expertise in arson, explosives and firearms and brings 16 years of investigating abortion clinic bombings and arson incidents. It is also an active participant in the Southeast

Bombing Task Force, which is investigating, among other things, the 1996 bombing at Olympic Park in Atlanta.

ATF assists state and local authorities with arson investigations falling under federal jurisdiction and having a significant impact on their community, particularly when the nature or extent of the problem extends beyond the available resources or expertise of the locale involved. ATF also provides training to other federal, state, and local enforcement agencies in the detection and investigation of arson, particularly arson-for-profit, and post-blast bombing investigation.

To ensure that its vital work continues in as safe and secure an environment as possible, the President's budget supports the proposed new ATF headquarters building. We ask you to support this request. Overall, the President's fiscal year 2000 budget request will enable ATF to continue its critical work in the battle against violent crime.

#### *Counterterrorism*

One essential aspect of our anti-violent crime efforts is Treasury's contribution to our nation's antiterrorism fight. Treasury enforcement bureaus have the legal authority and the essential expertise to perform missions that are critical to the success of the counterterrorism effort. Treasury's counterterrorist activities are not new, but derive from authority that Treasury has exercised for decades and from expertise developed in the course of Treasury's longstanding performance of its missions.

Treasury enforcement bureaus provide immediate and effective response to terrorist attacks, guard against the smuggling of weapons of mass destruction, enforce laws directed at the most common instruments of terror, protect potential terrorist targets, and enforce economic sanctions against countries and groups that promote terrorism. Treasury bureaus are equipped not only to respond to specific threats and attacks, but also to conduct the proactive operations within their areas of expertise that help defeat terrorist plans.

Treasury's central role in the counterterrorism effort is performed by ATF, Customs, the Secret Service, the Office of Foreign Assets Control (OFAC), the FinCEN and the FLETC. As set forth above, ATF investigates bombing and arson cases. Customs, as the lead agency responsible for enforcement of anti-smuggling laws, is charged with preventing the illegal import or export of nuclear, hazardous, or otherwise illegal materials. OFAC enforces sanctions laws, including those directed at governments that sponsor terrorism. The Secret Service is responsible for protecting the President, the Vice President, foreign dignitaries, and other designated protectees.

In addition, Treasury's unrivaled expertise on financial crime investigations provides an invaluable mechanism for sanctioning those who commit terrorist acts. The IRS/CID, the Secret Service and FinCEN figure prominently in the discovery and analysis of financial information about terrorists and their organizations. The IRS is also the sole agency responsible for investigating income tax violations, commonly committed by groups that advocate violence against the U.S. Government.

Coordination among agencies is crucial to the fight against terrorism, and law enforcement agencies throughout the federal government have always recognized and relied upon the essential work of Treasury's law enforcement bureaus. As evidenced by the response to the World Trade Center bombing, Oklahoma City bombing, and Unabomber investigation, Treasury closely coordinates with Justice and other federal, state, and local law enforcement. This coordination continues into the policy making arena, where Treasury works closely with Justice on the Attorney General's Core Agency Group against terrorism, and participates actively in the NSC's coordination groups on Weapons of Mass Destruction and counterterrorism.

#### *Goal: Protect Our Nations Leaders and Visiting World Leaders*

As I noted at the outset of my testimony, as the world becomes an increasingly more complex and dangerous place, Treasury's law enforcement mission grows in complexity as well. Treasury is striving to manage the ever-changing nature of threats by developing, acquiring and deploying necessary countermeasures. The Secret Service, as described below, continues to carry out its critical responsibility of protecting the President, the Vice President and other specially designated protectees against any potential threat.

#### SECRET SERVICE

The Secret Service must accomplish its protective and investigative missions in an increasingly dangerous society—and it has done so quite effectively. During fiscal year 1998, the Service successfully managed protective security for its protectees as well as for several major events. Importantly, last year, the President signed Presi-

dential Decision Directive 62, which names the Secret Service as the lead agency for security design, planning and implementation at designated national special security events.

The Service has also continued its efforts to combat the increasing threat from weapons of mass destruction, and is working to develop measures to ensure the safety of the President and other protectees against the threat of such weapons. In fiscal year 2000, the Secret Service looks forward to training additional chemical/biological teams to support its protective responsibilities.

Also during fiscal year 2000, the Service will continue its preparations for the 2000 Presidential campaign and has budgeted \$35,247,000 to come from the Department's Asset Forfeiture Fund to cover the costs of providing protection for the candidates and nominees involved in the campaign and the two national party conventions. The Secret Service's budget request will further advance its ability to maintain the highest level of physical protection possible for its protectees through the effective use of human resources, protective intelligence, risk assessment and technology.

*Goal: Provide High Quality Training for Law Enforcement Personnel*

Assuring the excellence of training of federal law enforcement is of vital importance to the future effectiveness of our law enforcement efforts. As the training agent for the majority of all federal law enforcement agencies, we currently have 71 agencies participating in training programs at the FLETC. We are committed to enhancing basic and in-service training programs to meet the changing needs and increasing demands of federal law enforcement as we combat increasingly sophisticated, technologically advanced and globally linked crime. Our objective is to develop and operate state-of-the-art facilities and systems responsive to interagency training needs.

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

FLETC

One of the reasons that Treasury law enforcement is so successful is the quality of training that its agents and inspectors receive at the FLETC. Since its establishment by a memorandum of understanding in 1970, FLETC has built a reputation for providing high quality, cost effective law enforcement training. As you know, there are many advantages to consolidated training for federal law enforcement personnel, not the least of which is an enormous cost savings to the government. Currently, 71 agencies participate in more than 200 different training programs at FLETC. Additionally, FLETC has been involved in providing law enforcement training overseas for over 20 years and has trained more than 5,000 foreign law enforcement officials from more than 102 different countries. We expect this growth to continue as more agencies recognize the many benefits of consolidated training. Through the National Center for State and Local Law Enforcement Training, FLETC also has been an excellent resource for providing over 50 highly specialized advanced training programs to State and local law enforcement officers within the United States. These programs include training related to hate-bias crime issues, computer and financial fraud and rural drug enforcement matters.

Over the last several years, the FLETC has seen an unprecedented increase in its workload. Current projections indicate continued workload growth for several more years. During fiscal year 1998, FLETC graduated 25,762 students representing 120,399 student-weeks of training, the largest workload in the history of the Center. In fiscal year 1999 the workload is expected to grow to 35,315 students. As Director Basham notes in his testimony, the majority of this increase is attributable to recent Congressional and Administration initiatives to control immigration along our nation's borders. Other contributing factors include counter-terrorism activity and security enhancements at federal facilities and new federal prisons coming on line.

To permit FLETC to train the law enforcement agents in the skills needed for the future, it has continued to implement its master plan for facilities. This plan was

first introduced in 1989 and when fully implemented, will permit FLETC to achieve its goal of further developing, operating, and maintaining state-of-the-art facilities and systems responsive to interagency training needs.

In addition to relying on temporary training facilities to accommodate the increased workload, the Center has also implemented a dual-shift schedule at Glynco in order to accommodate the training being requested in fiscal year 1999.

In addition to its domestic training responsibilities, the FLETC is also being called upon to play a larger and more important role in support of the Administration's and Congress' foreign policy initiatives involving the training of foreign law enforcement officials. Indeed, as Director Basham reports, foreign training requests have grown substantially in recent years, with student weeks of training increasing by almost 200 percent since 1994.

#### *Conclusion*

In summary, the Treasury Department is proud of the contributions that its law enforcement bureaus have made and continue to make to this nation. Treasury and its bureaus have defined goals and objectives to ensure our excellence in protecting our borders, fighting violent crime, defeating financial crimes and training our law enforcement agents for the challenges of countering increasingly sophisticated criminals. The fiscal year 2000 President's budget request will enable Treasury's law enforcement bureaus to meet the current challenges and to begin preparations for the challenges of the 21st century. I am confident you will find this to be a responsible budget, as it considers the growing demands of law enforcement in a constrained budget environment.

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

Thank you.

Senator CAMPBELL. Thank you, Mr. Under Secretary. You have not appeared here for a few years, but I am sure you are aware that this committee has been very supportive of all of the agencies. Since you are also on the second panel, you will just be there as support for FLETC and FinCEN, but your complete statement pretty much is the one you finished; is that correct?

Mr. JOHNSON. Yes, and it is a summary, believe it or not, of the statement that I have submitted for the record.

#### REVIEW OF THE INTEGRITY ISSUES

Senator CAMPBELL. I am sure glad of that.

Well, I think what I am going to do then is ask you a few questions, and ask Senator Dorgan to also ask some before we go to the other agencies, since your missions are all a little bit different, if that is all right with you.

Let me start by asking you about the—tell us a little bit about the office's review of integrity issues as it relates to Customs. I understand that you carried out a review independent of Customs internal review. Can you tell us about that a little bit?

Mr. JOHNSON. The review was conducted by the Office of Professional Responsibility, which is an institution within Treasury Enforcement that was initially designed by now-Commissioner Kelly. The review of integrity issues was a review that was commenced under the leadership of Ray Kelly when he was under secretary. The goal of the review, and the goal in part of all of Treasury Enforcement is to ensure that when the public interacts with us, when the public is concerned about our mission, they know that our law enforcement officers are proceeding with integrity.

There were issues raised about the management and structure of the Office of Internal Affairs, and the review primarily focused on the Office of Internal Affairs and how it carries out its functions within the Customs Service.

There were several significant findings of the review ranging from the leadership of the Office of Internal Affairs, to its interaction with the Office of Investigations and other components within the Customs Service. Its structure and location within the Customs Service management structure, initially it did not report to the commissioner of the Customs Service. It now does.

The report was transmitted not only to the Hill, but clearly to Commissioner Kelly, who continued after he moved from the position of under secretary to be very much a part of the review process. Many of the recommended changes were undertaken by Commissioner Kelly before the report was issued.

But we continue to work with the Customs Service. We continue to support Commissioner Kelly's efforts to make strong changes within the Office of Internal Affairs. For a period of 45 days I detailed a member of our staff to the Customs Service to assist with the ongoing efforts to make the Office of Internal Affairs a top flight organization.

#### FIREARMS VIOLENCE

Senator CAMPBELL. All right. On March 20th, President Clinton issued a memo to the Secretary of the Treasury and the Attorney General directing them to develop an integrated firearms violence reduction strategy, and he specifically mentioned ATF's Project Exile as an example of Federal, State, and local cooperation. In 30 seconds or less, I would like you to answer a couple of questions about that.

First of all, what is the status of the development of the plan?

Mr. JOHNSON. Right after the review was required, or rather the directive was issued, Treasury and Justice have come together, along with ATF, to continue to develop the plan based on the principles set forth in the President's directive.

Senator CAMPBELL. It is ongoing. When do you think that the final status will be completed?

Mr. JOHNSON. We were instructed to finish it within 90 days and I am going to try to meet that deadline.

Senator CAMPBELL. As you might guess, here on the Hill there is always an ongoing discussion about guns, some wanting to put more emphasis on the people owning them, and others of our colleagues wanting to put more emphasis on the people who use them. I am sure you are aware of that discussion.

I would like to know, do you envision recommending further restrictions on gun ownership?

Mr. JOHNSON. What we are looking towards and what we have done is two things. One, enhance enforcement, and the President's instruction to us asked us to enhance enforcement.

Two, there are areas, for instance, with respect to gun shows, that form a loophole by which people that we would none of us would like to see handling guns, can get guns, and we are looking to that particular problem.

## TREASURY/JUSTICE FUNDING

Senator CAMPBELL. When we look at the funding request for Treasury law enforcement compared to the Department of Justice law enforcement, in the President's fiscal year 2000 budget request, Justice has an increase of 10 percent over last year while Treasury has been reduced by 8 percent. Do you have any suggestions for ways to encourage greater parity between the agencies?

Mr. JOHNSON. This subcommittee's concern with the issue of parity is something that we have been concerned about for a long time and have fought to see that the issue of parity was injected in the budget-making process. If you look at Secretary Rubin in his testimony, if you look at the program levels of comparable functions within Treasury and Justice, there has been an effort to achieve parity between comparable program levels between Treasury and Justice.

Senator CAMPBELL. FLETC has a temporary training center that opened in Charleston, South Carolina and was supposed to be operational for three years. But the INS and the USBP demands are greater than the Glynco facility can handle so they are going to continue the operation of that facility, as you know. Let me ask you, what is being done to ensure the closure of that as it was originally planned?

Mr. JOHNSON. We are working with, and Director Basham have been working closely on this issue, not only with the INS but also with interested members of Congress who are interested in the Charleston facility.

Senator CAMPBELL. Interested in closing it or keeping it open?

Mr. JOHNSON. Who have an interest in the issue on both sides. Our goal is to close the facility.

Senator CAMPBELL. The fiscal year 2000 budget request assumes that \$140 million will be in the Treasury's forfeiture fund. How confident are you that that level of funding will be available? And what happens if the funds are not available?

Mr. JOHNSON. There is concern about various levels, issues within the budget, one of which is the funding on the forfeiture level. Our goal, as Secretary Rubin testified, in putting together the budget was to at least do our very best to make sure that the program levels are sent forward from the Administration, and the asset forfeiture figures are part of that overall process. But there is, obviously, some risk to our programs if we do not get the funding levels.

Senator CAMPBELL. Do you have some alternative plan in place if the funding level is not met?

Mr. JOHNSON. We will have to work, I believe, with the committee to go through our priorities.

Senator CAMPBELL. The FBI has requested additional funding for fiscal year 2000 for technology and personnel to accelerate investigation into computer crimes. The investigations have been conducted by the Secret Service since 1981. Does the Secret Service have sufficient resources to carry out that responsibility?

Mr. JOHNSON. The Secret Service's resources have many pressures on them. They have been carrying out this mission very effectively, and to the extent that there is concern about overlap be-

tween the FBI and the Secret Service on this particular issue, there are ongoing efforts to make sure that our two missions are not overlapping.

#### PASSENGER INSPECTIONS

Senator CAMPBELL. All right, one last question before I ask Senator Dorgan. I happened to see this on the news, but I am reminded by my notes here too, there have been some reports and allegations regarding racially biased passenger inspections by Customs inspectors, and personal search too for targeted individuals. Can you address that and tell us if those are really valid reports, and what has Customs done to remedy that?

Mr. JOHNSON. As a general matter, within Treasury Enforcement we are going to make sure that all citizens are treated fairly and appropriately and that we are not biased. Commissioner Kelly recently announced the formation of a panel that is going to address these issues, conduct fact-finding, and ensure that our passenger processing is within the highest tradition to our approach to processing—

Senator CAMPBELL. But you are reviewing it and looking at it?

Mr. JOHNSON. Yes.

Senator CAMPBELL. I probably should have referred that to Mr. Kelly, but that answer is fine.

Senator Dorgan, did you have some questions?

#### COUNTER-TERRORISM

Senator DORGAN. Mr. Chairman, just a couple of questions.

Mr. Secretary, you mentioned counter-terrorism and you indicated that the counter-terrorism enforcement activities are spread across several agencies. Can you describe for me the kinds of resources we commit to counter-terrorism and the effectiveness with which we commit those resources? And is the threat of terrorism growing? Obviously, the activities in counter-terrorism are critically important to respond to that threat.

Mr. JOHNSON. The resources that we have run the gamut of our bureaus. Within the Secret Service you have really the world's premier agency that is designed to prevent terrorist activity before it has happened, particularly as it targets our Nation's leaders, as well as visiting foreign dignitaries.

What the Secret Service does is provide safety and security at the White House, safety and security of the President and the Vice President, and the First Families when they leave their residences. The Secret Service, as a result of PDD-62 is now charged with the prevention aspect, that is terrorist prevention aspects of national security events.

Within the Customs Service you have an entity that is designed to, one, preventing terrorist materials from coming into the United States. And two, preventing weapons of mass destruction, whether or not they are military equipment, from being exported from the United States.

You have, within the ATF, a bureau that has responded to the major terrorist events that have struck the United States along—working closely with, obviously, the FBI, State and local authorities. In the World Trade Center bombing, the law enforcement offi-

cer that found the crucial piece of evidence which was a small piece of a VIN number, vehicle identification number, for the truck bomb that created that horrific damage was an ATF agent. They responded in full force to the bombing in Oklahoma City.

In the Office of Foreign Assets Control we attempt to block the assets of terrorist organizations so that they cannot be used in the United States. The Federal Law Enforcement Training Center provides training to deal with—to enhance our counter-terrorism effort.

#### CUSTOM BUDGET REQUEST

Senator DORGAN. Thank you. Let me ask about the Customs budget just for a moment. The Customs budget request, even if you consider the emergency supplemental \$276 million, but take that out as a one-time appropriation, the Customs' request I think about 10 percent below the previous year. Is that a sufficient request to fund the initiatives at Customs that we want completed?

Mr. JOHNSON. Within the challenges of this budget process, that is the request level that we could try to attempt to meet our law enforcement mission and our desire to balance the budget.

Senator DORGAN. I am going to ask Commissioner Kelly about it. And I would not expect you to come up here and not support the President's budget request, but in terms of the requirements and the mission, it just seems to me that a reduction in Customs funding is probably not what we ought to be doing at this point. But I will ask further questions of Commissioner Kelly.

#### COUNTERFEITING

One last question, if I might. The new currency that we have put in circulation, Mr. Secretary, your role is also with your agencies to deal with the counterfeit activities. Are we seeing some significant difficulties with counterfeiters with the new currency? What is your impression of that?

Mr. JOHNSON. We think the new currency contains some very important security devices to help defeat counterfeiters. That does not mean that people will not attempt to counterfeit the currency, but we think that the security devices from the color shifting ink, to the imbedded threads, and the security threads will effectively deter, or at least enable us to detect counterfeiters.

#### SUBMITTED QUESTIONS

Senator DORGAN. Mr. Johnson, thank you very much.

[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 DORGAN

##### GENERAL LAW ENFORCEMENT

##### VEHICLES

*Question.* Customs is requesting \$8,600,000 and ATF is requesting \$6,300,000 from the Treasury Forfeiture Fund for vehicle replacement. I assume that if these requests and all other agencies' requests for vehicle funding is approved the acquisition will be consistent with the vehicle management systems being established by

your office. According to the last report on the vehicle management system, your office hoped to have a contractor on board by March 30, 1999 to analyze Treasury's motor vehicle program.

Please provide a progress report on the contract.

Answer. On April 13, 1999 a contract was awarded to review and analyze the Treasury Department's law enforcement fleet motor vehicle programs in order to make recommendations concerning the functional design, implementation and operation of a Departmental vehicle management system.

#### INTERNATIONAL TRADE DATA SYSTEM

*Question.* What kind of trade related questions will the Federal Government be able to answer after ITDS is developed that we cannot answer now? Will ITDS provide data that can help in trade negotiations or in identifying potential business opportunities?

Answer. By creating a standard set of trade data elements for imports and collecting data in a standard time frame, ITDS will allow comparisons of data that cannot be made now for purposes of better policy and economic analysis, and more effective and efficient administration of trade laws. Currently, agencies' data collections differ in definitions, timing, and format, thus preventing comparisons and aggregation of data.

ITDS will allow fully electronic filing of data at the level of detail normally carried in commercial documents rather than requiring its aggregation into tariff categories. This will have two benefits: (1) questions about trade can in many cases be answered at the level of detail of a commercial invoice, the level at which the commodities are traded, and (2) accurate answers can be developed about what happened this month, this week, or yesterday, without waiting for the compilation and publication of monthly or quarterly statistics.

ITDS's use of the same data elements for both exports and imports will eliminate data incompatibility that has complicated analysis of the composition of the U.S. trade balance. In combination with agreements with other countries on standardization of data, ITDS's use of streamlined electronic data reporting mechanisms will help to reduce the under-reporting of U.S. exports that has distorted measures of the U.S. trade balance.

With respect to trade negotiations, the Office of the United States Trade Representative and the Congress would have access to the ITDS database, and the greater precision, accuracy, and timeliness it will offer. Current trade data are not ideally structured for analytical uses, and there is no single source of trade information. In the current environment, USTR and congressional staff may be required to search several different sources in order to obtain the information they need, and will encounter data incompatibilities that make it difficult to develop a coherent picture.

The need to protect confidential data from disclosure will necessarily obscure some of the finest details from business users, but the potential for improved timeliness and precision of the data for the analysis of business opportunities is still considerable. Additionally, the ITDS will provide a single window to web sites at the Department of Commerce and elsewhere with information on potential business opportunities.

*Question.* A funding request of \$5,400,000 is being requested for the International Trade Data System as part of the Customs budget. Why has funding been tied to a project that is currently experiencing some setbacks?

Answer. The fiscal year 2000 budget for ITDS is included in the Customs Service budget because the Administration's air and sea passenger processing fee proposal offset the appropriation for the ITDS as well as certain Customs Service operations. Although the ITDS complements Customs' ACE system, it is not tied to it.

*Question.* Can ITDS be funded as a stand-alone system? What is the total cost of the ITDS system?

Answer. Yes, ITDS can be funded as a stand-alone system. ITDS is designed to serve a single data collection mechanism (a common "front end") for automated systems in several Federal agencies, but it is not intended to be an integral part of any of those systems. Therefore, ITDS could serve as the data collection mechanism for the current Customs' automated commercial system, as well as the new ACE system when it comes on line. However, the overall performance of the Federal government's border clearance process, and the benefits to the trade community, will be greater if agencies to which ITDS sends data are able to build modern automated systems, such as ACE, to process the data.

The ITDS was initially projected to cost around \$250-260 million over the first five years, including both deployment, and operation and maintenance. However,

the interagency ITDS board of directors is considering other options for deploying ITDS that could significantly reduce this cost.

#### FINANCIAL MANAGEMENT ACTS

*Question.* Neither the Secret Service nor the Customs Service have substantially complied with the Federal Financial Management Improvement (not Integrity) Act (FFMIA). Is the oversight adequate to ensure that the financial compliance of the law enforcement agencies is adequate?

*Answer.* As is required under FFMIA, both the Customs Service and Secret Service have developed specific remediation plans to bring about full compliance with the law. The lack of compliance at Secret Service was brought to management's attention in late calendar 1998, a formal plan was submitted to the Department in March 1999, and suggested modifications to that plan are scheduled for completion by June 30, 1999. Full compliance should be achieved by the end of fiscal year 2000. The remediation plan prepared by Customs has been affected by funding issues attendant to development of its Automated Commercial Environment, and full compliance with FFMIA will not be possible until some level of funding has been restored. In the interim, Customs is making progress on its financial management situation as resources allow.

Yes, we believe oversight of our law enforcement bureaus is adequate to achieve compliance with FFMIA. Levels of oversight include: 1) executive management in each bureau and enforcement entity; 2) offices under the Department's Deputy Chief Financial Officer, which track progress on remediation plans to address financial management deficiencies; and 3) offices under the Under Secretary for Enforcement, which have fairly continuous involvement with all enforcement entities, as well as with other Departmental management offices, on FFMIA and all other significant issues.

#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

##### U.S. CUSTOMS SERVICE ASSET FORFEITURE PROGRAM

*Question.* Asset forfeiture programs, administered by the Customs Service and Justice, have been on GAO's "high-risk" list since the inception of the list in 1990. These programs continue to have significant weaknesses.

What is the status of Customs efforts to resolve this high-risk problem?

*Answer.* In the January 1999 GAO High Risk Series Update GAO cited three reasons Treasury remains on the high-risk list in the area of Asset Forfeitures (A through C below).

A. Treasury reported material weaknesses relating to seized property in its fiscal year 1997 Accountability Report. Customs is accountable for two—"Data in Customs Seized Property Accounting Systems are unreliable" and "Customs has problems with the integrity of data in its Fines, Penalties, and Forfeiture (FP&F) files".

*Action:* Customs expects to close both of these material weaknesses by implementing numerous enhancements to its Seized Asset and Case Tracking System (SEACATS) which will significantly improve the existing currency and property records and complete the remaining case, financial, and reporting functions necessary for data integrity in the FP&F file. The target completion date for these enhancements is September 1999.

B. For fiscal year 1997, SEACATS did not contain accurate and sufficient data to prepare the analysis of changes in forfeited and seized currency and property without substantial manual intervention and reconciliation.

*Action:* Customs was able to produce the analysis of changes in seized and forfeited property disclosure from SEACATS for fiscal year 1998, reducing the number of manual adjustments to prepare the disclosure. Information provided from SEACATS will be used to produce currency disclosure at the end of fiscal year 1999.

C. GAO continues to recommend Treasury and Justice consolidate the management and disposition of all noncash seized property to reduce administration costs.

*Action:* No action is being taken. Customs and Justice have argued against GAO's position. Current policy, as established by Congress with the creation of the Treasury Forfeiture Fund (1992) is clear that Treasury and Justice asset forfeiture programs should be managed separately. With separate and distinct financial, management, and contract structures in place for each department, consolidation would be significantly more complicated, disruptive, and costly today than in 1991.

*Question.* Have Customs and Justice found a way to cooperate in the management of their respective funds?

*Answer.* Please see response 1C above.

*Question.* Are any specific goals and measures in Customs fiscal year 2000 performance plan to resolve any remaining problems?

*Answer.* Customs expects the enhancements it plans to implement by September 1999 to resolve its problems which have contributed to Treasury remaining on the high-risk list. Please see response 1A and 1B above.

#### INFORMATION TECHNOLOGY

*Question.* An incomplete systems architecture hinders Customs ability to manage information technology investments, particularly large, mission-critical systems such as its Automated Commercial Environment system. How does Customs fiscal year 2000 performance plan specifically address this problem?

*Answer.* The focus of Customs' performance plan is on improving the overall performance of mission critical areas. This is consistent with the goals and requirements of the Government Performance and Results Act. Customs considers the management of information technology investments to be a management control issue. Material weaknesses in management control areas are addressed through other reporting vehicles such as the Customs Service Accountability Report. This report addresses requirements associated with evaluative mechanisms such as the Federal Managers Financial Integrity Act (FMFIA), the Chief Financial Officers Act, and material weaknesses identified by GAO and Inspector General audits. The Accountability Report is a public document and can be found on the Customs Service web site.

The organizational approach to measurement is that measures within the performance plan must be clearly focused on the key missions of the organization. By clearly focusing the performance plan on the mission areas, management can determine the overall mission health of the organization and use the plan to better manage mission related programs. Proliferating the performance plan with extraneous non-mission related measures and management control issues would only serve to dilute the plan's usefulness and deviate from its intended purpose.



## U.S. CUSTOMS SERVICE

### STATEMENT OF RAYMOND W. KELLY, COMMISSIONER

Senator CAMPBELL. Since we are dealing with Customs, Commissioner Kelly, why don't you go ahead and proceed?

Mr. KELLY. Chairman Campbell, Senator Dorgan, it is a pleasure for me as well to appear before the subcommittee once again, this time as the commissioner of the U.S. Customs Service. I too have an opening statement which I ask to be included in the record in its entirety.

Senator CAMPBELL. It will be included in the record, and if you will just go ahead and abbreviate your comments.

Mr. KELLY. Thank you, sir. I want to thank the committee for its consistent support of the U.S. Customs Service. Both the members and staff have been extremely helpful in making sure that Customs gets the resources it needs to carry out its mission.

### SEIZURE DATA

Last year, Customs seized more illegal drugs than any other Federal law enforcement agency, 1.35 million pounds. That is more than one million pounds of cocaine, heroin, and marijuana that will not find its way onto our streets, or into our schools and communities.

### TRADE AND PASSENGER PROCESSING

Our trade and passenger processing numbers continue to soar. Last year, Customs processed 19.7 million trade entries, 460 million passengers and pedestrians, 135 million conveyances, and \$955 billion worth of goods. Customs is getting the job done, but we are by no means resting on these positive results.

The demands of global trade and a relentless assault from drug smugglers require us to stay one step ahead in all that we do. As we look toward the future, Customs has laid out an ambitious agenda, equal to the trade and enforcement challenges of the new century.

With your help, Customs will continue to build upon the successes it has achieved over the past year. Allow me to elaborate briefly on just a few of these.

### OPERATION BRASS RING

On the narcotics front, we learned many lessons from the success of Operation Brass Ring, our major counter-smuggling initiative in 1998. Customs set a new precedent for interdiction efforts with this operation which wove together a series of innovative tactics devised by our field personnel to surprise and catch unsuspecting drug smugglers. We want to replicate the methods pioneered in Brass Ring with the \$725,000 we have requested to conduct blitz type op-

erations at land border ports. These rapid, unpublicized deployments of teams of inspectors, enforcement officers, and special agents not only catch drug smugglers off guard, they are also an effective deterrent against potential corruption.

#### OPERATION CASABLANCA

Customs concluded Operation Casablanca almost a year ago, the largest, most comprehensive drug money laundering case in the history of U.S. law enforcement. The investigation spanned five years and involved the work and dedication of more than 200 Federal agents. Casablanca resulted in 168 arrests and the indictment of three Mexican banks. Along the way, Customs seized more than \$100 million in laundered money and a combined six tons of cocaine and marijuana.

#### OUTBOUND TECHNOLOGY

For fiscal year 2000, Customs has requested an additional \$2 million for outbound technology enforcement, to obtain the tools we need to detect drug proceeds heading out of the country. Due to constrained resources, examinations are currently conducted on a very limited basis. Despite this fact, we still managed to seize more than \$68 million in outbound currency last year. The funds requested for fiscal year 2000 will help us get far more.

#### OPERATION CHESHIRE CAT

Customs is also breaking new ground in other enforcement areas. Operation Cheshire Cat led Customs agents via the World Wide Web into the diabolical world of international child pornography and sexual exploitation. What we uncovered in Cheshire Cat was an international alliance of approximately 200 sexual predators operating in 47 countries. Thirty-five search warrants were executed in this operation resulting in 13 arrests and more arrests are currently pending.

#### ACTION PLAN

As proud as we are of our enforcement accomplishments, we believe that there are some areas within our organization that need to be strengthened. We have developed a document we refer to as the action plan for 1999. It identifies the actions underway to improve Customs management and procedures in areas ranging from integrity, to training, to automation. I believe the subcommittee and subcommittee staff has copies of the action plan, but we certainly can provide updated copies if anyone wishes to see it.

#### INTEGRITY

First on our agenda is the issue of integrity, a foundation of all that we are doing at Customs. Integrity begins in our internal affairs office where we have made major changes over the last year. We named a new assistant commissioner for internal affairs; a career prosecutor with strong credentials in public integrity. Led by his office, we have established new discipline policies that will be administered in a fair, uniform, and consistent manner across Customs. Under this new system we are holding people accountable at

the highest levels of the agency for disciplining employees for misconduct.

#### TRAINING

Integrity, however, cannot be instilled through discipline alone. It must be reinforced through training and leadership. Customs has created a new office of training which will be led by an assistant commissioner. Standardized training signals our commitment to provide all our employees with the skills and expertise they need to perform their jobs in accordance with the best practices we have set for them. The \$5 million training initiative in the fiscal year 2000 budget request will cover the cost of instituting these programs for all Customs employees throughout their career cycle.

#### PERSONAL SEARCH

The issue of personal search is high on our action agenda. Last year, more than 71 million passengers passed through Customs at our Nation's airports. Customs conducted approximately 51,000 personal searches of passengers. This is a very small number in percentage terms. But anyone who is subjected to a personal search is likely to find the experience very intimidating and disturbing.

One of the first steps I took after becoming Customs commissioner was to identify ways to make the personal search process less unpleasant. Technology has played a key part in this effort. Customs has already gone online with non-intrusive body scan technology at two of the Nation's busiest airports, JFK, and Miami. These devices limit, or abolish in some cases, the need for physical contact during the personal search.

To further our efforts we are requesting \$9 million in fiscal year 2000 for additional personal search technology. This new funding will permit Customs to obtain more mobile x-ray facilities which will be placed in or near the international arrival area of our airports.

In addition, just last week, as Under Secretary Johnson said, we announced the formation of an independent commission to review our passenger search procedures. We took this action due to allegations of racial bias in the way Customs selects travelers for personal search. Customs personal search review commission, made up of prominent public leaders in race relations and Government affairs will have unfettered access to Customs personnel and facilities. The commission will spend the next three months gathering the information it needs to assess these allegations and make published recommendations to me by July 15th.

I take this matter very, very seriously. There is simply no place for bias, or even the perception of bias, in the U.S. Customs Service.

Our ongoing efforts at internal reform are taking place against the backdrop of constant efforts by drug smugglers to introduce their contraband into this country. These groups are as resilient as they are insidious. Successful dismantling of such criminal enterprises requires a balanced and comprehensive strategy; one that integrates all Customs enforcement disciplines, investigations, intelligence, air, marine, and border interdiction.

I want to thank the committee for the substantial additional funds provided in fiscal year 1999 for counter-drug operations. The funding for non-intrusive inspection technology, air, and marine interdiction, and investigations gives Customs the long overdue resources to carry out the job that Congress and the American people expect.

#### AUTOMATED COMMERCIAL ENVIRONMENT

Having said that, the initiative most important to managing Customs trade and enforcement responsibilities is in an era of exploding global trade is what we call ACE, the automated commercial environment. Our current automated system, the automated commercial system is what we call it, ACS, is simply not up to the task. It is outdated and technologically inferior; inadequate for the trades fast-paced needs. ACS must be replaced.

Our answer is the automated commercial environment. We spent the last several years working with the trades to develop the system both Customs and business need; fast, totally electronic, and in-step with industries' just-in-time demands. ACE will manage soaring volumes of goods while also ensuring improved compliance. It all adds up to better results for business, safer products for consumers, and fewer drugs crossing our borders.

ACE represents a sizeable investment and has received considerable scrutiny. We want to remove whatever doubts remain as to Customs' ability to manage and maintain this system.

To this end, we have put all the necessary safeguards in place. We have appointed a highly respected chief information officer to manage the agency's information technology operations. We have restructured our office of information and technology. We have enlisted private consultants to validate our cost estimation methods. We are now seeking the funding for a prime contractor to manage and develop an implementation of ACE. And we have engaged a congressionally-chartered Federally-funded research and development center, the Mitre Corporation, to help guide this project.

Our top priority right now is to keep the current automated commercial system operational until ACE comes online. But make no mistake about it, we need the new system and we need it soon. Nothing less than the unhindered flow of trade across our borders is at stake. We hope the committee will work with us to find a way to ensure that funding is made available for both ACS and ACE.

#### PREPARED STATEMENT

This concludes my remarks. Thank you, Mr. Chairman. I will be happy to answer any questions.

[The statement follows:]

#### PREPARED STATEMENT OF RAYMOND W. KELLY

Good morning, Mr. Chairman and Members of the Subcommittee. It is a privilege to appear before the Subcommittee today to present to you our recent accomplishments, future plans, and the fiscal year 2000 budget request. Before I begin though, I would like to personally thank you for the strong support you have continued to provide to Customs. It has been a challenging year for us and I am proud to play a part in the effort we share to protect the Nation's borders and ensure the Nation's prosperity.

Customs 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 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.

#### ACCOMPLISHMENTS

##### *Operation Casablanca*

In May 1998, Customs concluded Operation Casablanca, the largest, most comprehensive drug money laundering case in the history of U.S. law enforcement. This 3-year investigation conducted by our Los Angeles office exposed a relationship between a large number of Mexican banks and the Cali and Juarez drug cartels. This relationship allowed the drug cartels to launder their U.S. drug proceeds through accounts opened by corrupt bankers.

The case was made possible because of the extraordinary undercover work performed by Customs special agents. They posed as money couriers and Cali Cartel operatives. They were so convincing that members of the Juarez and Cali Cartels introduced them to corrupt Mexican and Venezuelan bankers, who, in turn, introduced the undercover agents to other corrupt bankers. Members of the Juarez Cartel were so confident in the undercover special agents that they introduced the agents to high level members of the Juarez Cartel.

When it was over, 26 Mexican banking officials from 12 commercial Mexican banks were indicted on charges of money laundering. Three Mexican banks, Confia, Banca Serfin, and Bancomer, and five associates of Venezuelan banks, were also indicted on money laundering charges. Through the course of the investigation, Customs special agents arrested 168 people and seized over \$100 million. In addition, Customs special agents seized over four tons of marijuana and two tons of cocaine from both cartels.

##### *Operation Cheshire Cat*

Operation Cheshire Cat, a Customs-initiated worldwide investigation into the diabolical world of international child pornography and child sexual exploitation, exposed to the world the dark side of the Internet—a side that is invasive, insidious and incalculable. This one investigative action uncovered an international alliance of approximately 200 sexual predators in 47 countries including Australia, Great Britain and the United States.

Before Operation Cheshire Cat, many people in the U.S. had a tendency to think of child pornography and child sexual exploitation as random acts involving nameless victims in some places far away from where they live. Operation Cheshire Cat proved those thoughts to be false. Forty-one search warrants were executed in big cities and small towns throughout the U.S. To date, 16 suspects have been arrested and more are anticipated. Four suspects committed suicide prior to arrest. One of the most gratifying results of this operation was that 18 children who had been sexually molested by strangers, neighbors and even their own relatives, were located and referred to social services for counseling. The ring of sexual predators identified during Operation Cheshire Cat is indicative of the level of computer expertise possessed by criminals encountered by Customs in cyberspace. This particular ring utilized advanced communication methods and even an encryption technology, developed by the KGB for use during the Cold War, to distribute its morally abhorrent smut. Such expertise and technology have greatly complicated law enforcement's activity in this area.

##### *Operation Brass Ring*

Operation Brass Ring was a 180-day enforcement effort intended to dramatically increase drug seizures and the outbound illicit proceeds generated from the narcotics business at high-risk ports of entry. Enforcement action focused on the use of innovative, unpredictable and random enforcement operations at air, sea and land border ports of entry. It was a multi-faceted partnership effort that included inspectors, special agents, and union representatives. Unique in Customs enforcement history, Operation Brass Ring was field-based and field-driven, with emphasis on local solutions to local problems and sharing of best practices nationwide. Although 42 high-risk ports were initially required to participate in Operation Brass Ring, ultimately 129 ports of entry submitted and carried out action plans as part of this historic operation.

As a result of Operation Brass Ring, total amounts of cocaine, marijuana and heroin seized from February 1 to July 31, 1998, increased by 45 percent over the same time period as the last year. The amount of marijuana seized increased by 47 percent, the amount of cocaine increased by 32 percent and the amount of heroin increased by 13 percent. Controlled deliveries skyrocketed by an incredible 100 per-

cent during the same time period. The controlled deliveries resulted in an 82 percent increase in arrests. Outbound currency seizures experienced a 59 percent increase in the amount of currency seized compared to the same time period in fiscal year 1997.

Operation Brass Ring seizures totaled 548,262 pounds of marijuana, 72,535 pounds of cocaine, and 1,280 pounds of heroin. Customs also seized \$40.6 million in outbound undeclared currency and conducted 220 controlled deliveries, resulting in 414 arrests. Customs will continue to build upon the success of this operation by capitalizing on the creativity and innovation that Operation Brass Ring engendered.

Building upon the success of Operation Brass Ring, Customs established the Joint Narcotics Interdiction Plan (JNIP). The goal of JNIP is to maintain the momentum of Operation Brass Ring and to continue the increase of narcotics and currency seized and controlled deliveries conducted. The long term goal of this initiative is to achieve a 20 percent increase in these areas over the next 4 years. This approach supports the Office of National Drug Control Policy drug interdiction plan.

The JNIP requires each Special-Agent-in-Charge (SAIC) and Customs Management Center (CMC) to submit a comprehensive narcotics interdiction plan and will include a plan for each Resident-Agent-in-Charge and Port Director in their area of responsibility. The JNIP will be agreed to and signed by each SAIC and CMC Director and will have included the National Treasury Employees Union (NTEU) in the formulation of all plans within their respective areas. Field visits and quarterly reports will be used to review the progress of the JNIP.

#### *Financial Management*

The General Accounting Office (GAO) removed Customs from its list of high-risk federal government programs this year because of the significant improvements made in our financial management. Customs, in fact, was the only agency to be removed from the list this year.

Customs demonstrated that it had addressed the weaknesses that originally contributed to its designation as a high-risk organization. These weaknesses involved revenue and trade compliance issues; asset management and control issues; core financial system issues; and computer security, access, and development issues.

The corrective actions which influenced the decision to remove the high-risk designation include: (1) receiving unqualified opinions on financial statements for the past two fiscal years; (2) statistically sampling commercial importations at ports of entry to better focus our enforcement efforts by projecting the level of the trade community's compliance with trade laws and associated loss of revenue; (3) improving the ability to detect and prevent duplicate or excessive drawback claims by enhancing the Automated Commercial System to identify those drawback claims exceeding the total amount of duty and tax paid on related import entries; and (4) aggressively pursuing collection of delinquent receivables, resulting in collections of over \$37 million. Customs currently has several ongoing initiatives which will continue to improve Customs financial management.

#### *Performance Goals Met or Exceeded*

Customs had an outstanding year in narcotics enforcement results and in currency and monetary instrument seizures. It also continued to make progress in some key trade areas. This is even more significant since the results achieved were made while processing 19.7 million entries, worth an estimated \$955 billion. This is more than 1.8 million entries above last fiscal year. Customs also processed almost 460 million passengers and pedestrians, 13.1 million more than last fiscal year, and 135 million conveyances, 4.4 million more than last fiscal year.

Seizures of heroin, cocaine, and marijuana were above expectations. We seized approximately 1.12 million pounds of these three narcotics which exceeded our goal by 167,000 pounds. These impressive results were, in part, the result of Operation Brass Ring. Overall, Customs accounted for a record number of seizures—more than 1.3 million pounds of all narcotics or controlled substances. As in past years, Customs continues to seize more illegal drugs than any other federal, state, or local law enforcement agency.

Customs also exceeded its goal for seizures of currency, bank accounts, and other monetary instruments involving financial investigations. It ended the year with seizures totaling \$362.9 million or 166 percent above projections. The culmination of Operation Casablanca contributed to this significant total with the seizure of over \$100 million from Mexican and U.S. bank accounts. Overall, Customs seized or participated in the seizure of \$426 million in currency and other monetary instruments. Of that amount, \$68.4 million was outbound undeclared currency seized at ports as it was being smuggled out of the U.S. in passenger baggage, vehicles, and cargo.

In the area of Trade Compliance, Customs successfully maintained a high compliance rate, and refined the analysis by which noncompliance is detected and addressed. Recognizing that all discrepancies are not equal, Customs convened two task forces, one internal and one in cooperation with the trade community. These groups determined the types of discrepancies to be considered materially significant, as opposed to “letter-of-the-law” discrepancies. The overall import compliance rate was maintained at 81 percent, while the compliance rate for imports in primary focus industries increased from 83 percent to 84 percent. Considering only the materially significant discrepancies, the compliance rate was 89 percent overall, and 90 percent for imports in the primary focus industries.

Customs has also undertaken a new initiative called “Focus On Non-Compliance” (FONC). This initiative analyzes resource expenditures as compared to discrepancies found, and has allowed Customs to see which efforts are paying off and which are not. This improved focus and other improvements have resulted in Customs detecting more noncompliance. Becoming more effective at finding noncompliance has the effect of lowering measured compliance levels, but results in improved compliance in the long term. These refinements make year-to-year comparisons of performance difficult at this time, but the targeted improvements in compliance achieved by Customs are significant and well-supported.

Finally, the air passengers’ compliance rate increased slightly over last year to 97.7 percent. The rate of participation in the Advance Passenger Information System by the airlines improved to 75 percent, which is 10 percent above projected results.

Customs attained these accomplishments with a remarkably high level of support from the trade community and the public. Operation Brass Ring had the support of the trade community, even though they knew that it would mean more intensive examinations of imported goods. In addition, customer surveys from the trade and the public reflect satisfaction with Customs performance.

#### AMBITIOUS AGENDA

Despite all the areas in which Customs is achieving unprecedented success, we recognize there are areas of our organization which need to be strengthened. The following are some of the areas of responsibility we will be changing in order to produce a more disciplined and effective Customs Service.

##### *Integrity*

The Office of Internal Affairs (IA) currently has changes underway to protect and enhance the integrity of Customs through various initiatives, programs, and processes. Most recently, Customs as a whole, with IA as pivotal participants, commenced a “strategy for action” to reshape our capability to swiftly and effectively address integrity violations and other allegations of misconduct. Specifically, the process for reporting allegations of misconduct has been standardized and streamlined. In addition, the manner in which IA intakes, evaluates, and processes cases has been centralized at Headquarters. Specialized training for investigators and fact-finders has been developed and is currently being conducted. Further, we have established a servicewide Discipline Review Board to ensure fair and consistent imposition of discipline in misconduct cases. Finally, we are raising to an appropriate level in the Customs organization, the authority to propose, decide, and settle disciplinary actions; thus, increasing decision-making consistency and accountability.

IA is also working to enhance an automated case management system and integration with the Disciplinary and Adverse Action Tracking System (DAATS). Systems improvements will enhance Customs efficiency in reporting and monitoring investigations and administrative inquiries. Moreover, systems enhancements will permit useful analysis of trends and timeliness and improve identification of corrective actions. The Office of Human Resources Management is making comparable changes in its DAATS, in tandem with IA. When completed, these changes will allow Customs to track all identified allegations against Customs employees, from initial allegation through investigation, resolution, and the appeals process, if invoked. These changes are a measured step to insure that aspects of timeliness and equity of treatment are components of both the public and employee view of the Customs discipline process. Design work is commencing on a replacement for the IA and Human Resources systems.

Finally, we have recently announced the selection of a new Assistant Commissioner for IA who has proven expertise as a career prosecutor and strong credentials working in the Department of Justice’s Public Integrity Sector. This new AC will give Customs the leadership and credibility necessary to ensure the most effective function of our IA operations.

*Self Inspection*

One of our highest priorities is to build management accountability and strengthen management oversight throughout Customs. We are redesigning our Management Inspection Program to establish a self-inspection framework for our managers and to increase the frequency of on-site inspections by our Management Inspections Division.

Customs has redirected the efforts of our current Management Inspection Program from conducting comprehensive inspections primarily of our ports and Special-Agents-in-Charge offices every 5 to 6 years to the development of a self inspection program. We want managers at all levels to evaluate their success in managing, assessing, reporting, and certifying the state of their operations every six months. Our Management Inspections Division will conduct inspections every 18–24 months to verify and validate the self-inspection results of every unit. The redesign is well underway. The first full self inspection by all units began in late March; inspections by our Management Inspections Division will begin in July.

*Management Accountability Model*

To ensure that the service Customs provides to the trade and the traveling public is delivered in a consistent and uniform manner, we have implemented a Management Accountability Model which strengthens the Headquarters and field organizations by establishing greater management accountability and oversight within the organization. As such, we have created clear and specific service standards for which we intend to hold our employees and managers accountable.

Our initial goal in implementing this model was to clarify managers' roles and responsibilities, improve effectiveness, achieve operational uniformity and enhance levels of service. We have accomplished this by clearly defining roles and responsibilities for Headquarters, Customs Management Centers (CMC) and Port managers; strengthening the Headquarters and CMC organizations in order to clarify lines of authority and provide greater operational oversight; holding managers accountable for their actions and operations; establishing a national Management Inspection Program; and establishing uniformity in policy dissemination, implementation, execution and oversight.

*Realigning organizational authorities*

Because Customs aviation and marine programs have such complementary missions, it is critical that the activities of these two interdiction components be coordinated. This is essential to ensure the employment of a cohesive interdiction strategy necessary to fulfill the Customs mission in support of the National Drug Control Strategy. In recognition of this, Customs is consolidating its Aviation and Marine Programs. The intent of this consolidation is to provide a better integrated, more efficient, and robust interdiction capability. Beginning in calendar year 1999, the Aviation and Marine Program began implementing an ambitious strategy to improve its efforts to combat marine smuggling through the creation of a unified Air and Marine Interdiction Division. Currently comprised of 114 operational aircraft and 87 vessels, the mandate of Customs Air and Marine Interdiction Program is to disrupt the flow of drugs and other contraband into the United States by vessel and/or aircraft.

This mission will be accomplished through implementation of a three-pronged, intelligence, interdiction and investigative approach. This approach is already in use for aviation interdiction and will now encompass the marine threat as well, which is complemented by our ongoing coordination with the U.S. Coast Guard.

Customs aviation assets and personnel will continue to support the President's International Drug Control Strategy, Ambassadors and Country Teams by providing detection and monitoring, interceptor support and training for employment in Mexico, Central and South America, and the Caribbean.

In order to enhance the effectiveness and efficiency of the Office of Investigations (OI), three new SES Headquarters positions (Executive Directors, East, Central and West) were recently created. Responsibilities include overseeing and directing the investigative activities of all domestic field offices (Special Agent in Charge Offices). Another recent change included the creation of another SES Headquarters position: Executive Director for Investigative Programs whose responsibilities will include overseeing all Headquarters functions (Fraud, Strategic, Cybersmuggling, Financial, Smuggling and Investigative Programs). OI realigned organizational authority by having these four positions, along with the Executive Director, Foreign Operations Division, report directly to the Deputy Assistant Commissioner, OI. This change in itself has strengthened oversight of and coordination between foreign and domestic offices.

Recent changes within the Office of Intelligence and Communications include creating a new Communications Branch to administer and manage the Customs Wireless Communications Program from the Headquarters level; adding line authority over the Area Intelligence Units (AIUs), which currently report to SAIC Offices, and adding functional authority over the Intelligence Collection and Analysis Teams (ICATS).

#### *Training/professionalism*

Professionalism means knowing your job, performing it well, and with courtesy. Customs regularly reviews its operations and training programs to ensure that our officers maintain a high level of professionalism. We have developed Passenger Interview and Vehicle Inspection Technique training for our land border inspectors. This program reviews the skills necessary to identify high-risk vehicles and passengers, and officer safety issues. It also provides training on how to prevent search inquiries from becoming confrontational.

Passenger Enforcement Rover Training is conducted for inspectors from all over the country at Miami and JFK Airports to improve observational analysis and interview skills. The training has been developed and is delivered by our most successful enforcement inspectors. This training has generated a number of significant seizures by the inspectors within days of returning to their home ports.

National Outbound Airport Currency Interdiction Training is being conducted to improve outbound inspectors' exam and interview skills. The training was developed and is delivered by the outbound inspectors at JFK. Inspectors attending the training have subsequently been involved in significant seizures upon return to their home ports. One example is the seizure of more than \$1.6 million in outbound currency at Chicago O'Hare Airport. In addition, land border inspectors from Ports of Entry across the country travel to the Port of Nogales, AZ, to receive training that will improve their targeting, examination, and interview skills.

To draw upon outside expertise, Customs has contracted with the International Association of Chiefs of Police (IACP) to provide two major programs to our workforce. The IACP is presenting cultural awareness training to inspectors at the top 15 airports, where 84 percent of our passengers are processed. IACP has also begun training in decision-making for inspectors along the Southwest Border. This training enhances their ability to respond appropriately to violent, potentially life-threatening situations.

In addition, Customs is establishing an Assistant Commissioner for Training and Development to provide leadership and direction to all Customs training programs and personnel engaged in training activities. All training and development activities, including technical training and support, specialty training, and supervisory and managerial development, will report to the Assistant Commissioner. The office will continue to rely on operating functions to ensure that mission-related training is provided, and on expertise outside of Customs to adapt the best practices for Customs use.

#### *Focus on the Recruitment of the Best*

Quality Recruitment provides an effective process for hiring the best qualified candidates. It includes utilizing multiple screening stages which rely upon objective, quantifiable data; using an electronic rather than paper process, and targeting an applicant pool with reasoning skills needed for the new millennium. The process, which is currently being used for entry level inspector, canine enforcement officer and pilot positions, will be implemented for agents in the near future.

Quality Recruitment will result in the availability of a diverse applicant pool of highly qualified candidates for entry level inspector, canine enforcement positions, agent and pilot positions. As a result, the quality of the Customs workforce will increase, thereby better enabling Customs to accomplish its mission.

#### *Customer Service*

Customs has begun a number of activities to improve the public's understanding of our processes and authorities. We are developing improved informational outlets and working with airport authorities to put up signs that will better explain our authorities and travelers' rights. We will post instructions for registering complaints at the time of the incident or by mail or phone, and we have made comment cards available in the inspection area. These improvements will also be incorporated at our land border facilities.

As part of the Border Coordination Initiative (BCI) to address our southern land border, Customs and the Immigration and Naturalization Service are working to establish queue time standards that give inspectors sufficient time to accomplish their respective enforcement missions while providing predictable service to the traveling public. We are establishing partnerships with the communities to foster a better ap-

preciation of our enforcement responsibilities and agreement on how the wait times are measured.

At international airports we continue to meet the goal of releasing 95 percent of compliant travelers within 5 minutes of baggage claim. We continue to enhance the Passenger Service Representative program to ensure that traveler complaints can be handled on-the-spot.

A Customer Satisfaction Unit has been established at Customs Headquarters to monitor all complaint and complimentary correspondence and phone calls. We will track and analyze complaints and ensure that corrective actions are taken if there is a recurring problem or a disproportionate number from a given location. We are also in the process of implementing a 1-800 number for people to call with any questions about Customs matters. The personnel assigned to this unit will have broad knowledge of our processes and will ensure the appropriate routing of a call that they cannot personally answer.

Customs has conducted 356 formal workshops around the country for exporters and shippers (over 11,000 participants) to make them aware of export laws, rules, regulations, and port procedures. Individual contacts are also made with freight forwarders and consolidators, exporters, carriers, etc., to discuss specific and general export issues.

Our responsiveness to information requests from the public will be reflected by the "Contact Us" feature of the Customs Web site, which will permit Web visitors to comment, ask questions, or request information by means of electronic mail. This service will be established in the next few months. Also, the Customs Electronic Bulletin Board (CEBB), long utilized by the trade as an information resource, has been linked to the Customs Web site to make access even easier by more persons.

On the local level, a test program is underway in five ports (Champlain, NY; Charleston, SC; Nogales, AZ; Orlando, FL; and San Francisco, CA) in which Internet electronic mailboxes have been established for port directors at these locations, and these e-mail addresses published on the Customs Web site. The public and the trade are being encouraged to communicate with these port directors on issues of local concern and for requests for locally specific information. If successful, this program will be expanded to all service ports.

#### PARTNERSHIPS

Customs has established important partnerships with groups both in the private and public sectors. We continue to work in partnership with the National Treasury Employees Union (NTEU) on a number of issues facing Customs. While there are always issues on which union and management disagree, we have found the partnership to be a productive effort. We have gained invaluable employee input into our decision making process, allowing us to tap into the wealth of firsthand experience our people on the front line have. This input has resulted in better decisions on our part, and improved operations.

One of the most successful examples of partnership was Operation Brass Ring which focused on aggressive, unpredictable, multi functional action plans proposed, designed, and implemented at the field level in cooperation with the NTEU. These plans were developed by Port Partnership Councils in conjunction with field offices of the Office of Investigations. Partnerships, such as Operation Brass Ring and the ones discussed below, are critical to the success of Customs mission in securing our borders without impeding the flow of legitimate trade.

#### *Border Coordination Initiative*

The Border Coordination Initiative (BCI) is a tactical plan developed by the Immigration and Naturalization Service (INS) and Customs in partnership to increase cooperation on the Southwest Border and to enhance the interdiction of drugs, illegal aliens, and other contraband. The purpose of the BCI is to create a seamless process at and between land border ports of entry by building a comprehensive, integrated border management system that effectively achieves the mission of each agency.

During the past year, INS and Customs have built a strong platform of cooperation based on eight core initiatives: Port Management, Investigations, Intelligence, Technology, Communications and Aviation/Marine, Integrity and Performance/Budget. BCI will give direction to those efforts over the next five years.

The drug and illegal immigration threat on the Southwest Border is the initial focus. However, as the BCI builds momentum and generates the anticipated results, we will expand it to other locations. A joint Office of Border Coordination has been established with both INS and Customs. Two Border Coordinators are responsible for overseeing border operations and ensuring the implementation of the BCI Action Plans. The unions at both agencies have also been involved, in partnership, in these activities.

*Industry*

In addition, Customs continued to expand its "Industry Partnership" programs with the development of the Americas Counter Smuggling Initiative (ACSI). Building upon the successes of the Carrier Initiative Program (CIP) and the Business Anti-Smuggling Coalition (BASC), ACSI will strengthen and expand Customs anti-narcotic security programs throughout Central and South America. These programs allow Customs to work with the trade community, both domestic and foreign, to reduce the ability of drug smugglers to compromise legitimate commercial shipments and conveyances. During fiscal year 1998, information from these programs resulted in 136 domestic and foreign seizures and interceptions totaling 63,882 pounds of narcotics.

## LONG-TERM COMMITMENT TO THE AUTOMATED COMMERCIAL ENVIRONMENT

Investments in trade modernization remain a priority for Customs. Continued reliance on the sixteen year old Automated Commercial System (ACS) will subject both Customs and the trade to risks of degraded service. ACS relies on old technology that is costly to maintain and is not conducive to supporting the requirements of the re-engineered trade compliance process. In the period from mid-September 1998 through early-March 1999, ACS experienced significant processing slow downs that adversely affected the trade's ability to process entries quickly and cost-effectively. Recent investments at the Customs data center will alleviate the problems in the short term. However, we can anticipate reoccurrences of these problems without additional and substantial investments at our data center; in a modernized data network technology; and in personal computers and desktop software to support our field personnel.

Customs remains committed to the development of the Automated Commercial Environment (ACE) as the commercial system for the 21st century. ACE is necessary to: cope with 10 percent annual growth in international trade; meet legislative requirements for informed compliance and for improved financial controls over the nearly \$20 billion in duties collected annually; and meet the requirements articulated by the trade and Customs field personnel as part of the trade process re-engineering effort.

Given the size of the investment that ACE represents, it has received substantial scrutiny. As a result, a number of issues have been raised about Customs ability to justify such a large project and to manage it successfully.

Customs takes these concerns seriously and has taken or commits to take a series of actions to strengthen its ability to manage ACE and all other information technology projects and to improve the justification for the large investment that is required.

To improve project management, Customs:

- Hired a Chief Information Officer (CIO) with extensive experience in enterprise architecture and major systems acquisition.
- Reorganized the Office of Information Technology to provide for improved accountability and program control. An important element of the reorganization was the establishment of staff offices for Technology and Architecture, Strategic Planning, Program Monitoring, and Resource Management that are responsible to the CIO for: improved investment management; further progress on the enterprise architecture; enhanced controls over software development; and the development and implementation of software process improvement plans.
- Entered into negotiations with a Federally Funded Research and Development Center (FFRDC) to acquire critical support in the areas of strategic management, acquisition support, program management, technical management, and evaluation and audit. Customs expects to be able to have the FFRDC on-board in May.
- Plans to acquire the services of a prime contractor to help plan, implement, and manage its information technology modernization efforts. The contractor will be responsible for implementing mature software development processes which Customs will adopt, and will assume the risks associated with delivering functional components of ACE and other software projects. Modeled after the experience of the Internal Revenue Service in addressing concerns about its tax modernization efforts, Customs will utilize the experience of the FFRDC from initial acquisition strategy development through solicitation development and source selection, award and contract management, to include support to Customs in overseeing prime contractor performance. Customs intends to give this the highest priority with the goal of having a contract in place within 12 months from the time of initiation. However, before the contract process begins, Customs needs a commitment on a reliable source of funding.

To improve the justification for the investment in ACE, Customs:

- Engaged a contractor to update and improve the Automated Commercial Environment (ACE) cost-benefit analysis (CBA) which will be available for external review in the coming weeks. This CBA will incorporate analytical approaches responsive to direction previously provided by General Accounting Office staff, including reflecting use of the International Trade Data System as the trade interface for ACE. However, Customs recognizes that still more work is required beyond the current effort and commits to follow-on work that will (a) analyze the costs and benefits of ACE functional increments; and (b) rigorously analyze alternative approaches to building ACE.
- Engaged Klynveld Peat Marwick Goerdeler Limited Liability Partnership (KPMG) to provide an independent review of Customs methodology and assumptions for software development and infrastructure costs. KPMG's preliminary review found our approaches for cost estimation to be sound and appropriate. KPMG is now reviewing the completed CBA referenced above and advising on the follow-on work.
- Will complete the enterprise architecture work regarding its trade compliance process in May 1999. As part of its investment management process, Customs has initiated a documented review process that ensures that all proposed investments comply with its architecture standards and are not redundant of other information technology projects.

Before leaving the issue of justifying the investment in ACE, an important point should be made. The continuing controversy surrounding ACE is masking the issue of making the necessary investments in infrastructure modernization that are required to meet Customs mission responsibilities. Approximately 54 percent of estimated costs associated with ACE are for software development and maintenance over an eight year period. The rest of the investment is required to replace an outdated and problem plagued data network, to acquire additional computing capacity at the Customs data center, and to provide for regular updating of desktop computing capabilities necessary to stay abreast of rapidly changing technology. Almost all of these infrastructure investments are necessary even if Customs is forced to continue to rely on the outdated ACS.

Customs inability to invest in infrastructure modernization is also adversely affecting its ability to implement targeting systems to better combat narcotics smuggling, better screen international travelers, and provide automated mission support to achieve improved management controls and operational efficiencies.

The actions listed above are in progress and demonstrate Customs commitment to improve its management of information technology. These actions reflect Customs recognition of the concerns and we are working vigorously to correct them.

#### NARCOTICS ENFORCEMENT

The demand for illegal drugs in the U.S. remains strong. In response, drug smuggling organizations continue to introduce their contraband into our country using every conceivable route and method. Drugs entering the country through the Southwest Border, South Florida, and Puerto Rico are transported to distribution and control centers in major cities like New York, Chicago, Miami, and Los Angeles. Unchecked and allowed to flourish, drug trafficking organizations bring with them violent crime, public corruption, money laundering, and the socially crippling effects of drug abuse.

Drug smuggling organizations are as resilient as they are insidious. Successful dismantling of such criminal enterprises requires a balanced and comprehensive strategy, one that interfaces the functions of all Customs enforcement disciplines: investigations, intelligence, air and marine operations, and interdiction. Our strategy exploits the interrelationship of drug transportation and distribution by building an "Investigative Bridge" between border smuggling activity and criminal organizations located inland. We build this bridge each time the seizure of illegal drugs at the border leads to the identification of the controlling criminal organization hundreds of miles inland. We build it again when investigation of a trafficking group in an inland city leads to a drug seizure on the border. Controlled deliveries, undercover operations, and Title III investigations are our primary inroads into drug smuggling organizations. These tools complement and solidify the Investigative Bridge.

It sounds simple and it really is. Customs recognizes that neither interdiction nor investigations individually add up to effective drug enforcement. Only by integrating the two processes can we put forth our best efforts in stemming the flow of drugs across our borders.

Between our regular appropriations and the emergency supplemental, Customs received substantial additional funding in fiscal year 1999 to enhance our counterdrug operations. In the investigative area, this money will enable us to fill 27 new agent positions and to purchase radios, firearms, protective vests and vehicles for these new positions. The funding we received for our Marine Program will allow us to repair and outfit two Bluewater Vessels in inventory in South Florida, outfit one 47 foot Bluewater Vessel in New Orleans that was acquired from the Coast Guard and develop and construct a NightCat 40 foot Interceptor Vessel. The \$80 million received for Non-Intrusive Inspection Technology enabled Customs to accelerate its Five Year Technology Acquisition Plan for the Southern Tier. In addition, the \$10 million provided for Port Integrity will be used to not only stop the flow of drugs, but combat internal cargo conspiracies and cargo theft.

The 1999 emergency supplemental provided \$186 million for Air Program enhancements; \$153 million of which is to fund the procurement of 6 additional P-3 aircraft. The current schedule calls for an October and December 2000 delivery of the two P-3 AEW aircraft. Delivery of the 4 new P-3 "Slicks" is scheduled to begin in early- to mid-fiscal year 2001 at a rate of one every four months.

#### CHILD LABOR

Addressing the illegal importation of merchandise manufactured or produced with forced or bonded child labor is one of the most difficult tasks faced by Customs. Customs is pursuing a thorough, impartial and aggressive policy towards imports suspected of being produced with forced child labor.

In recent months, special agents have visited Indonesia, Nepal, India, and Pakistan to meet with foreign government officials, non-government organizations and industry representatives on this very sensitive issue. Foreign law enforcement and other government agencies have stated their desire to work with Customs.

Our public outreach program thus far has included mass mailings to U.S. importers of merchandise, often associated with forced child labor, advertisements in trade publications, participation in trade shows, presentations on the Customs Webpage and various press releases in print and television in the U.S. and several other countries. Additionally, our forced child labor special agents are meeting regularly with various non-government agencies that monitor child labor and other human rights violations in an effort to address issues as they arise.

Our actions are beginning to bear fruit. Customs has identified some manufacturers of hand-knotted carpets who are believed to have produced carpets with forced child labor. Detention orders are in place to stop imports from those manufacturers at our borders. Should an importation from one of these manufacturers be attempted, Customs will require a certificate from the manufacturer stating that the goods were not produced with forced child labor. Customs will investigate the validity of the certificate submitted by the manufacturer. If the investigation substantiates the certificate, the goods will be allowed into the U.S. If the certificate proves to be false, we will not allow the goods to enter the U.S and will continue our investigation for any potential criminal or civil violations.

Increased staffing will soon be in place in several of our foreign offices. Special agents have been added to our Bangkok, Hong Kong and Montevideo offices. These additional special agents will be dedicated to investigating allegations, and training and working jointly with foreign law enforcement agencies to address the child labor issue.

#### MONEY LAUNDERING

Customs has a broad grant of authority to conduct international financial crime and money laundering investigations. Jurisdiction is triggered by the illegal movement of criminal funds, services, or merchandise across our national borders and is applied pursuant to the authority under the Bank Secrecy Act, the Money Laundering Control Act and other Customs laws. Combined with our border search authority, Customs formidable enforcement efforts focus on the most significant international criminal organizations, whose corrupt influence often impacts global trade, economic and financial systems. Customs enforcement efforts are not limited to drug related money laundering; they extend to the proceeds of all crime.

Customs has implemented an aggressive strategy to combat money laundering. 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, unique to Treasury, that dismantle and disrupt systems, organizations and industries that launder ill gotten gains. Applying these techniques, New York's El Dorado

Task Force, led by Customs, had tremendous success in removing and preventing the wire remitter industry from being exploited by drug kingpins to launder money.

Customs also continues to pursue an aggressive program of undercover investigations directed at money launderers. The two largest single seizures of cash in the history of Federal law enforcement were made as a result of Operation Casacam in Miami and Operation Omega in Los Angeles. Together, these two seizures totaled over \$41 million in cash. Moreover, it was Customs undercover operations that first exposed the criminal laundering activities of both Bank of Credit and Commerce International and American Express Bank International. And last May, Customs concluded Operation Casablanca, the largest, most significant drug money laundering investigation in the history of U.S. law enforcement.

Customs operates the Money Laundering Coordination Center (MLCC) which has gone on-line this year. Physically located at FinCEN, and staffed by special agents and intelligence analysts, the MLCC is designed to coordinate intelligence between all U.S. Customs undercover money laundering investigations. It will be opened up to other agencies in the future. The MLCC will also be instrumental in developing a strategy to combat the black market peso exchange which has been described as the single most efficient and extensive money laundering system in the Western hemisphere.

With funding approved by the Treasury Executive Office of Asset Forfeiture, Customs has trained and equipped 19 highly specialized Asset Identification and Removal groups consisting of special agents, auditors and data analysts. These groups, established throughout the United States, are designed to identify, track, and seize the assets of criminals and their organizations. They are responsible for the seizure of over \$172 million in the past three years and have been integral to high profile investigations such as the Ruiz Maseiu case and Operation Casablanca.

As we look toward the future, Customs plans on continuing to work in concert with other Treasury and federal agencies to dismantle and disrupt the systems used by international criminal organizations.

#### ANTI-TERRORISM

Equally challenging is our responsibility to protect the American public from the threat of international terrorism. Easier access to sophisticated technologies, including weapons of mass destruction, means that the destructive power available to terrorists is greater than ever. Customs is the first line of defense at our Nation's borders to prevent the introduction of weapons of mass destruction and other instruments of terror into the U.S. from abroad, and to prevent international terrorists from obtaining weapons of mass destruction technologies and materials, funds, and other support from sources in the U.S.

Customs is active on a number of fronts to combat this threat. We are developing and deploying examination technologies, such as radiation detection equipment, to our ports for use in detecting and interdicting nuclear, chemical and biological materials in international shipments. We work in partnership with the Federal Aviation Administration and the airline industry to enhance security on international flights originating in the United States. We aggressively enforce U.S. export laws to prevent the illegal export of arms, military equipment and dual use technologies to proliferous countries and terrorist groups, and enforce U.S. economic sanctions to deny funds and other support to international terrorists. We actively participate in Department of Justice-sponsored Joint Terrorism Task Forces.

Among the results of our strategic investigations this year, were the convictions of two weapons traffickers who not only had negotiated the sale of Russian-produced, shoulder fired surface to air missiles to undercover Customs special agents, but who had indicated they could also supply tactical nuclear weapons stolen from the Former Soviet Union. Also, indictments were handed down against seven individuals for weapons smuggling charges after members of the group were intercepted en route to South America in an attempt to assassinate Cuban president Fidel Castro.

Customs also has a leadership role in working in partnership with our counterparts in foreign customs and law enforcement agencies in strengthening export control and law enforcement programs to deny weapons of mass destruction and other support to international terrorists. We provide training and technical assistance to the countries of the Former Soviet Union and South East Europe under the U.S. Customs/Department of Defense Counter Proliferation Program. And we co-chair joint U.S./Russian working groups coordinating customs and law enforcement matters related to non-proliferation and export control.

The threat of international terrorism is perhaps one of the most serious national security threats emerging as we enter the 21st century. Customs is at the forefront

of our Nation's efforts to address this threat. We are committed to providing the tools and the training necessary to our Customs inspectors and special agents to enable them to meet these challenges.

#### CYBERCRIME/CHILD PORNOGRAPHY

As we are all aware, technology, particularly in the realm of electronic information and communication technology, continues to advance at an astonishing rate. We see the results of such advancements in everything we do. We can talk to virtually anyone anywhere via e-mail; we can research any topic via the Internet from the warmth and comfort of our living rooms; and we can even order groceries from the neighborhood food market without ever leaving our homes. The same technology that provides us with the seeming sense of security that we get from being able to do so much over our home-based personal computers is the very same technology that allows the criminal element to penetrate even the most secure of our homes. Cyberspace recognizes no borders, no sovereignty, and no walls or doors. Neither does cybercrime.

Without exception, violations of all of the over 400 laws enforced by Customs can, in some way, be abetted through the use of cyberspace. Indeed, three violations investigated by Customs, money laundering, Intellectual Property Rights violations, and child pornography/child sexual exploitation, can actually be committed via the Internet. Although money laundering and Intellectual Property Rights violations impact greatly the economic fabric of our Nation, it is child pornography and child sexual exploitation that tear at the moral fabric of our Nation and our future.

For this reason, Customs has established the Customs CyberSmuggling Center in Fairfax, Virginia. The Customs CyberSmuggling Center is tasked with conducting all cyberspace-based investigations on behalf of Customs. In addition, the CyberSmuggling Center is providing training to thousands of Federal, state, local, and foreign law enforcement officers annually. In fiscal year 1998 alone, the CyberSmuggling Center trained over 3,000 law enforcement officers from four continents.

Cybercrime is the newest challenge for law enforcement. Hardest hit by cybercrime are the holders of trademarks and copyrights. The actual losses attributed to counterfeiting and piracy can severely impact our economic stability if the problem is not adequately addressed. Customs and FBI co-chair the National Security Counsel (NSC), Special Coordinating Subgroup on Intellectual Property Rights and Trade Related Crime. As a result of the work being conducted by the subgroup, the NSC has requested a proposal for a single agency to be responsible for the coordination of all U.S. government activities in this area.

Customs has proposed, through the NSC, to take the lead and responsibility for coordinating these efforts. We are proposing a multiagency effort to address law enforcement, training, intelligence and policy for the U.S., both domestically and internationally. This coordination effort will also include representatives from industry and trade groups as appropriate.

#### TECHNOLOGY FOR BETTER ENFORCEMENT AND TARGETING

In implementing our Five-Year Technology Acquisition Plan for the Southern Tier, we have sought to steadily increase the risk of detection across the Southern Tier from San Diego to San Juan. Without this across-the-frontier approach, our enforcement efforts in one area will be mitigated by the smugglers' ability to rapidly shift operations to an area where the threat of detection is lower. What remains however, is to begin installing this technology at high-risk ports elsewhere in the country, ports like Charleston, SC, where last fiscal year we had a seizure of almost 3,100 pounds of cocaine; and Newark, NJ, where we have historically seen commercial quantities of both marijuana and cocaine. We have started to look beyond the Southern Tier, to install automated targeting systems and other technology.

With the increased funding we received in fiscal year 1999, Customs is aggressively pursuing a mix of technologies designed to complement one another and present a layered defense to smuggling attempts. Some of the technologies we are currently testing and evaluating include a mobile truck x-ray which has the same or better capabilities as our fixed-site truck x-rays and has the added benefit of over-the-road mobility allowing us to use it at several ports. This introduces more unpredictability into our operations since the smuggler can never be sure where the x-ray will show up next. In addition, a gamma-ray inspection system has been developed for trucks, other vehicles and railcars.

Customs has been a good steward of the funding provided by the Congress. We are nearing completion of the truck x-ray system installation program. Seven of the nine systems are installed and have proven to be an effective law enforcement tool

for the interdiction of smuggled drugs. In fact, the top five seizures made using these truck x-ray systems amount to almost 13,000 pounds of drugs. Customs is also seeing a decrease in the number of inspections per seizure giving us a preliminary indication that the x-rays are becoming the force multiplier we envisioned them to be. We have also fielded two mobile truck x-rays with two more prototypes in development.

#### *Land Border Automation*

We are working with our counterparts in the Immigration and Naturalization Service to install license plate readers (LPRs) and automated permit ports (APPs) and replace the terminals used by the inspectors to query the Interagency Border Inspection System (IBIS) database. Southwest Border ports and the major crossings on the Northern Border will also receive this LPR equipment. LPRs have the capability to count the number of vehicles, identify stolen vehicles, and identify vehicles which are positive IBIS hits. LPRs will allow Customs to gather intelligence from the data, plus data mining will enhance inbound and outbound targeting.

One type of APP being tested at several locations along the Northern Border is the Remote Video Inspection System. This combination of card reader, video and audio technology allows travelers to cross at small, remote locations when there is no inspector on duty. Canada is installing a similar system at the adjacent ports to our test sites.

Inspectors have at their disposal a wide range of technology and tools including the large truck x-rays, pallet x-rays, optical fiberscopes, laser rangefinders, and portable contraband detectors (a.k.a. busters) to name a few. What must be remembered is that without the consistent funding to operate and maintain these technologies in Customs base, the benefits will be short-lived.

#### *Compliance Measurement Examination data collection process (COMPEX)*

Customs uses the Compliance Measurement Examination data collection process (COMPEX), a random selection program in operation at major airports and nearly all land border ports to determine the overall compliance rate of arriving passengers and the threat at each location. We continue to work with the ports to reduce the burden of collecting the information and improve the data quality. We will be working to develop COMPEX for passengers arriving at small airports and by vessel, train, or bus, as well as COMPEX for outbound airport passengers.

#### *Anti-proliferation / Anti-terrorism*

Using the Nunn-Lugar anti-proliferation funding, and working jointly with the Department of Defense, Customs is evaluating technology to provide our inspectors with a device that not only quantifies the presence of radiation, but can classify the source of the radiation against a database to tell the inspector if the source is medical, industrial, or weapon-related material.

We have also fielded approximately 1,500 personnel radiation detectors (a.k.a. radiation pagers) with the eventual goal of deploying 3,800 around the country. We are installing radiation detector equipment in all Customs x-ray systems thereby providing a simultaneous screening for contraband and drugs as well as undeclared radioactive material.

Better technology will allow Customs to maximize the efforts of the limited number of outbound inspectors. Better technology will allow inspectors to "target smarter" and with less wait-time for the traveling public and trade. Technology can be utilized to target undeclared outbound currency, stolen vehicles, munitions, and items which may pose a risk to aviation safety and security.

To support antiterrorism and aviation safety and security efforts at 17 of the largest international airports, Customs has spent approximately \$18 million of the \$35.2 million authorized under the 1996 Omnibus Appropriation to purchase and so far deploy the following equipment: 24 mobile x-ray vans equipped with explosive and radiation technology; 18 mobile support system airport tool trucks that provide inspectors the necessary tools to inspect cargo; 11 portable x-ray systems and 12 particle detectors capable of detecting trace amounts of explosives for mail/courier facilities; and 675 radiation pagers to address the threat of nuclear smuggling. Customs is currently working toward identifying additional non-intrusive inspection systems that can be purchased with the approximately \$17 million remaining in "no year" funds to support aviation safety and security.

#### *Automated Targeting Systems*

The Automated Targeting System for Anti-Terrorism (ATS-AT) is a rule-based expert system designed to facilitate the targeting of high-risk outbound cargo. This could include terrorist devices, weapons, undeclared hazardous material and other contraband. The system was prototyped at John F. Kennedy International Airport

and will be deployed to 14 additional airports in fiscal year 1999. ATS-AT allows inspectors to review more outbound documentation for potentially high-risk shipments, in less time.

ATS is also being used in the air passenger environment. Customs is in the process of migrating a data base which will enhance the capability of the Passenger Analysis Units and line inspectors in the targeting of suspect travelers. The enhanced capability will ultimately result in more effective interdiction measures and passenger processing and will increase the opportunity of locating and positively identifying high-risk travelers involved in drug smuggling, terrorism and other transnational criminal activity. However, failure to provide funding to this project, which is funded out of base resources, will result in decreased connectivity to the first line inspectors in the field.

FISCAL YEAR 2000 BUDGET REQUEST

Customs proposed funding level for fiscal year 2000 totals \$1,929,735,000 and 17,389 Full Time Equivalents (FTE), of which \$1,617,335,000 will be directly appropriated, and \$312,400,000 will be derived from a proposed increase to the passenger processing fee. Also, \$35,000,000 is requested from the Treasury Forfeiture Fund Super Surplus Fund.

Integrity .....\$6 million, 0 FTE

Corruption and unethical behavior results in serious repercussions to law enforcement, including an erosion or destruction of public confidence, which is difficult to restore. While there is no systemic problem of corruption in the Customs Service, this initiative is required to increase the likelihood that new hires to Customs will possess honesty and ethical principles, ensure that Customs complies with statutory provisions concerning periodic reinvestigations, and reinforce the awareness of all agency employees to possible integrity threats, e.g., bribery attempts and unethical behavior. Specifically, the funding is required to conduct polygraph examinations, upon Office of Personnel Management approval, for candidates applying for positions which are most susceptible to corruption (criminal investigators, Customs inspectors, canine enforcement officers, and contractors). This request will also fund the contracting out of the required periodic investigations, as well as fund the corruption prevention awareness efforts of the agency.

Training .....\$5 million, 8 FTE

In order to attain the highest level of training, integrity and professionalism, Customs is requesting additional resources to establish a new office at the Assistant Commissioner level. This office will manage and direct the establishment of a comprehensive education, training, and workforce development program which covers the entire career of Customs personnel with an emphasis on law enforcement positions. In-service training and development will be provided on a regular and recurring basis, and programs will be implemented to maintain and improve on-the-job effectiveness. Special attention will be given to continuous training for law enforcement personnel on the day-to-day application of the unique border search authorities granted to Customs officers (including, but not limited to: 19 U.S.C. §§482, 1461, 1467, 1496, 1581, 1582, and 1646b, 22 U.S.C. §401, and 31 U.S.C. §5316).

Non-intrusive Mobile Personal Inspection Technology .....\$9 million, 0 FTE

International commercial air travel is increasing each year and the numbers of narcotics couriers who ingest or conceal narcotics on or within their body are increasing dramatically. Detection of internal carriers can only be accomplished through the use of x-ray. Current procedures require that the suspected courier be transported from the international arrivals area of the airport, accompanied by two Customs officers, to a medical facility where the x-ray is administered. This procedure is time consuming and an inefficient use of staffing due to the time required and the safety precautions which must be observed (i.e., handcuffing the suspect for transport), and the procedure is exceedingly unpleasant for those suspects whose x-rays are negative.

Therefore, as the fight to deter drugs and other contraband from coming into the United States continues, so does the development of new non-intrusive detection technology. Customs has developed a way to examine a suspected courier, with less embarrassment (in the likelihood of a pat-down and/or strip search), by using a facility staffed with an x-ray technician and equipped to digitally transmit the x-ray to a radiologist at a medical facility who will determine whether the x-ray indicates the presence of a foreign substance in the body. The facility will either be a fixed building in, or immediately adjacent to, the international arrivals area of the airport or a bus which is designed to fit into a custom docking facility built as an extension to Federal Inspection Services (FIS). Thus, the suspected courier could be trans-

ferred without handcuff restraints and through U.S. Customs Service corridors to avoid loss of control of the subject as well as public exposure. Customs is seeking a contractor who will provide a “turn key” operation.

Land Border Blitzes .....\$1.4 million, 0 FTE

The additional funding requested would allow Customs to conduct “blitz” type operations at land border ports. This initiative implements some of the lessons learned from last year’s successful Operation Brass Ring. Blitz operations are characterized by the rapid, unpublicized deployment of a team of Customs Inspectors, Canine Enforcement Officers, and Special Agents into a targeted port or base port for varied durations (a day to several weeks) to conduct intensive inspectional and investigative operations. The size of the port being blitzed, the duration of the operation, and the objectives of the operation would determine the actual makeup of each team. The teams would perform the blitzes at unscheduled times moving from border crossing to border crossing, from one port to another, and within a port among passenger primary, secondary inspection, cargo inspection, and outbound areas. This flexibility will maximize the unpredictability of the operations to Drug Smuggling Organizations (DSOs). Unpredictability is a corruption deterrent as well. Use of non-intrusive technology would also be maximized. Mobile or transportable systems would be utilized at ports which do not have fixed NII technology. In other instances, suspect conveyances would be convoyed to other ports which have fixed NII technology.

Customs Air Operations Support is vital to the rapid, fluid deployment of the teams. The use of air assets will allow the teams to maintain the element of surprise and maximize their time in the port instead of in lengthy transits between geographically dispersed border crossings. During Operation Brass Ring, the use of aircraft was shown to disrupt the normal activities of Drug Smuggling Organizations (DSOs) at the ports of entry. In addition, air assets provide enhanced security measures for ground personnel in the event of any escalated incidents.

Forced Child Labor .....\$2 million, 3 FTE

The Customs Service is continuing its efforts to address the issue of forced child labor. Customs intention is to establish regional offices in Asia and increase staffing in foreign countries where there is significant potential for goods to be produced by forced child labor. This funding would provide for the hiring of special agents/representatives and a staff assistant.

The need for foreign-based agents rather than domestic agents is crucial to the success of this initiative. Regular interaction with foreign governments and non-government organizations (NGOs) ensure that Customs can maintain an enforcement presence and exert pressure because ultimately verification of the use of child labor will require inspection of the suspect foreign facility and its records.

Money Laundering (Outbound) Technology .....\$2 million, 0 FTE

The majority of undeclared currency going out of the U.S. involves proceeds from narcotic 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 cartels. Outbound enforcement examinations are currently conducted on a very limited basis. In fiscal year 1998, although outbound exams were conducted only intermittently and with minimal resources, Customs seized more than \$68.4 million in outbound currency. In order to maximize Customs enforcement efforts, non-intrusive technology and equipment (and infrastructure) are necessary to efficiently interdict undeclared currency.

Technology will strengthen outbound enforcement efforts, while facilitating the public and legitimate trade. Due to the vast amount of cargo being exported out of the United States, Customs can only examine a percentage of these shipments. The procurement of mobile x-ray vans, tool trucks, and contraband detection kits will assist Customs in the examination of more cargo and conveyances at seaports, courier hubs, and on the Southern land border.

USER FEES

The fiscal year 2000 budget request includes two new user fee proposals. They are:

*Passenger Processing Fee*

The Administration proposes to increase an existing fee paid by travelers arriving by commercial aircraft and commercial vessel from a place outside of the United States, and to remove certain exemptions from this fee. Proceeds of the fee increase would partially offset Customs costs associated with air and sea passenger processing. Subsequent to the budget, authorization legislation will be transmitted to

allow the Secretary to increase the fee paid by air and sea passengers and to remove existing exemptions from this fee. In order for Customs to be able to collect \$312.4 million for fiscal year 2000, collections would have to begin on July 1, 1999.

*Automation Modernization Fee*

The Administration proposes to establish a fee for the use of Customs automated systems. The fee will be charged to users of Customs automated systems. Proceeds of the fee will offset the costs of modernizing Customs automated commercial operations and an international trade data system, and will be available for obligation after fiscal year 2000. Subsequent to the budget, authorization legislation will be transmitted to allow the Secretary to establish a fee for the use of Customs automated systems.

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 tremendous support in providing Customs with increased funding in fiscal year 1999. This funding will provide Customs with the much needed tools to accomplish our mission, and I assure you that we will use these resources in the manner in which Congress intended them to be utilized, in the furtherance of international counterdrug efforts and our critical mission to protect the Nation's borders and to reduce the flow of drugs into the United States.

SEIZURE DATA

Senator CAMPBELL. Thank you. And thank you for clarifying the searches. I wanted to just ask you something that just came to my mind though. In your testimony you mentioned the seizure of six tons of cocaine, did you say?

Mr. KELLY. Six tons of marijuana and cocaine in the Casablanca operation.

Senator CAMPBELL. In the Casablanca operation alone. I know Senator Kyl is not here, but he has brought up in several forums here what he sees as a lack of enough resources going into this State. Is most of this seized at airports rather than coming across in cars?

Mr. KELLY. In Arizona?

Senator CAMPBELL. Anywhere.

Mr. KELLY. No, most drugs are seized coming across the land border.

Senator CAMPBELL. He mentioned in specific two or three times in hearings I have been in with him about the increase of drugs as well as illegal aliens coming through Bisbee. Were some of these seizures done at Bisbee? So I could pass that on to him.

Mr. KELLY. I am sure there were, but we could get back to him with the specific seizures.

Senator CAMPBELL. Would you get back specifically to Senator Kyl? He needs it more than I do, if you would.

Mr. KELLY. Yes, sir, we will do that.

[The information follows:]

Customs has experienced increases in drug seizures in the area encompassing Bisbee, at and between the Naco and Douglas Ports of Entry. During the first 6 months of fiscal year 1999, non personal use marijuana and cocaine seizures combined have increased in weight by 3 percent above all of fiscal year 1998 (26,342 pounds vs. 25,486 pounds). The number of seizures in this area is also running higher than in fiscal year 1998, with 130 through March 1999, compared to 153 in all of fiscal year 1998.

PERSONAL SEARCH

Senator CAMPBELL. Let me ask you also on the searches, these non-intrusive methods, they are like x-rays I guess. If a person swallowed something in a balloon or a rubber bag, which I guess

is not totally uncommon, would that show up on these non-intrusive x-rays?

Mr. KELLY. No, it would not. Not on the body scans. We are looking for full-blown x-rays in the \$9 million request for fiscal year 2000. But we have moved ahead with what we call a body scan. It will look through clothing but not through the body, and it is an alternative to a pat-down. We give people the option, to being touched.

Senator CAMPBELL. I have never seen one of these. Does that mean just when you look at it it looks like a person just standing there naked? It does not look inside them, it looks—

Mr. KELLY. There are various models. Some are more precise, you might say, than others. But we use female inspectors to look at the female subjects, and male inspectors for male subjects.

#### PASSENGER PROCESSING FEE

Senator CAMPBELL. Same sex lookers. Okay, good.

Let me talk about your budget a little bit. It contains legislation authorizing \$312 million, a little over \$312 million by extending an expired passenger processing fee to pay for existing, but not new, personnel costs for Customs. What is the status of that now? And how do you expect to deal with the \$312 million shortfall if it is not enacted?

Mr. KELLY. With great difficulty. That translates to about 5,000 FTE for the agency, and it is an area of concern for me and for the Customs Service, no question about it. We know that the issue of user fees is controversial on Capitol Hill, so it is an area of concern. And even with the \$312 million—

Senator CAMPBELL. Do you have a contingency plans just in case?

Mr. KELLY. We would just have to go to work with the committee and with the Administration if fees are not authorized. But it translates into about 25 percent of our personnel.

#### AUTOMATED COMMERCIAL SYSTEM

Senator CAMPBELL. Your budget also includes \$35 million for the maintenance and upkeep of the automated commercial system, the ACS system. As I understand it, that is the first time that this cost has shown up as a line item but you have carried approximately \$32 million in your base over the last few years for the cost. If you add in how much you are spending in your base in fiscal year 2000 the funding will be a total of \$67 million. Why is there such a large increase in funding for fiscal year 2000?

Mr. KELLY. Because the ACS system is in trouble. It is a 15-year-old system using 21-year-old software. It is operating at over 90 percent of the capacity, sometimes at 100 percent of capacity. That is why we are strongly advocating the move towards the automated commercial environment. But the ACS system is of concern.

If we had funding today for—

Senator CAMPBELL. Okay, that is good enough for me.

Mr. KELLY [continuing]. ACE, we would still need that money.

## VIOLENT CRIME REDUCTION TRUST FUND

Senator CAMPBELL. The Customs Service is also requesting \$64.9 million for the violent crime reduction trust fund. Generally, when the bureaus submit request for the funding they provide kind of specific details on how they expect to use the funds. But as I understand it, you have not provided that breakout yet. Can you kind of give us an outline on how you are going to spend those funds?

Mr. KELLY. Yes, sir. We did provide it. We provided it yesterday.

Senator CAMPBELL. That is all right. I understand we received it as of yesterday. But that request is for \$64.9 million, and when we add this list up we come up with a total of, it is about \$10 million over. What is the discrepancy?

Mr. KELLY. Over?

Senator CAMPBELL. Over the itemized list for fiscal year 2000. The President's budget has \$64.9 million, and the total itemized list comes out to \$10 million more than the President's request.

Mr. KELLY. Some of it may be forfeiture fund and some of it is violent crime trust fund. I do not have the list in front of me, but that might explain it.

Senator CAMPBELL. Okay, maybe so, because the forfeiture fund is not listed on there. All right.

You also mentioned some educating—I understood just from listening to you, educating agents in their efforts at airports. But you are also working on a passenger education effort? What does that entail?

## PASSENGER PROCESSING PROCEDURES

Mr. KELLY. We brought on board a consultant to take a look at our passenger processing procedures and one of the things they found, which we suspected, was that we were not doing an adequate job of informing passengers that they—the potential to be—

Senator CAMPBELL. So they do not have a hissy fit because they are being asked questions or searched or something?

Mr. KELLY. Right. First, they might be told or in the past told just to go to the secondary area. They are questioned and then some are people ultimately searched.

Senator CAMPBELL. Just doing that probably worries some people I guess.

Mr. KELLY. Absolutely. So we need to do a more effective job of informing passengers. We have put up signs at airports. We have developed brochures. We are working with the airlines—

Senator CAMPBELL. Of what they might expect?

Mr. KELLY. Exactly. We have a problem, and this is a country with drugs, and potentially some of you might be searched; that sort of information. We are also attempting to redesign the declaration that is made out when you enter the country, goods that you are bringing in. To in essence add a cover to that declaration to inform people as to the potential of search, or at least what they can expect.

## MONEY LAUNDERING TECHNOLOGY

Senator CAMPBELL. I think it is good you are doing that.

One last question dealing with money laundering. You are requesting \$2 million for technology to identify undeclared currency being smuggled into the country. What types of technology are you expecting to acquire?

Mr. KELLY. In essence we are looking for mobile x-ray machines to identify money going out of the country. We do some outbound operations, but as I mentioned in my statement, we do not do enough.

Senator CAMPBELL. Are these going to supplement—you have got dogs, I understand, currency-sniffing dogs?

Mr. KELLY. We have currency-sniffing dogs.

Senator CAMPBELL. This will supplement what the dogs do, or are you going to replace the dogs?

Mr. KELLY. No, we would actually like more dogs. But we are at full capacity as far as the dogs are concerned in term of training and getting the dogs on line. So we would like to use both. We want to explore the possibility of using more dogs, but certainly this mobile x-ray technology will enable us to—

#### CANINE PROGRAM

Senator CAMPBELL. What kind of dogs do you use?

Mr. KELLY. Any kind of dog. We use good dogs. Although we are breeding some of our own dogs.

Senator CAMPBELL. Yes, good dogs are better than bad dogs, I know. [Laughter.]

Mr. KELLY. Good dogs that can detect drugs, and not all can.

Senator CAMPBELL. It seems like most of the Federal agencies—if I might tell my friend, Senator Dorgan, most of the Federal agencies it seems to me use German shepherds, which are fine. I have a German shepherd at home. They are very nice dogs. But I have also had bird dogs, and I want to tell you, Weimaraners and some of those dogs that are trained to—they have got a nose that will run circles around some of the German shepherds. But I have never seen any of the bird dogs used in—

Mr. KELLY. We cannot afford the luxury of specific breeds. We go to these homes and take any dog that reacts in the appropriate way that indicates that they may be able to detect drugs. So we have all sorts of different breeds.

Senator CAMPBELL. Thank you.

Senator Dorgan, any questions about dogs or anything else?

Senator DORGAN. No, Mr. Chairman, you are the expert on this dog issue stuff. I actually did see a demonstration, however, of your department using dogs and it was really quite remarkable. In a huge warehouse they had actually planted a small box with some drugs and they showed me how those dogs work. And it really is quite remarkable to see them go through that entire warehouse and find one very small cardboard box with drugs. It is impressive.

#### AUTOMATED COMMERCIAL ENVIRONMENT

Let me ask you about ACE, if I might. You are well familiar, I am sure, with the GAO report which is the scourge of every administrator who has them peeking around and poking around and looking at what agencies do. But the GAO is very important to us.

They are our ability to take a look at what is happening inside of agencies.

Their February report indicates, as you indicate, Commissioner, that the Customs department is having very significant problems with ACE. Their results, in brief, start by saying, Customs is not managing ACE effectively and does not have a firm basis for concluding that ACE is a cost-effective solution to modernizing its commercial environment.

Because of the money that is being proposed here for the system and because of the importance of the system, can you give us some more feeling about what you are doing as a commissioner to respond to the GAO's assessment of where we are?

Mr. KELLY. We think the GAO recommendations are sound. We are adopting those recommendations. We are moving, as I said in my remarks, to bring on board a prime contractor, and we are learning lessons from other Federal agencies in the past. We are moving aggressively to bring the prime contractor on. We need money to do that.

In order to put together in essence an RFP to get the prime contractor working, we brought Mitre Corporation on, and we have just entered a contract with them. So I think this will, hopefully, significantly accelerate the process.

There are concerns, and these are legitimate concerns. As I say in the past, these big ticket items have proven to be problems with other agencies. So we understand the scrutiny. I think that the prime contractor move is really the way to go and will change some of the atmospherics.

Senator DORGAN. We will have the capability of learning at some point what the whole system will cost? One of the criticisms by the GAO is there is no capability of assessing what is all this going to cost? It is like starting to build a house without any notion of how much you want to put into it. Will the acquisition of a prime contractor, at I suppose a fairly substantial cost—none of those come very inexpensively—will that lead you to a point where you will be able to give Congress some assessment of what the final cost will be?

Mr. KELLY. Yes, sir. One of the difficulties is that this is a bid process. So in other words, you put out a plan and then you get bids back, so it is hard to identify a specific dollar amount now. However, the latest estimate is for a total cost of \$1.4 billion. Now we brought Peat Marwick on board to take a look at the process that we used to cost out the system. They found our procedures to be reasonable and sound in arriving at that figure at this point in time as to where the project stands.

So the latest estimate is \$1.4 billion. And again, the process used has been deemed to be a reasonable process. But obviously, as we move further along with the prime contractor we will have more precise figures.

Senator DORGAN. I hope you will keep us closely informed as we move along because we will want to continue to ask questions about this as we proceed.

## OPERATION CASABLANCA

Just two other very quick questions. In your Operation Casablanca you talk about 12 commercial Mexican bank officials, three Mexican banks themselves that have been indicted. This does not have anything to do with your appropriation, but can you give me some background information after the hearing on what is happening to those banks themselves? It seems to me one of our problems is institutions, which are artificial people, seem never to pay the same price for illegal behavior as real people do. I am kind of curious whether this is one of those cases where you indict a bank and they keep on banking.

Mr. KELLY. I can give you specific information. Two of the banks have pled guilty to criminal charges and there is significant forfeitures for the third bank, as well. But I will give you more specific information, Senator.

## INTERNATIONAL CORPORATIONS

Senator DORGAN. One other point. There are some people in Florida doing some research using your data, Dr. Pack and Dr. Zadanowitz, trying to determine from your data what is happening with respect to taxation of international corporations who do business in and out of this country through foreign corporations of wholly owned subsidiaries in this country and then sell and buy to and from themselves.

Let me give you some examples that I just got from them the last couple of days. Importing toothbrushes from India, \$171 per toothbrush. Radial tires from Indonesia, \$2,500 per tire. Exporting bicycles from the United States to Mexico for \$11 per bicycle. Just to give you an example of what is in the bowels of your data bank that we need to find a way to get to the Internal Revenue Service so we stop wholesale cheating to the tune of about \$35 billion a year by international corporations.

That is not your responsibility, but we need to work with your agency to make sure your information is usable by the IRS to stop tax cheating by international corporations to the tune of tens of billions of dollars.

Mr. KELLY. Yes, sir. I think we have agreed to do a pilot project with IRS on the transfer payment issue.

Senator DORGAN. I have talked with you about that, and I appreciate your cooperation on it.

## FORCED CHILD LABOR

Let me thank you. You have a big role to play.

Just one other point. I am especially interested in your initiative on forced child labor. I do not know how many agents you have in that area but I would like to get, if I could, a memorandum from you telling me what kinds of resources you are committing to that.

You indicate you have been sending agents just recently to India, Nepal, Pakistan, Indonesia. We know what is happening in some of those areas with carpets and forced, effectively prison labor, of young children. You have all heard these stories of young children who have gunpowder put on their fingertips and then set on fire in order to create the calluses so that the later use of needles in

rugs will not cause them to bleed and they will be able to lock these kids up and force them to keep making rugs.

Some of that is horrible, horrible stuff. So your enforcement efforts in these areas is critically important. No American should want to buy a rug, for example, made under those conditions by kids in forced labor. I want to support you in those areas.

I would like to get some more information about resources devoted to them.

Mr. KELLY. Yes, sir.

Senator DORGAN. Commissioner Kelly, thank you very much.

Mr. KELLY. We are deploying additional agents this year to Hong Kong, Bangkok, and to Montevideo to conduct these investigations, thanks to the committee.

#### SUBMITTED QUESTIONS

Senator CAMPBELL. Thank you, Commissioner Kelly.

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

#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

##### FORCED CHILD LABOR

*Question.* Can you give the subcommittee a report on the Forced Child Labor Initiative? Is the \$5 million adequate? Do you have a five year plan for this initiative which clearly spells out the initiative goals and steps that Customs must take to achieve the goals?

*Answer.* Addressing the illegal importation of merchandise manufactured or produced with forced or bonded child labor is one of the most difficult tasks faced by the Customs Service. The Customs Service is pursuing a thorough, impartial and aggressive policy towards imports suspected of being produced with forced child labor.

In recent months, special agents have visited Indonesia, Nepal, India, and Pakistan to meet with foreign government officials, non-government organizations and industry representatives. Foreign law enforcement and other government agencies have stated their desire to work with the U.S. Customs Service.

Our public outreach program thus far has included mass mailings to U.S. importers of merchandise often associated with forced child labor, advertisements in trade publications, participation in trade shows, presentations on the Customs Webpage and various press releases in print and television in the U.S. and several other countries. Additionally, our Forced Child Labor Special Agents are meeting regularly with various non-government agencies that monitor child labor and other human rights violations in an effort to address issues as they arise.

The Customs Service has identified some manufacturers of hand-knotted carpets who are believed to have produced carpets with forced child labor. Detention orders are in place to stop imports from those manufacturers at our borders. Should an importation from one of these manufacturers be attempted, Customs will require a certificate from the manufacturer stating that the goods were not produced with forced child labor. Customs will investigate the validity of the certificate submitted by the manufacturer. If the investigation substantiates the certificate, the goods will be allowed into the U.S. If the certificate proves to be false, we will not allow the goods to enter the United States and continue our investigation for any potential criminal or civil violations.

Increased staffing will soon be in place in several of our foreign offices. Special agents have been added to our Bangkok, Hong Kong and Montevideo offices. These additional special agents will be dedicated to investigating allegations, and training and working with foreign law enforcement agencies to address the issue in a joint fashion.

In the fiscal year 2000 initiative, the Customs Service plans to open a regional office in south Asia to better address forced child labor investigations. In addition to the new office, Customs will also add a special agent to one of the offices in Central America to act as a regional coordinator. Since submission of our initial fiscal

year 2000 funding request, new information was developed warranting the creation of a Regional Attache office in either Argentina or Brazil, staffed with three special agents and support staff which would require an additional \$1.4 million. In 1997, Customs established the Enforcement Systems Area to account for enforcement activities not inherent in the core business processes. The existing Customs 5-Year Strategic Plan, which was based on the three core business processes and two enforcement strategies of Narcotics and Money Laundering, is in the process of being revised to account for the new Enforcement Systems Area. Customs Forced Child Labor strategy is included in this revised strategy which is pending final approval and publication.

Customs' strategy for addressing Forced Child Labor is also laid out in detail in Customs Investigative Strategy. Specifically, Customs will: Pursue an aggressive, multi-faceted investigative strategy. This strategy is based upon an intelligence development program that includes traditional and non-traditional intelligence collection and analysis. The outreach program has forged strong relationships with other Executive agencies, Congress, foreign government agencies, and non-government organizations. The intelligence and outreach programs are designed to provide investigative leads for jump teams to foreign countries and domestic investigations of suspect merchandise and importers. The investigative process is intended to provide a factual basis for detention orders, findings, other civil investigations and other criminal investigations.

*Question.* What specific allegations has the Customs Service received concerning convict, forced, bonded or indentured labor in Central and South America? What resources would aid your investigative efforts in Central and South America?

*Answer.* The Customs Service has received information about child labor in South American countries whose products are imported or may be imported into the United States that may meet the definition of bonded or indentured labor. A fact finding mission has recently gone to South America to follow-up on allegations received by the Customs Service. Also, in 1995, 1996 and 1998, the U.S. Department of Labor documented forced or bonded child labor in several non-export industries in the region. fiscal year 1999 funding will provide one Special Agent in Montevideo this summer but, the addition of one special agent will not resolve the large work load.

The fiscal year 2000 funding request that includes an additional Special Agent position in Central America to act as a regional coordinator will provide the Customs Service with the opportunity to address historical allegations of forced or bonded labor in Central America. Currently there are only six Customs Special Agents posted in South America. Since submission of our initial fiscal year 2000 funding request, new information was developed warranting the creation of a Regional Attache office in either Argentina or Brazil, staffed with three special agents and support staff which would require an additional \$1.4 million.

*Question.* Can Customs construct a pilot program that would address these issues by tracking the country of origin for products made with forced child labor?

*Answer.* No, Customs now has the ability to track country of origin for imported products but we cannot determine that the goods were manufactured with forced child labor merely by identifying the country of origin. Customs requires legally sufficient information that would best be obtained by an inspection of the manufacturing facility. Most foreign governments are reluctant to allow United States Customs Service to independently visit manufacturing facilities in their countries or to dedicate the manpower required to conduct joint inspections.

#### PERFORMANCE MEASURES

*Question.* How is Customs planning to adjust their performance measures (goals) to reflect the available resources?

*Answer.* When Customs identified its first set of strategic performance goals, it had little outcome performance trend data on which to base these projections. However, in the spirit of the Results Act, Customs established several "stretch" outcome and output goals to challenge itself, particularly in the trade and passenger compliance arenas. It viewed the setting of easily met goals as potentially counter-productive, because it undermines organizational innovation and objective assessments.

Now that we have four years of compliance outcome data under our belt, it is clear that our original trade compliance goals of achieving 90 percent overall compliance and 95 percent compliance in the Primary Focus Industries (PFI) by the end of fiscal year 2000 were unrealistic. The fiscal year 2000 Annual Performance Plan adjusts the time for the attainment of these goals to fiscal year 2004. We continue

to project a high level of revenue compliance, to reflect a continued focus on its importance.

For Passenger Processing, the issue is more difficult. We only have two years of compliance outcome data. In addition, we have embarked on a major initiative with the Immigration Service to improve port management on the Southwest border. We are already receiving requests from field managers to expand the concept. In addition, we still have access to additional resources through COBRA user fees for air passenger processing. Consequently, only minor adjustments to our performance goals have been made.

Available agency resources are a big factor to consider in the establishment and adjustment of performance improvement goals; however, they are not the only ones. The way the resources are used, the types of resources, building on experience gained, and the methods employed are also very important. In addition, external assistance needs to be factored into the goal-setting process.

*Question.* Are any efforts being made to change Customs approach to improving trade compliance, such as targeting high-risk industries, to apply scarce resources to areas where they may be best utilized?

*Answer.* Yes. We use Compliance Measurement, Compliance Assessment, and Account Management, as our methods to identify and target high-risk areas and deploy our resources accordingly. A major part of our focus is on improving compliance in the Primary Focus Industries (PFI's).

Our primary trade measurement system, Compliance Measurement, provides a statistically valid level of trade compliance for all importations. Using this data, we can pinpoint areas of noncompliance in different commodities and industries. Using Compliance Measurement and other analytical data, Customs has undertaken, at the port level, a new initiative called "Focus on Non-Compliance." It ensures port personnel are focusing their resources on the high-risk areas.

Customs uses Compliance Assessments to review importers' systems, to assess their ability to produce compliant transactions and to identify systemic problems and areas for improvement. In addition, Compliance Assessments have resulted in the recovery of \$100 million in revenue, \$70 million of which was tendered with Prior Disclosures.

Our Account Management Program enables Customs to assess the quality of high-volume importers' workload on an aggregate rather than on a transaction by transaction basis. Using this approach, Customs maximizes its limited resources to work with these high-volume importers to improve their compliance rates. Currently, there are 459 accounts. Their workload accounts for 38 percent of all import transactions and approximately 29 percent of their value. Increasing this group's compliance will have a substantial effect on overall compliance rates.

We are continuing our successful PFI program. Customs concentrates its efforts on PFI's, designated by Customs, to identify compliance problems and to design interventions to address them. PFI compliance is three percent higher than overall compliance, because of this approach.

These integrated national programs allow Customs to identify the areas where risk is the greatest and to maximize the use of our resources to increase compliance and target noncompliance.

The above programs utilize the informed compliance approach set forth in the Customs Trade Modernization Act. When an importer is new or demonstrates a willingness and capacity to improve, Customs works with the importer to improve compliance. However, when the informed compliance approach does not result in improvement or there is a deliberate attempt to not comply, enforced compliance measures, such as penalties, seizures, etc., will be employed.

This dual approach is important, because trade workloads are expected to continue to grow at about 10 percent annually. Customs resources are not expected to keep pace. Available agency resources are a big factor to consider in the establishment and adjustment of performance improvement goals; however, they are not the only ones. The way the resources are used, the types of resources, building on experience gained, and the methods employed are also very important. In addition, external assistance needs to be factored into the goal-setting process.

#### POLYGRAPH INVESTIGATIONS

*Question.* What will the \$4 million provide?

*Answer.* The \$4 million will pay for polygraphs examinations needed to qualify applicants for employment in a projected 1,900 positions (which include backfill positions) for special agents, inspectors, canine enforcement officers, and certain contractors. Polygraphs cost about \$800 each. It is estimated that three examinations will be needed for each vacancy.

*Question.* Has Customs applied to the Office of Personnel Management for authority to conduct the polygraph examinations?

*Answer.* Yes. Application for authority to conduct polygraph examinations was made March 19, 1999 through the Department of Treasury, which endorsed the request. The request is now under review by OPM.

*Question.* What criteria does OPM apply for providing this authority? Do the agencies have to provide a justification that agents are involved in counter-intelligence activities?

*Answer.* OPM's polygraph examination authority criteria is established in the Federal Personnel Manual (FPM) 736-9, Subchapter 2, Background Investigation Requirements, Section 2-6, "Use of the Polygraph in Personnel Investigations." Under this criteria, the requesting agency must justify that it has an intelligence or counter-intelligence mission that directly affects national security.

*Question.* Since Secret Service and ATF are already conducting polygraph examinations, isn't there some way the funding could be combined and the examinations be conducted on a Treasury-wide basis?

*Answer.* The Customs Service has attempted to establish a Memorandum of Understanding (MOU) with the Secret Service, the Federal Bureau of Investigation, and the Bureau of Alcohol, Tobacco, and Firearms. The Secret Service and the FBI presently lack the resources to accommodate Customs due to their own hiring initiatives. ATF has received authority to conduct polygraph examinations, but has not initiated an examination program yet.

*Question.* Do you agree that the administration has, for the most part, abandoned efforts to secure the border? Do you agree that more Customs inspectors are needed on the border in 1999 and 2000? How many in each year? Do you agree that more Customs agents are needed in 1999 and 2000? How many in each year?

*Answer.* Increases in each of the last five fiscal years of total narcotics seized along the Southwest border are indicative of the steps taken by the administration to secure the border. The poundage of narcotics seized by U.S. Customs along the Southwest Border has more than doubled in the last 5 years: 863,067 pounds were seized in fiscal year 1998 compared to 369,628 pounds seized in fiscal year 1994

Resources for personnel, equipment and infrastructure improvements have also increased over the last several years. In addition, Secretary Rubin and Attorney General Reno have created the Border Coordination Initiative (BCI) to increase the effectiveness of the principal border agencies.

*Question.* Do you know how many of those newly proposed inspectors and agents requested by your agency but rejected by the OMB would have gone to Arizona? Every additional agent or inspector sent to Arizona is a big help to our state.

*Answer.* When developing our budget request over a year ago, a tentative allocation/deployment strategy was used. The allocation of personnel is based on the level of threat and highest demands at the time. The recently developed Price Waterhouse Resource Allocation Model provides a more scientific approach to resource allocation and would be used to determine the appropriate number of employees for a given location. The initial numbers and distribution were subject to change.

UNFUNDED NON-INTRUSIVE INSPECTION TECHNOLOGY FOR ARIZONA

*Question.* Do you know what equipment would have gone to Arizona if the administration budgeted the \$48 million in technology and equipment for Customs, as Customs requested?

*Answer.* The following equipment was slated for Arizona from the \$48 million which was not included in the fiscal year 2000 President's Budget request.

Port of Entry	Technology	Planned Unit Cost
Nogales .....	Upgrade Fixed-Site Truck X-Ray System to Higher Energy.	\$2,000
Douglas .....	Mobile Truck X-Ray System .....	2,200
Nogales .....	Mobile Truck X-Ray System .....	2,200

These locations are based on current threats and workloads at the individual ports-of-entry. Changes in these factors may cause adjustments in the assignment of technologies in order to meet prevailing conditions at that time.

The planned unit cost is the current estimate for these technologies based on Customs projections. Equipment costs may change as Customs awards production contracts. Also, final installed system costs vary due to unique site preparation and construction efforts necessary to place the technology into service at each location.

*Question.* Will you work with the committee to get the administration to come up with ideas for funding sources for inspectors and equipment?

*Answer.* We are always willing to explore additional funding sources and are open to suggestions that could lead to enhanced resources. We appreciate the support of both the administration and the Congress.

*Question.* Commissioner Kelly, if Maersk Sea-Land relocates its base of operation to the Port of Baltimore, will the U.S. Customs Service have sufficient personnel at the Port to handle the increased workload?

*Answer.* Customs would likely need additional resources. The level of those resources would depend on:

- the type of operations Maersk Sea-Land would transfer to Baltimore;
- how quickly the operations are diverted;
- whether the ships' cargo is intended for consumption in the Port of Baltimore or is intended to be shipped in-bond to other ports such as New York; and
- whether the cargo is of narcotics source country origin.

It could result in Customs needing as many as 9 additional staff.

*Question.* If not, what will Customs do to achieve the necessary personnel needed to handle the increased workload?

*Answer.* Again depending on the factors outlined above, Customs may be forced to reduce enforcement inspections of cargo, provide limited service to Maersk Sea-Land, and/or reduce service to other importers.

#### U.S. CUSTOMS ASSET FORFEITURE PROGRAM

*Question.* Asset forfeiture programs, administered by the Customs Service and Justice, have been on GAO's "high-risk" list since the inception of the list in 1990. These programs continue to have significant weaknesses.

What is the status of Customs efforts to resolve this high-risk problem?

*Answer.* In the January 1999 GAO High Risk Series Update GAO cited three reasons Treasury remains on the high-risk list in the area of Asset Forfeitures (A through C below).

(A) Treasury reported material weaknesses relating to seized property in its fiscal year 1997 Accountability Report. Customs is accountable for two—"Data in Customs Seized Property Accounting Systems are unreliable" and "Customs has problems with the integrity of data in its Fines, Penalties, and Forfeiture (FP&F) files".

*Action:* Customs expects to close both of these material weaknesses by implementing numerous enhancements to its Seized Asset and Case Tracking System (SEACATS) which will significantly improve the existing currency and property records and complete the remaining case, financial, and reporting functions necessary for data integrity in the FP&F file. The target completion date for these enhancements is September 1999.

(B) For fiscal year 1997, SEACATS did not contain accurate and sufficient data to prepare the analysis of changes in forfeited and seized currency and property without substantial manual intervention and reconciliation.

*Action:* Customs was able to produce the analysis of changes in seized and forfeited property disclosure from SEACATS for fiscal year 1998, reducing the number of manual adjustments to prepare the disclosure. Information provided from SEACATS will be used to produce currency disclosure at the end of fiscal year 1999.

(C) GAO continues to recommend Treasury and Justice consolidate the management and disposition of all noncash seized property to reduce administration costs.

*Action:* No action is being taken. Customs and Justice have argued against GAO's position. Current policy, as established by Congress with the creation of the Treasury Forfeiture Fund (1992) is clear that Treasury and Justice asset forfeiture programs should be managed separately. With separate and distinct financial, management, and contract structures in place for each department, consolidation would be significantly more complicated, disruptive, and costly today than in 1991.

*Question.* Have Customs and Justice found a way to cooperate in the management of their respective funds?

*Answer.* GAO continues to recommend Treasury and Justice consolidate the management and disposition of all noncash seized property to reduce administration costs. No action is being taken. Customs and Justice have argued against GAO's position. Current policy, as established by Congress with the creation of the Treasury Forfeiture Fund (1992) is clear that Treasury and Justice asset forfeiture programs should be managed separately. With separate and distinct financial, management, and contract structures in place for each department, consolidation would be significantly more complicated, disruptive, and costly today than in 1991. Please see response 1C above.

*Question.* Are any specific goals and measures in Customs fiscal year 2000 performance plan to resolve any remaining problems?

*Answer.* Customs expects the enhancements it plans to implement by September 1999 to resolve its problems that have contributed to Treasury remaining on the high-risk list.

1. Treasury reported material weaknesses relating to seized property in its fiscal year 1997 Accountability Report. Customs is accountable for two—"Data in Customs Seized Property Accounting Systems are unreliable" and "Customs has problems with the integrity of data in its Fines, Penalties, and Forfeiture (FP&F) files". Customs expects to close both of these material weaknesses by implementing numerous enhancements to its Seized Asset and Case Tracking System (SEACATS) which will significantly improve the existing currency and property records and complete the remaining case, financial, and reporting functions necessary for data integrity in the FP&F file. The target completion date for these enhancements is September 1999.

2. For fiscal year 1997, SEACATS did not contain accurate and sufficient data to prepare the analysis of changes in forfeited and seized currency and property without substantial manual intervention and reconciliation. Customs was able to produce the analysis of changes in seized and forfeited property disclosure from SEACATS for fiscal year 1998, reducing the number of manual adjustments to prepare the disclosure. Information provided from SEACATS will be used to produce currency disclosure at the end of fiscal year 1999.

#### INFORMATION TECHNOLOGY

*Question.* An incomplete systems architecture hinders Customs ability to manage information technology investments, particularly large, mission-critical systems such as its Automated Commercial Environment system. How does Customs fiscal year 2000 performance plan specifically address this problem?

*Answer.* The focus of Customs' performance plan is on improving the overall performance of mission critical areas. This is consistent with the goals and requirements of the Government Performance and Results Act. Customs considers the management of information technology investments to be a management control issue. Material weaknesses in management control areas are addressed through other reporting vehicles such as the Customs Service Accountability Report. This report addresses requirements associated with evaluative mechanisms such as the Federal Managers Financial Integrity Act (FMFIA), the Chief Financial Officers Act, and material weaknesses identified by GAO and Inspector General audits. The Accountability Report is a public document and can be found on the Customs Service web site.

The organizational approach to measurement is that measures within the performance plan must be clearly focused on the key missions of the organization. By clearly focusing the performance plan on the mission areas, management can determine the overall mission health of the organization and use the plan to better manage mission related programs. Proliferating the performance plan with extraneous non-mission related measures and management control issues would only serve to dilute the plan's usefulness and deviate from its intended purpose.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

STATEMENT OF JOHN W. MAGAW, DIRECTOR

INTRODUCTION

Senator CAMPBELL. We will go now to Director Magaw. It is nice to see you here again.

Mr. MAGAW. Thank you, Mr. Chairman and Senator Dorgan.

Once again, I have asked our executive staff to accompany me here today so they can listen to what you have to say firsthand. We welcome this opportunity to discuss the budget request and ATF's strategic goals for fiscal year 2000.

ATF GOALS

These goals are to reduce violent crime, collect the revenue, and protect the public. Our direct salary and expense submission is \$584 million and 4,131 full-time equivalent positions. Additionally, we have asked for \$13 million and 24 FTE's from the Violent Crime Reduction Trust Fund to support the GREAT Program, and \$15 million for site acquisition of our new headquarters building. Our total submission of \$612 million represents a \$54 million increase or 10 percent over the 1999 budget.

Soon after becoming the Director of ATF, I requested the assistance of this committee in restoring ATF's base operating level which had become alarmingly eroded. This was a situation that had not occurred overnight and, of course, would not be resolved overnight. However, because of your consideration, your oversight, and response to this problem we have gradually been able to strengthen our infrastructure, implement more sound management controls, and regain a healthier balance in our operations.

PROPOSED INITIATIVES

Permit me to address the initiatives that ATF is expected to implement this year. I remain focused on the protection of the dedicated men and women of ATF and the customers that come into our building to be served. And we will use the requested \$15 million to acquire an appropriate site for a safer headquarters location.

Another initiative responds to demands from across the law enforcement community for the Youth Crime Gun Interdiction Program which targets the sources of illegal firearms trafficking to our youthful offenders. The program will expand from 27 cities to 37 cities at a cost of \$11.2 million.

ATF utilizes a unique blend of criminal investigation, regulation, and revenue collection to effectively enforce the Federal laws governing alcohol, tobacco, firearms, arson, and explosives. The re-

sources provided by Congress have enabled ATF to achieve many successes in each of these areas.

Once again, ATF can fully account for the funding that you have provided. For the fourth year in a row ATF has received the highest possible rating on the annual audit of our finances and internal controls. This audit was conducted by Price Waterhouse Coopers and the Treasury Inspector General's office.

Finally, the \$12.6 million requested for the Bureau's Integrated Violence Reduction Strategy will be utilized for several different components of firearms enforcement, which are aimed at reducing the illegal acquisition, possession, and the use of firearms by armed career criminals, firearms traffickers, and prohibited purchasers in violation of the Brady law.

The \$1.1 million requested for implementation of ATF's promotion assessment system and career development plan enables ATF to fulfill the last phase of our commitment under the African-American Special Agent class action settlement agreement. This commitment, I am very pleased to note, benefits all of our personnel. We feel this to be a prudent and wise investment of our resources.

#### ATF ACCOMPLISHMENTS

Our national revenue center in Cincinnati, Ohio has applied technology and partnership to improve the consistency of our tax administration and provide timely trend analysis and industry statistics. In addition to investigating a significant number of arson and bombing cases and establishing a national repository of explosives and arson incidents, we have been in the forefront of research involving explosives detection and prevention.

#### PREPARED STATEMENT

What perhaps cannot be adequately conveyed in the formal list of major accomplishments included in our general statement is the competence, the dedication, and the exceptional spirit of public service that drive the men and women of ATF as they go about their daily tasks. I am proud to serve this Nation with them.

That completes my statement, Mr. Chairman.

[The statement follows:]

#### PREPARED STATEMENT OF JOHN W. MAGAW

Thank you Mr. Chairman, Senator Dorgan, and members of the Subcommittee. I welcome this opportunity to appear before this subcommittee and further acquaint you with ATF and the value we bring to the American public.

With me today are my executive staff members:

Mr. Bradley Buckles, Deputy Director; Mr. William Earle, Assistant Director for Management and Chief Financial Officer; Mr. Andrew Vita, Assistant Director for Field Operations; and Mr. Jimmy Wooten, Assistant Director for Firearms, Explosives and Arson; Mr. Arthur Libertucci, Assistant Director for Alcohol and Tobacco; Mr. 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 and Ms. Toby Bishop, Executive Assistant for Equal Opportunity.

#### ATF FISCAL YEAR 2000 BUDGET REQUEST

I am here today to discuss ATF's portion of the President's Budget request. This includes a Direct Salary and Expense (S&E) request of \$585.0 million and 4,131

full-time equivalent positions (FTE), a Violent Crime Reduction Trust Fund (VCRTF) request of \$13 million and 24 FTE and a Construction request of \$15 million and no FTE. The ATF fiscal year 2000 S&E request includes \$15 million recommended by the Domestic Policy Council for firearms enforcement programs. Our total request of \$612 million represents an increase of \$54 million, or 10 percent over the total fiscal year 1999 enacted level of \$557.6 million for Direct S&E and the VCRTF appropriations.

This increase is required to offset payroll cost growth and other inflation that affects our ability to maintain current services (\$28.7 million); expand the Youth Crime Gun Interdiction program (\$11.2 million); implement the Tobacco Compliance initiative (\$5.2 million); implement the Bureau's Integrated Violence Reduction Strategy (\$12.6 million); and implement the Bureau's Promotion Assessment System (\$1.1 million).

In our fiscal year 2000 request, the Bureau is seeking \$11.2 million and 43 FTE for expansion of the Youth Crime Gun Interdiction Initiative program. This very successful program uses a multi-faceted approach to break the chain of illegal gun supply to youths and minors and reduces youth violence. ATF plans to continue providing partnership and comprehensive crime gun tracing with State and local law enforcement, provide rapid high volume crime gun tracing and crime gun market analysis through the National Tracing Center (NTC), and continue training ATF, State and local law enforcement. ATF is requesting to expand this program to an additional 10 cities in fiscal year 2000.

ATF is also seeking \$5.2 million and 38 FTE for the implementation of the additional revenue collection requirements provided by the Taxpayer Relief Act of 1997, (Tobacco Compliance law). Under the provisions of this law, ATF will collect an estimated \$2.5 to \$3 billion per year in additional revenue by 2002. This will be derived from cigarette taxes at the higher rates. This new law requires two floor stocks tax increases effective January 1, 2000 and January 1, 2001, plus a new permit system for importers of tobacco products. In future years, resources must be directed to increase compliance and anti diversion efforts.

Additionally, ATF is requesting \$12.6 million and 56 FTE for the implementation of the Integrated Violence Reduction Strategy that will focus on several different components of firearms enforcement aimed at reducing the illegal acquisition, carrying, and use of firearms. The Bureau has planned an integrated approach, through the use of investigation of criminal violations, laboratory forensic analysis of documents, and increased FFL inspections. The key element to success of this integrated approach is the effectiveness of data exchange and coordination. Through this effort ATF will maintain the integrity of commerce in firearms, ensure the maximum productivity of the Brady law, and further deter prohibited persons, especially those with criminal intent, who are actively attempting to acquire a firearm from FFLs and from illegal sales at gun shows and similar venues.

ATF is also seeking \$1.1 million to implement the Promotion Assessment system as proscribed by the settlement of the 1997 Class action settlement. ATF plans to use this as an opportunity to replace the existing system for special agent promotions with a vehicle that creates an equitable approach to law enforcement personnel promotions. ATF believes that the new system will assure the equitable treatment of all special agents who apply for competitive promotions.

#### LINK TO STRATEGIC PLANNING AND GPRA

Our proposed budget funds ATF's three strategic activities.

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

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

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

The Bureau proposes a \$461 million investment in programs and projects associated with our Reduce Violent Crime Activity. Some of the more notable examples of programs related to this activity include:

- Deny criminals access to firearms, which includes projects such as the Illegal Firearms Trafficking program, the Youth Crime Gun Interdiction (YCGI) and the proposed Integrated Violence Reduction Strategy. The Illegal Firearms Trafficking program identifies and reduces illegal sources of firearms to criminals, while the Youth Crime Gun Interdiction program identifies and reduces illegal

sources of firearms to youths and juveniles. The Integrated Violence Reduction Strategy will focus on several different components of firearms enforcement aimed at reducing the illegal acquisition, carrying, and use of firearms. All three programs are supported by the Bureau's National Tracing Center which received and processed more than 180,000 requests for traces of firearms in fiscal year 1998. A major objective of ATF's "deny criminals access to firearms" program is to ensure strong enforcement of the requirements outlined in the Brady legislation.

- Safeguard the public from arson and explosives incidents which includes programs such as Prevent the Criminal Misuse of Explosives, the National Repository for Arson and Explosives Incident Information, Church Fire Investigations, Research Programs, Effective Post-Incident Response programs and the Bureau's very successful Canine Training Program.
- Remove violent offenders from our communities, which includes the National Integrated Ballistics Information Network (NIBIN). NIBIN provides support to law enforcement agencies addressing serious firearms related violent crime. By partnering with the FBI and representatives from State and local law enforcement, ATF is ensuring that agencies interested in acquiring automated ballistics technology are provided an opportunity to do so.
- Prevent violence through community outreach, which includes the Gang Resistance and Education and Training Program (G.R.E.A.T.). GREAT provides classroom instruction and a wide range of community based activities to the most susceptible teenagers. By enhancing their sense of self and decision-making capability, youth can be empowered to avoid violence and criminal activity.

The Bureau also proposes to invest \$68 million in programs and projects related to our Collect all Revenue Due strategy. During fiscal year 1998, the Bureau collected more than \$12 billion in revenue from Federal taxes and fees on alcohol, tobacco, firearms and explosives. In addition, \$10 million in assets was recently forfeited from the convictions resulting from the tobacco diversion investigation across the U.S./Canadian border. Examples of programs that comprise this activity include:

- Collect all the revenue due which includes the Diversion and Smuggling program, and addresses alcohol trade issues.
- Implement a permit system for importers of tobacco products.
- Implement a floor stocks tax for tobacco products, which is estimated to generate \$200 million in additional revenue.
- Use electronic commerce, which involves the increased use of automated systems to disseminate information and collect and archive electronic documents as opposed to paper files. Our objective is to increase efficiency by using file space more productively.

Finally, ATF proposes a \$69 million investment to fund programs and projects associated with our Protect the Public Activity. Examples of programs related to this activity include:

- Assure the integrity of the products, people, and companies in the marketplace, which includes programs such as Assuring Alcohol Product Integrity, Certificates of Label Approval, and Deny Prohibited or Ineligible Persons Entry into Regulated Industries.
- Ensure compliance with laws and regulations through education, inspection and investigation which includes Federal Firearms Licenses and Inspections, Explosives Licenses/Permits and Inspections, Alcohol Industry Inspections, Industry Seminars, Firearms and Ammunition Importation, and the National Firearms Act requirements.
- Inform the public, which includes Industry and State partnerships. Several noteworthy partnerships include the ATF's Office of Science and Technology "Partnership Approval Process" between ATF and beverage and flavor manufacturers. One example is ATF's Partnership with the Department of Transportation, which is assisting in the classification of explosive materials entering into commerce. Another example is the ATF partnership with the Institute of Manufacturers of Explosives and the American Pyrotechnic Association (APA) to develop an "Advanced Explosives Training Class" for all ATF inspectors. Nearly all ATF Inspectors have received the advanced training. A final example illustrating our commitment to partnering with industry to protect the public is the partnership ATF is forming with APA in encouraging citizens to turn in M80 devices using ATF's hotline number. ATF and APA are very interested in reducing injuries and accidents especially in light of the heavy anticipated use of these items in celebration of the year 2000 New Year celebrations.

## FISCAL YEAR 1998 ATF ACCOMPLISHMENTS

ATF is a law enforcement organization within the Department of the Treasury with a combination of responsibilities. Our vision is to "Work for a Sound and Safer America . . . Through Innovation and Partnership." ATF responds to the public outcry against crime, violence, and other threats to public safety. Our vision helps us chart the course to best serve the public and achieve new levels of effectiveness and teamwork.

Year after year, ATF works to make America a safer place for its citizens by fighting violent crime. ATF's position of being vested with the enforcement of Federal firearms and explosives laws, as well as the regulation of those industries, puts it at the forefront of violent crime enforcement. We also continue to efficiently collect revenue in accordance with current laws, contributing to the stability of Federal Government and national economy. This is achieved through responsible monitoring of regulated industries. Some accomplishments during 1998 include:

- Completed the Bureau's field restructuring to create an organization that is unified in both philosophy and structure.
- Entered into a Memorandum of Understanding with the American Re-Insurance Company, the U.S. Fire Administration and the National Fire Protection Association to develop a state-of-the-art interactive CD-ROM for advanced fire investigation training.
- Created the National Integrated Ballistics Information Network (NIBIN) that combines ATF's former CEASEFIRE and the FBI's Drugfire Programs into a single Federally-sponsored initiative, fostering partnerships between the ATF, FBI, State and local law enforcement.
- Conducted more than 12,000 Federal Firearms Licenses inspections, disclosing more than 6,200 violations.
- Conducted more than 7,000 Explosive Licenses inspections, disclosing more than 2,800 violations.
- Conducted more than 165 seminars for firearm industry members.
- Conducted more than 22 seminars for explosive industry members.
- Initiated more than 330 stolen firearm investigations.
- Expanded the NIBIN database to include more than 70,000 projectiles and 95,000 casings.
- Made 39 ballistic matches with projectiles and 506 ballistic matches with shell casings.
- Fourteen firearm examiners used NIBIN to accomplish the workload equal to 7,465 firearm examiners without NIBIN.
- The National Tracing Center received more than 180,000 trace requests from Federal, State, local and foreign law enforcement agencies.
- Initiated 183 explosive investigations that included 337 defendants, resulting in 98 explosive indictments, and 258 explosive convictions.
- Expanded the Youth Crime Gun Interdiction Initiative to 27 cities, providing standardized published crime gun trace analysis for the cities, focusing on determining the sources of firearms recovered from juvenile and youthful offenders, and arresting traffickers.
- Made significant contributions in the drafting of the "Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Material," which was negotiated by the Organization of American States.
- Trained and deployed internationally twenty-one explosive detection canines.
- Trained and deployed three canines for other Federal agencies.
- Trained three explosives detection canines for State/local agencies.
- Deployed two explosives detection canines for ATF's canine program.
- Trained and deployed six accelerant detection canines for State/local agencies.
- Deployed ATF explosives detection canine teams on 57 search warrants, 2,155 consent searches, 1,527 security sweep/searches, and 127 field demonstrations.
- Recovered with the 8 ATF explosives detection canine teams, 2 bombs, 52 firearms, 4 machineguns, over 2,000 rounds of ammunition, over 50 pounds of black and smokeless powder, 203 sticks of dynamite, 1 hand grenade, identified explosives residue during investigations, as well as post blast debris.
- Initiated the design phase for the Fire Research Laboratory with construction anticipated to begin in late 1999.
- Provided funding to 101 different State and local agencies to support their participation in the GREAT Program. Over 1,265 communities have officers certified in the GREAT Program.
- Conducted 22 "train the trainer" classes with 672 police officers participating from across the U.S. in ATF's GREAT program.

- ATF trained more than 50,000 state, local, international, and Bureau personnel in fiscal year 1998 in all areas of ATF's expertise.
- Partnered with the Department of State for international training of 920 police officials from 45 countries. ATF supplied the course development and instructors.
- Established the ATF National Firearms Examiner Academy.
- Developed and deployed the first Rapid Response Laboratory.
- Conducted Technical Countermeasure Surveys of five ATF field offices in partnership with the U.S. Secret Service and with training provided by the National Security Agency in order to insure a safe and secure working environment for ATF employees assigned to those offices.
- Provided field support in Bosnia by authenticating audio recordings for investigators of the International Criminal Tribunal for the Former Yugoslavia (ICTY) in their investigation of war crimes. These efforts have resulted in the indictments of the former president of the Serbian Republic and the former commander of the Serbian Army for planning and ordering the executions of approximately 7,000 men after the fall of Srebrenica in 1995.
- ATF served as expert advisors in the on-going United States/European Union (EU) wine talks which attempt to resolve trade differences between the two sides.
- ATF acted as the representative of the United States as a member of the International Organization of Wine and Vine (OIV) during meetings in Paris and Lisbon, Portugal.
- ATF was involved as technical advisors in intellectual property rights discussions before the World Trade Organization, as they relate to geographical indications on wines and spirits.
- ATF Specialists, lawyers, and Special Agents have been actively involved in the International Taxation Training program by acting as instructors and creating lesson plans. The purpose of the training program is to encourage the development of free market practices in emerging democracies. Three such courses were held in 1998, two in ATF Bureau Headquarters and one in Kiev, Ukraine.
- As part of its role in informing ATF personnel about foreign products and standards, ATF's Alcohol Import-Export Branch completed the updating of the "Foreign Appellations of Origin for Wine" files. These files have to be updated periodically so ATF's Label Specialists can accurately process label applications for imported wines.
- ATF completed a compilation of statistics relating to the international trade in wine, beer, and distilled spirits. This information will be provided to interested members of the alcohol industry.
- ATF continued to promote a good working relationship with foreign governments through direct communication with foreign government officials in order to facilitate international trade in alcohol beverages and eliminate tariff and non-tariff trade barriers.
- ATF's Diversion Branch was established during fiscal year 1998. The Branch was formed in an effort to look at all potential diversion related areas and has been quick to point out trends in this area.
- ATF conducted approximately 140 alcohol and tobacco diversion investigations. Seizures of alcohol and tobacco monies and real property equaled \$1.7 million in fiscal year 1998. Assessment of taxes in fiscal year 1998 totaled approximately \$284,000.
- ATF hosted the 4th annual Alcohol Diversion and Contraband Cigarette Trafficking Conference in Denver, Colorado on July 21–23, 1998 which brought together those individuals who share a common interest in alcohol diversion and contraband cigarette trafficking. Participants included ATF, Assistant United States Attorneys, State Tax Administrators, representatives from state law enforcement agencies, as well as foreign government personnel.
- ATF formed a national task force to look into the issue of slotting fees in the alcohol beverage industry. To date, ATF is conducting three national slotting fee investigations.
- ATF personnel attended more than 25 meetings, seminars and trade shows held by members of the regulated industry in 1998. Over 500 industry members attended either public or private seminars to discuss the trade practice regulations or industry concerns.
- In fiscal year 1998, ATF identified products containing Ginseng. Labels of these products did not reflect the product's true alcohol content and beverage character.
- ATF issued a press release to inform the public that Ginseng products contained alcohol and were being sold at retail outlets such as grocery stores, con-

- venience stores and health food stores. ATF notified manufacturers, importers, distributors and retailers of the federal requirements involved with selling liquid Ginseng products that contain alcohol. State liquor authorities and U.S. Customs were also advised.
- ATF established an internal “Alcohol Policy Working Group” (APG), to examine current ATF policies on labeling, advertising, and promotion of beverage alcohol in relation to health and youth issues.
  - ATF has been working closely with the Department of Health and Human Services, Treasury Officials, and the Wine Institute on the wording and placement on beverage alcohol labels of two different directional statements about the health effects of wine consumption.
  - During fiscal year 1998, ATF responded to over 100 complaints or requests regarding alcohol beverage products.
  - ATF contracted with the U.S. Research company to conduct a survey of consumer interpretation of claims made on wine labels. The survey was designed to assess whether wine consumers distinguish between standard wine and wine specialty products based on information on product labels and to assess whether placement of information on product labels (side only versus front and side) affects consumers’ ability to discern between wine and wine specialty products.
  - ATF identified the need to improve customer service, improve its processes within ATF along with achieving the desired culture for ATF. The Federal Quality Consulting Group and members of ATF’s Product Compliance Branch formed the Beverage Alcohol Streamlining Team (BAST). During fiscal year 1998 this team met regularly in order to accomplish their goal of conducting a business process review.
  - In fiscal year 1998, ATF representatives conducted labeling seminars at a Latin American trade show at the Miami World Trade Center for a French delegation visiting Washington, DC.
  - ATF was given primary responsibility for conducting a thorough study of alternative methods for taxing distilled spirits, specifically, moving the point of tax payment for distilled spirits to the wholesale level. Working with the U.S. Customs Service, the Office of Management Budget, and the Office of Tax Analysis at Main Treasury, ATF completed the study and forwarded a full report to the Under Secretary’s office on March 13, 1998. The report was signed by the Under Secretary on April 15, 1998 and submitted to the Congress.
  - In August 1997, the Taxpayer Relief Act was enacted. This law contained numerous provisions that affected ATF-regulated operations, notably in the tobacco regulations. ATF evaluated the law and began work on implementing the applicable sections. Since October 1, 1997, ATF has published three procedures, three notices of proposed rulemaking, and two treasury decisions related to this law. Additional documents are in review.
  - ATF has formed a work group to make the necessary changes to regulations, forms and procedures to implement tobacco provisions of the Balanced Budget Act of 1997. ATF is preparing for the 2000 and 2002 tobacco tax increases, floor stocks taxes, new permit requirements for tobacco importation, and other significant changes.
  - ATF directed or assisted several projects to promote Electronic Commerce. These projects were started or worked on during fiscal year 1998: The use of Document Management and Imaging Software (using the Eastman Software). ATF obtained the software in fiscal year 1998 and it is in development phase. Conducted studies and received proposals for analytical software for trends and anomalies. Researched and oversaw a contract to convert historical files to images for filing. ATF developed a test system to provide the capability to taxpayers of completing forms on computers and then submitting the forms to ATF electronically. We have arranged a test project with four tobacco producers. ATF has also been working toward electronic payments, including electronic wallets, cyber cash, Internet debits, and automated clearing house (ACH). ATF has made arrangements to conduct a limited pilot program at NRC to accept Credit card payments for collecting some tax payments via telephone.
  - ATF streamlined the permit application process, so that all of the information and forms needed in order to enter one of the regulated industries can be downloaded from the ATF web site.
  - The National Revenue Center assumed nationwide responsibility for licensees/permittees and operations for most commodities. ATF coordinated the transfer of functions to the National Revenue Center from the Tax Processing Center, Cincinnati and from the remaining Technical Services offices. The Atlanta Technical Services office was closed and functions from Atlanta, as well as some

- functions from San Francisco and Philadelphia Technical Services, were transferred to the NRC.
- Conversion and migration of information in Special Occupational Tax and Federal Excise Tax mainframe databases to a local “Oracle” based server environment was begun.
  - ATF Permits Issued/Registrations Processed in fiscal year 1998:
 

Alcohol Fuel Plant .....	13
Beer—Brewery (Registration) .....	271
Wine—Bonded Winery/Bonded Wine Celler/Taxpaid Wine Bottling .....	264
Distilled Spirits—Dillery .....	42
Non-Beverage Alcohol—Fruit Flavor Concentrate Plant, Specially Denatured Spirits, Tax-Free User .....	315
Tobacco—Export Warehouse, Manufacturers .....	36
Firearms—Tax-free Manufacturer (Registration) .....	5
Distributors—Wholesalers .....	1,015
Distributors—Importers .....	727
  - Purchased 710 Astro-Spectra mobile radios, 122 Quantar repeaters, and over 150 Spectra-Console base stations, making ATF the lead among Treasury bureaus in deploying digital and narrowband capable equipment to field agents.
  - Distributed the 1st, 2nd, and 3rd quarterly editions of the ATF Reference Library CD-ROM to 2,500 field office personnel who now have “at their fingertips,” no matter where they are deployed, the most up-to-date information consisting of ATF directives, internal guidelines, forms, tax rates, and other data of import to the prompt and efficient performance of their official duties.
  - ATF has expanded its Internet site, <http://www.atf.treas.gov>, to include current information, links to the Federal Register, directorate information and expanded information on firearm questions. Congressional offices, the public and members of the industries that ATF regulates visit the site daily. In 1998, ATF received more than 8,000 e-mail queries from the public, the media, and industry members.
  - Experienced a 350 percent increase in ATF’s Internet web site visits from 700 per day in fiscal year 1997 to over 2,500 per day in fiscal year 1998.
  - Continued Year 2000 date compliance efforts, and information systems security to ATF’s 4,100-member user community.
  - Deployed the Enterprise System Architecture (ESA), utilizing the innovative “seat management” acquisition strategy to provide and maintain a nationwide high speed data communications network, standardized e-mail and office suite software, encryption-protected access to ATF data systems. Under “seat management”, ATF leases information technology services, namely, management, operation, and maintenance of desktop computing services and the associated networks infrastructure, on a “per seat” basis. ESA supports 4,100 employees nationwide in 188 points of presence.
  - ATF’s Intranet site was redesigned with each directorate and executive level office represented. The Intranet is the internal communication vehicle for employees to obtain information on ATF’s activities, programs, forms, publications, current events, and initiatives.
  - Linked ATF’s Intranet to the Treasury Intranet and enhanced Intranet services to provide employees access to an electronic resource library consisting of up-to-date ATF directives, internal guidelines, forms, and other information including broadcasts.
  - Received over 6,700 applicants for agent and inspector positions were gleaned out of recruitment activities during that year (e.g., (4) Special Agent and (1) Inspector announcement). On average 50 percent of those who applied were found to be qualified. 12 percent of those determined qualified were tentatively selected with more selections underway.
  - Obtained authorization from the Congressional Subcommittee on Public Buildings for the ATF Headquarters Relocation Prospectus, and narrowed the number of potential sites for the new Laboratory Center.
  - Implemented heightened security measures at Headquarters and standardized security requirements for all major field offices.
  - Implemented several external initiatives including the Welfare to Work Program, and the Federal Computers to Schools program.
  - Implemented a program which encourages employees to sell their own homes when relocating without use of third party relocation companies to help offset the rising cost of permanent change of duty station moves.
  - Completed the first phase of integrating a new procurement sub-system within Financial Management Information Systems.

—Identified changes to the payroll interface and time and attendance systems to record payroll costs by ATF's major activities.

FY 1999 YEAR IN PROGRESS

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

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

- Faced with a number of special agents eligible for retirement over the next 5 years, coupled with the need to staff the organization to effectively combat crime, identify tax revenue, and to address program needs, ATF has moved into an aggressive recruitment mode.
- Hiring 162 special agents to support the Youth Crime Gun Interdiction Initiative Program.
- Hiring special agents for the Violent Crime Coordinator program.
- Completing the canine training building by May 1999. The kennel building is currently on schedule and should be completed by the summer of 2000.
- Expanding the National Tracing Center and the NIBIN program.
- Develop a plan for the tax gap study.
- Implement Determine At Risk Taxpayers (DART) program. With this program, ATF generates lists of revenue facilities to be inspected. Since we do not have an automated system to analyze the data in our systems, the plants to be inspected were selected manually. By next year's planning cycle, we plan to have a software program in place to automate this process.
- Implement Relational On-Line Analytical Program (ROLAP). Analytical software for trends and anomalies to be used to help predict problem areas and direct inspections where problems are more likely to be found.
- Implement Pandora, a program to determine jeopardy to the revenue. There are several sub-programs listed under the Pandora Program. Inspections of these industry members are vital in determining whether any jeopardy to the revenue exists and the general compliance rate within certain industry segments. Inspections conducted under Pandora could generate additional indicators of revenue jeopardy, requiring adjustments to the DART Program.
- Continue with consolidation of Technical Services offices into one National Revenue Center.
- Complete Special Occupational Tax database and match to state data.
- Complete new directive on resolving tax liabilities.
- Initiate advanced training for inspectors and specialists revenue issues.
- Provide training to field personnel on diversion schemes for alcohol and tobacco products.
- Continue imaging of data at National Revenue Center.
- Develop better criteria for proof of export of alcohol and tobacco products.
- Participate in international training on revenue matters.
- Coordinate with state agencies on diversion matters for alcohol and tobacco products.
- Implement provisions of the 1997 Taxpayer Relief Act.
- Implement Beverage Alcohol Streamlining Team (BAST). During fiscal year 1998 this team met regularly in order to accomplish their goal of conducting a business process review. Our goal is to implement, in segments, the team's recommendations and approved business improvements during fiscal year 1999.
- Continue to provide guidance to industry on directional health statements.
- Continue development of The Beverage Alcohol Manual (BAM), A Practical Guide.
- Continue development of Alcohol and Youth policy.
- Provide access to label approvals on the Internet.
- Conduct Market Basket Samplings on specialty products.
- Conduct slotting fees investigations.
- Conduct label analysis on new products and/or new labels.

- Conduct industry seminars.
- Support U.S. Trade Representative's Office.
- Participate in World Trade Organization discussions relating to geographical indications on wines and spirits.
- Having received an approved prospectus, the Bureau plans to continue efforts to construct the new Laboratory and Fire Research Center.
- Continuing efforts, with the committees support, to relocate the ATF Headquarters to a facility that will bring the Bureau in compliance with the recommendations of General Services Administration's security reviews.
- During the past year, ATF's Year 2000 (Y2K) Program Management Office completed identification and assessment of the Bureau's IT and non-IT systems readiness for Y2K. Modifications and replacement of our non-compliant hardware and software is continuing in order to ensure proper systems operations as the century date changes. I am pleased to report that all mission critical systems will be fully compliant by the end of fiscal year 1999.
- Pilot collaborative efforts with four communities, their police departments and the Boys and Girls Clubs to develop and continue experimentation of GREAT to include teaching the GREAT curriculum in non-school environments. In addition GREAT partnerships are being developed with the Boy and Girl Scouts of America and the police Athletic League in a number of communities. These partnerships will become part of comprehensive strategies to reduce youth violence and gang development at the local level. These partnerships assist communities in providing positive places for children to go in the summer months, where they have positive role models and adult leadership to reinforce the lessons taught during the school year in GREAT.

#### ATF'S EFFORTS TO COMBAT TERRORIST ACTS

The current Presidential Decision Directives (PDD) outline the responsibilities and lead authority for some agencies when dealing with terrorist incidents. The PDDs also direct the United States Government to use all of its available resources and expertise to combat terrorist incidents. ATF's expertise in the firearms, arson and explosives related fields are among the best in the world and will greatly benefit the United States in the fight to combat terrorism.

ATF's mission includes the investigation of bombings, firearms trafficking, arsons etc. These functions are at the core of our mission. Regardless of the motive for committing the crime, ATF dedicates the necessary resources to investigate violations under our jurisdiction. ATF's laboratories are involved in other research projects such as explosive residue tests from large vehicle bombs, prevention of contamination and decontamination issues in bombing investigations, and advanced evidence packaging and preservation. Because of our unique mission, research is a necessary part of our job. We have a great deal of expertise in explosives research including the "Dipole Moment Study," a large vehicle bomb research program, funded in 1996, under the Anti Terrorism and Effective Death Penalty Act. ATF has also formed an Explosives Study Group to coordinate our research. Section 732 of the Antiterrorism and Effective Death Penalty Act of 1996, including: 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 explosive materials; and State licensing requirements for the purchase and use of commercial high explosives. ATF is continuing to research and test methods for efficiently rendering inert or desensitizing ammonium nitrate fertilizer.

Congress also authorized the Secretary of the Treasury (through ATF) to establish the first National Repository of information relating to arson and explosives incidents. This system is still under development and includes information from more than 80,000 arson and explosives related incidents.

Examples of the resources and expertise that ATF has include:

- Investigating nearly 700 explosives incidents per year.
- Laboratory (3) staff with 26 forensic chemists trained in the analysis of fire and explosives debris. The laboratories analyze evidence from nearly 700 bombings per year, including evidence sent by local law enforcement.
- Four National Response Teams (NRTs) with 120 members including Fire Protection Engineers, chemists, bomb technicians.
- International Response Teams (IRTs)—16 activations around the world in conjunction with the Department of State, Office of Diplomatic Security. ATF also conducts assessments of foreign response capabilities relating to explosives issues for the Department of State's Anti-Terrorism Assistance program.
- Nearly 300 certified explosives specialists.

- 24 bomb technicians.
- Mobile forensic laboratory which travels to the scene.
- 42 fully equipped NRT trucks.
- 75 Certified Fire Investigators.
- An Explosives Study Group (ESG) tasked with a number of research and development projects relating to explosives used in bombings.
- Additional explosives research projects such as Dipole Might, (large vehicle bomb study) and Pipe Bomb study (effects of pipe bombs); both are coordinated through the Technical Support Working Group (TSWG) which was formed by the National Security Council.
- Partnership with the explosives industry and the fertilizer industry to form programs such as “Be Aware For America.”
- A world class Explosives Detection Canine Program. This training program has trained more than 170 explosives detecting canines for the Department of State’s Anti-Terrorism Assistance Program. These dogs are stationed in 12 countries around the world. Additionally, ATF has 8 special agent handler teams in the United States and has trained canines for the CIA, IRS and other State or local department Congress also tasked the Secretary of the Treasury with developing “odor recognition standards for explosives detecting canines.” ATF developed these standards and they were published in September 1998.
- Two arson/explosives profilers assigned to the FBI’s Behavioral Science unit.

#### INFORMATION TECHNOLOGY

As we approach the new millennium, ATF has worked diligently in an effort to keep pace with an extraordinary amount of technological change. The Office of Science and Technology (OST) supports ATF’s strategic law enforcement and revenue collection activities. The Bureau will focus on four areas in fiscal year 2000 and beyond:

##### *Information Technology Infrastructure*

Agents, inspectors, and auditors deployed in field offices received notebook PCs with docking stations. Notebook PC as well as stationary PC workstations are connected via local area networks (LANs). The LANs are connected with a current technology high-speed wide-area network (WAN). The WAN links the offices within ATF to each other and becomes the electronic backbone of ATF’s data communications.

The new network infrastructure provides more efficient ways for ATF to manage and transmit data, text and images—facilitating key capabilities like electronic mail and access to the Internet, intraweb services, and other law enforcement.

##### *Laboratory Services*

ATF’s laboratories specialize in examining arson, firearms, and explosive evidence and in analyzing alcohol and tobacco products. Controls are maintained to ensure the quality and integrity of laboratory operations including on-site investigative support of both national and international response teams. ATF’s three forensic science laboratories are fully accredited by the American Society of Crime Laboratory Directors. ATF maintains an independent test sample service to persevere the proficiencies of individual examiners. A second examiner and a supervisor ensure accuracy, completeness, and scientifically validate conclusions by reviewing all examiner findings. ATF uses stringent evidence packaging protocols to detect and guard against contamination among forensic samples and cases. Eleven laboratory management personnel are subject matter experts within their specific disciplines. All ATF laboratories use analytical methods and procedures that meet the highest quality assurance standards for precision and accuracy.

##### *Audit Services*

ATF’s field auditors provide an important investigative tool for solving financially motivated crimes such as arson and the illegal diversion of alcohol and tobacco products. Auditors determine the financial condition of the business and suspects, develop investigative leads and criminal charges through examinations of financial records, participate in the conduct of interviews, assist the case agent in determining, for example, if an insurance claim is fraudulent, and, ultimately, provide expert witness testimony at trial.

##### *Technical Support*

The Technical Support Division provides tactical radio communications, vehicles, new investigative equipment, investigative supplies, agent safety equipment including body armor, electronic surveillance technologies, computer forensics, training of

tactical operations officers and technical enforcement officers, and audio, visual, graphics and photographic services.

#### TRAINING ACTIVITIES

ATF's Office of Training and Professional Development provides our employees with high quality and innovative training programs by assisting in their professional development, thus improving performance and supporting our Strategic Plan. 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 international law enforcement officers. Training areas include arson investigation, explosive identification and regulation, firearms trafficking, and post blast investigations. During this FY, ATF's Office of Training and Professional Development has created a state-of-art Academy for State and Local Firearm and Toolmark Examiners which will be the first of its kind in Federal law enforcement.

The GREAT Program is having a positive effect on preventing violence. Students, parents, GREAT officers, police chiefs, and sheriffs from all over the country testified before the Senate Appropriations Committee this past May. The constant theme echoed during that hearing was that "GREAT works!" The successes of the GREAT Program will continue to help our communities achieve the reduction in gang and youth violence that is so very important to the well being of American society.

#### MANAGEMENT AND ADMINISTRATIVE EFFORTS

During fiscal year 1998, ATF's Office of Management once again provided leadership, coordination, and direction, working in partnership with other senior Bureau officials in executing ATF's core business processes. The Office of Management focused on operating on a fiscally sound basis, meeting external mandates, and protecting the Bureau's resources, while continuously improving customer service. Some specific management accomplishments include:

- Developing a Year 2000 contingency plan for mission critical information technology systems such as payroll, vendor payment, and building and facility security systems;
- Providing Contract Officers' Technical Representative (COTR) refresher training for personnel handling significant procurements, thus improving internal management controls; and
- Developing and implementing vault inventory (bar code) systems at two major field sites to track more efficiently asset forfeiture and seized property.

A challenge facing ATF is relocating its Headquarters to a facility that is safe and secure. ATF is requesting \$15 million and continued support from the committee to meet this challenge.

#### FINANCIAL MANAGEMENT

##### FOURTH UNQUALIFIED CHIEF FINANCIAL OFFICERS AUDIT OPINION

I am proud to announce that after thorough review and audit by the Department of the Treasury Office of Inspector General and Price Waterhouse/Coopers, the Bureau received its fourth successive "Unqualified Audit Opinion". This yet again confirms that the Bureau's financial statements conform to all applicable guidance, regulations and statutes, and demonstrate sound financial management by a talented staff of professionals.

#### RECRUITING/PROMOTION EFFORTS

ATF created a recruitment team to identify and maintain liaison with a number of sources including colleges and universities. ATF has also reorganized the Personnel Division to meet this need. To address diversity, ATF has increased the visibility of the Diversity Career Impact Program (DCIP), which aids our outreach efforts nationwide. Partnerships between headquarters and field personnel have made it possible for the Diversity Career Impact Program representatives and the Personnel Division to work together cohesively.

ATF has aggressively marketed its recruitment efforts at over (19) Job/Career Fairs sponsored by organizations that are recognized for reaching significantly

under represented communities in our work force. Examples of job/career fair organizations participating are:

- National Congress of American Indians (NCAI Conference)
- Hispanic Conferences (National Diversity Career Expo.)
- John Jay College Career Fair
- National Black Police Association

Linked to these efforts the Bureau has pursued applicants for its vacancies in the primary areas of special agents and inspectors with the following results:

Specifically, during the last six months of fiscal year 1998, 98 new agents were added to our rolls. For the first half of fiscal year 1999, 68 agents and inspectors will have reported; and another 42 have been scheduled to report by the end of June; 132 additional special agent selections have been made and are in the background investigation stage; 360 applicants for special agent positions are currently in the interview process; and 700 applicants are under initial review.

Additionally, 114 inspector selections have been made and are in background investigation process; 314 of 923 applications for inspector positions paneled are currently in the interviewing stage; in addition, 106 applications for the Outstanding Scholar Program are also in the interviewing stage.

Our field offices have interviewed over 220 agent applicants, 91 of who are eligible candidates from the Treasury Enforcement Agent Examination Register. Selections from that group started in February and should be completed this month. Last but not least, we have opened another announcement for grade 9 special agents that closed March 30.

For fiscal year 1999, ATF currently has an additional 6,000 applicants in the pipeline from various sources. ATF is also working to improve the quality of our applicants by using various recruitment and information dissemination mechanisms such as: Office of Personnel Management (OPM), student programs, establishing relationships with colleges and universities for future pools of qualified candidates, Internet distribution and applications and the like. Cooperative Education Agreements have been established with 18 colleges and universities and we are continuing to pursue other educational facilities.

#### CONCLUSION

We thank the committee for its continued support in our base restoration efforts over the last two fiscal years. The restoration of base funding has allowed the bureau to strengthen its infrastructure and foundation, in order to adequately support regular program activities and increasing demands as well as program expansion. Our focus on recruitment during fiscal year 1999 and fiscal year 2000 is an integral component of our base restoration and the achievement of our vision of working for a safe and sound America through innovation and partnership.

Contributions from our non agent, non inspector staff has proven invaluable and provides critical infrastructure support to in all Bureau activities. Most importantly they are the diverse component ingredients of our fiscal year 2000 program initiatives. These are the talented "behind the scene" individuals that support our science and technology efforts in investigations and tracing, our accounting and finance operations when collecting the revenue, training objectives, human resource management operations and building management and security requirements.

As we move into the 21st Century, I recognize the importance of having a strong balance among all elements of ATF's population, in order to meet our goals of reducing violent crime, protecting the public and collecting revenue. We encourage the committee to continue its support of our base restoration and recruitment efforts among these ranks.

This completes my statement. I will be happy 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.

#### INTEGRATED VIOLENCE REDUCTION STRATEGY

Senator CAMPBELL. Thank you, Director Magaw. Let me ask you a couple of questions here.

The ATF is requesting additional funding as part of the violence reduction strategy dealing with gun shows, you mentioned those, and flea markets as sources of illegal firearms purchases. I have here, in my notes, a copy of a Spokane, WA, newspaper that states in a stakeout that they yielded no illegal firearm sales.

I assume you have been conducting undercover investigations around. Could you tell me if you have gotten any handle on what percent of sales at these gun shows are illegal sales?

Mr. MAGAW. It is a little too early for us to give the percent. The study that you talked about, or the experiment that you talked about, did not involve any ATF personnel. We are not involved in that at all, and that is the direct opposite of what we are finding in the investigations that we conduct.

Virtually almost every gun show in America over a weekend period of time will have some illegal gun sales.

Senator CAMPBELL. So a person goes to a gun store, and since they are somewhat regulated now with background checks and so on, he cannot get the gun he wants, he goes to a gun show and gets what he wants anyway? That is basically what is happening apparently.

Mr. MAGAW. When they do not want to go to a gun store because—they still are doing it through a gun store, though, through straw purchases. If I am an illegal and cannot present—

Senator CAMPBELL. Get somebody that is legal to buy it for me.

Mr. MAGAW. Take someone to buy it for me, yes. But as to wanting to stay away from all that, wanting to stay away from that risk, because some of them have felony warrants for their arrest. They just do not want to be noticed. They will go to a gun show to buy a weapon.

#### GREAT

Senator CAMPBELL. The president has requested \$10 million for grants to state and local law enforcement for the Gang Resistant Education and Training Program, which was commonly called GREAT. I have been a very big supporter of that program, as Senator Kohl was when he was ranking minority on this committee, as you know.

Last year we provided \$13 million and that probably was not nearly enough to fund all of the qualified applicants. But how many law enforcement agencies will receive GREAT funding this year?

Mr. MAGAW. How many law enforcement groups did?

Senator CAMPBELL. Yes.

Mr. MAGAW. In 1999 we had 109 cooperative agreements this year, right now, and spent \$13 million for those 109 cooperative agreements.

Senator CAMPBELL. How many requests did they have, do you know?

Mr. MAGAW. 316.

Senator CAMPBELL. What was the original number, 109?

Mr. MAGAW. We were able to fund 109 of the 316. We had estimated, remember last year when we talked, we estimated about \$40 million would take—and that is about right. That is about what it would have worked out to be.

Senator CAMPBELL. We also, in a hearing last year, in the conference report there was supposed to have been a long-term evaluation about the impact of the program on youngsters. We urged the ATF to contract with the National Academy of Sciences to conduct that evaluation. Have you followed through with that?

Mr. MAGAW. The longitudinal evaluation is still in progress. We should have some final statistics back on that within a few months.

Senator CAMPBELL. Could you provide the committee with that result?

Mr. MAGAW. Yes, sir.

POLICY ON FEDERAL FIREARMS LICENSEE RECORDS

Senator CAMPBELL. Last year the ATF was directed to develop a written policy on collection and maintenance of Federal firearms licensee records. How is that policy being developed? Where is it in the mix?

Mr. MAGAW. I did not understand that question, Mr. Chairman.

Senator CAMPBELL. Last year the ATF was directed to develop a written policy on the collection and maintenance of Federal firearms licensee records and was asked to provide a copy of it to this committee. Is that report ongoing now?

Excuse me, I apologize, we got it last night.

Mr. MAGAW. That report was delivered yesterday. It was 2 weeks late, Mr. Chairman, and we apologize for that.

Senator CAMPBELL. I had not seen it. Without reading this thing myself, does this policy make any change in current practices? I see a couple of people shaking their heads no, back there in the audience.

Mr. MAGAW. The policy that we have now is two years on multiple sales purchases. And if they are not inquired or not part of an investigation we will keep them for eight years. The problem is that we are still continuing to look at that because it is such a new program because the 2-year period may, in fact, not be enough. But we want to be able to show that through inquiry and investigations.

Senator CAMPBELL. Just from my perspective, eight years seems like an awful long time to keep tracing information, too. But I will read that as length, as I can.

CEASE FIRE

The ATF and the FBI have ballistic ID systems, ceasefire and drugfire. Do they work totally independent, or are they compatible systems? And if they are not, why should we not have them—

Mr. MAGAW. They used to work totally independent. They do not work totally independent now.

Senator CAMPBELL. Does one program do something the other one would not?

Mr. MAGAW. Pardon me?

Senator CAMPBELL. Does one make some certain IDs that the other program would not?

Mr. MAGAW. Yes; what we have done is put them under one program, called the National Ballistic Information System. Drugfire, the one that the FBI had developed, does shell casings. The one that ATF developed does both.

Now what we are trying to do, and we are very close to getting it done, is tying those machines together so that they will talk to each other, and therefore when a police department in one location of the country makes an inquiry, it would be checked through both

drugfire and the old term ceasefire. We now refer to them as NIBIN.

The funds being used cannot be spent now unless it is making the systems whole and one and benefit to the investigative organizations around the country.

Senator CAMPBELL. Very good. I have some further questions that I would like to submit in writing because we are running on in time a little bit here. So if you could get those answers back to me, I would appreciate it.

Mr. MAGAW. I would be happy to.

Senator CAMPBELL. Senator Dorgan, did you have some questions for Director Magaw?

#### GREAT PARTICIPATION FROM INDIAN LAW ENFORCEMENT

Senator DORGAN. Just brief questions. The Gang Resistance Education and Training Program, I heard your answer to Senator Campbell.

We do not have much participation in that program from Indian Nation law enforcement programs or officers, do we?

Mr. MAGAW. That is correct, Senator. We have set aside money each year to work with the Indian reservations. But up until this point, we have not been able to get them to accept the program.

Part of it may be our fault on communications. We are going to work harder at that in the next year because we do believe that it is—and it has shown around the country to be a very valuable program and we think that presented on Indian reservations by Native Americans to those children will be a benefit to them.

Senator DORGAN. I think its value on Indian reservations would be extraordinary, so I would encourage you and want to work with you, as I am sure Senator Campbell would, to make sure that we extend that if we can.

Senator CAMPBELL. If the Senator would yield for a minute, one of the problems we have had with a lot of these programs that are available to Indian reservations is that they simply do not know they are available. The agencies, from my perspective, have really fallen down in just getting the word out and letting the tribes know that they can get in the mix, that they can avail themselves of the programs.

Mr. MAGAW. That is what we intend to do, to make sure we are going to those Indian reservations and doing a better job of selling the program. We thought that the funds sitting there would be used and in a couple of cases it has been \$25,000 or more that has not been used during the year. So we are going to approach that.

#### BOOTLEGGING OF CIGARETTES AND ALCOHOL

Senator DORGAN. Mr. Magaw, can you just tell me generally what kind of problem, or what size of problem, exists in this country with respect to bootlegging of cigarettes and alcohol without tax consequences? What kind of enforcement effort—

Mr. MAGAW. We constantly are working a fairly large number, and I would be happy to share that in private with you, a fairly large number of tax diversion cases. You have in this country States where their tax rate is about 5 cents on a pack, and others that are \$.75 or \$.80 or \$.90 or \$1. They are going up now more.

And so you are finding truckloads of cigarettes being moved from one State to another, and huge amounts of tax being mispaid to that particular State.

And as the Federal taxes go up, it does not create a real problem for the diversion, so much as when individual States go up. In fact, you have a situation right here now where Maryland tax is going to go up fairly substantially and the very lowest State, Virginia, sits right next to it.

Senator DORGAN. We have a problem with Indian reservations in these issues?

Mr. MAGAW. Yes, there are a number of cases involving Indian reservations and we constantly have cases going on involving that. And we can share some of that information with you, also.

#### BRADY LAW BACKGROUND CHECKS

Senator DORGAN. Let me briefly ask you a question about background checks for firearms with respect to pawnbrokers.

There is a controversy with respect to a requirement of pawnbrokers to do an instant check, either when they check the gun in or when it is redeemed. Tell me a bit, if you can, about our experience with that? What is your impression of the importance of that and how does that fit in with the instant check system?

Mr. MAGAW. The pawnshop dealer has a real problem on their hands, because as a person walks in with a weapon to pawn it they want to make sure that weapon is not loaded. And so as a result what happens a lot of time is they check the weapon to make sure it is not loaded so it is not a danger to anyone else in their shop. Instead of giving it back to the individual and then run the check, they have it in their possession. And if they have it in their possession when they find out this is a prohibited person, they really cannot give it back to them.

On the other hand, trying to work with them and work within what we think the Congress intended, which is to have them go ahead and check the safety of the weapon, hand it back to the individual, then they run the check. Now after they run the check and the individual is a person who is prohibited, the gun dealer now does not have it in their possession, the prohibited person does, and then they pick the phone up and notify local authorities. They have 48 hours to do that.

So we think, within the way it is set up there is a way out for the pawnbrokers. Sure, they have it 24 to 48 hours before law enforcement catches up with them or might have a chance to talk with them, but it is really the only way we can see that it works, because it was fairly clear to us that the Congress did not intend for the pawnshop dealer to have to be the seizer of this weapon by running the check.

Senator CAMPBELL. If I might interject, that is a pretty confusing method. If he does not give the gun back, he risks some bodily harm possibly. If he does give the weapon back and it is not in his possession and the guy clearly is a criminal, then he may make the call but the guy that is going to use the gun has it and he is out of there.

Mr. MAGAW. That is right, it is a very difficult situation for them. And yet they cannot not look at the weapon to begin with because many of them are coming in with them loaded.

PROPOSED NEW HEADQUARTERS FACILITY

Senator DORGAN. Mr. Magaw, in the interest of time, let me submit some questions to you. I wanted to ask about the building of a new facility for BATF. As you know, the Justice Department was evaluating security risks and I think BATF was judged to be a level 4, the highest risk. You are now in leased space. I understand you have other requirements and needs.

SUBMITTED QUESTIONS

But I do want to ask a series of questions about siting and other issues, so let me send them to you and ask that you submit them to the subcommittee.

Mr. MAGAW. All right, sir, I would be happy to.

Senator CAMPBELL. I understand you are looking at Denver for a facility. [Laughter.]

Senator DORGAN. It is actually Bismarck.

Senator CAMPBELL. I knew it was one or the other.

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

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

*Question.* President Clinton announced over the weekend that he has instructed the Departments of the Treasury and Justice to work together to develop a plan to reduce gun violence. He specifically mentioned "Project Exile," a program in Richmond, Virginia, designed to prosecute those who use firearms in the commission of a crime under the most stringent laws, usually ATF Federal statutes, in order to get violent offenders off the streets. Have you begun developing that plan?

*Answer.* Yes. ATF is working with Treasury's Office of Enforcement and DOJ to develop documents that will go to ATF Division Directors and United States Attorneys. These documents will direct these officials to develop plans tailored to the firearms violence problems in their geographic areas.

*Question.* Do you envision recommending further restrictions on gun ownership?

*Answer.* No. This initiative involves the development and refinement of strategies to enforce current law.

*Question.* How much emphasis will be placed on utilizing existing law to get criminals off the streets much like "Project Exile?"

*Answer.* The thrust of the initiative is to have local ATF officials, working with their United States Attorney as well as State and local officials, develop strategies appropriate to the problems of the area. Project Exile might be appropriate in Richmond but in other areas another approach might be best. In all cases the use of existing laws to get criminals off the streets will be the overall goal.

There is a continuing interest in having ATF get more involved in making sure that the rightful, legal owner of a stolen registered firearm is notified when that weapon has been recovered. As you know, last year the Senate report directed ATF to work with State and local law enforcement to ensure that the legitimate owner has been notified when the firearm turns up.

*Question.* Have you identified ways to assist State and local law enforcement?

*Answer.* ATF and law enforcement agencies cooperate and make every effort to ensure that firearms owners have their property returned. However, firearms taken into custody by law enforcement in most instances are considered evidence of a crime. This usually prohibits the return of the firearm until the criminal case has been thoroughly investigated and prosecuted and in some cases appeals are decided. This can take years for final adjudication. The return of firearms during this time would not be possible. When they are available for return law enforcement agencies are encouraged to contact ATF for tracing assistance. This assistance is limited as it can only identify the initial purchaser, who may not now be the legal owner.

The return of a firearm to its rightful owner can be a complicated and man-power intensive search if the owner has not reported the theft or loss to local authorities.

*Question.* What is the status of ATF efforts?

*Answer.* These efforts are on going with the expectation that all law enforcement agencies will continue to make every effort to return firearms to the lawful owner.

There is a provision in the fiscal year 1999 appropriations law which authorizes the Secretary of the Treasury to reimburse rifle importers for costs resulting from an Executive Order which prohibits the importation of such weapons. This is commonly called "in-transit relief". I understand that the responsibility for investigating these requests has been delegated to ATF.

*Question.* What is the status of these reimbursements?

*Answer.* ATF has completed the field verification of the claims and is presently awaiting the issuance of an order, which will delegate the authority to act on the claims under the statute from the Secretary of the Treasury to the Director, ATF. Once the delegation order is issued, ATF will immediately initiate the process to reimburse the importers pursuant to their claims, and to arrange for the disposal of the firearms.

On Monday the Washington Post ran an article about a man in Illinois who lost one of his sons to gun violence, and his attempts to hold someone accountable. According to the article, he was able to obtain ATF firearm trace information on the gun used in the attack. The information developed by the National Tracing Center is a valuable investigative tool for Federal, State, and local law enforcement.

*Question.* Under what circumstances is that information released to the public?

*Answer.* The National Tracing Center (NTC) does not release information to the public. The NTC provides firearms tracing as a service to the law enforcement community as provided for in the 1968 Gun Control Act which mandated ATF to support State and local law enforcement. Information generated as a result of firearms tracing is provided to law enforcement and government agencies in an effort to support State and local law enforcement.

The public does have access to some NTC information through the means of a Freedom Of Information Act (FOIA) request. However, no names of individual dealers are ever released.

Prior to 1999, no information was released that was dated within one year of the response. This changed in 1999 after three fields previously released were determined not to be releasable as they may potentially compromise an ongoing investigation. Those fields are Serial Number, Purchase Date, and Federal Firearm License number. As a result an extract of all NTC data was made up to the end of 1998. This information is now available in an electronic format (zip disk) and will be disclosed through the Office of the Assistant Director for Liaison and Public Information.

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#### QUESTIONS SUBMITTED BY SENATOR DORGAN

##### LAW ENFORCEMENT FACILITIES

*Question.* The Secret Service rent rate has increased \$10.3 million at their new Headquarter facility. Of that amount, \$4 million is related to the increase in square footage. ATF is starting to plan for their new headquarter facility. Is the Office of Real Property providing ATF guidance on the facility acquisition to ensure that the costs associated with this new facility can be captured within ATF's base funding?

*Answer.* Yes, the Treasury Office of Real Property is providing guidance to ATF on the new Headquarters project. However, there are two developments associated with this issue for ATF. Base funding for ATF in the rent category will experience the most significant increase in fiscal year 2000 and 2001. GSA must extend the existing Headquarters space leases which will expire prior completion of the new building (currently estimated for fiscal year 2004), and ATF's square footage requirements have increased. Secondly, since the construction funding for the new ATF facility was only recently moved into the GSA budget (fiscal year 2000), it was not anticipated in prior year planning that ATF would be subject to rent in the new facility.

It is the intent of ATF, with guidance by the Office of Real Property, to negotiate GSA rental payments for the new facility that fall within the limits of the increased rate at the current location, thus capturing them in the fiscal year 2000 and fiscal year 2001 adjusted base.

## COUNTER TERRORISM

*Question.* Did ATF participate in developing that plan, and if so, were ATF's recommendations included in the plan?

*Answer.* ATF participated in the development of the plan as members of working groups charged with addressing specific issues. Some of ATF's recommendations were included in the report. The following are some key recommendations that were not included:

- Create a "Joint International Firearms Trafficking Center" formed with ATF, Customs and the Department of State as the main participants. ATF believes this center would be useful, particularly since one of the main strategies of this report is to address the international firearms trafficking problem. Funding was tied to this recommendation. This strategy ties closely with the "International Firearms Trafficking Training" that was recommended in the report.
- Expand ATF's arson and explosives repository to include international data. Congress authorized the Secretary of the Treasury (through ATF) to develop a repository of arson and explosives information in the United States. ATF's recommendation was that for minimal costs, this system could be expanded to collect and exchange international data. That information would make our system much more valuable to the United States when preparing for or responding to a terrorist threat.
- The National Domestic Preparedness office (NDPO) should include Treasury as a representative. ATF and Treasury advised the Department of Justice of this recommendation, because we believe the NDPO will be coordinating the efforts of Federal, State and local agencies, and will be training them to respond to acts involving Weapons of Mass Destruction (WMD's). Title 18, section 2332 (b) includes in its definition of WMD's "destructive devices" which fall under the purview of the Secretary of the Treasury.
- Include ATF's research and development efforts relating to explosives in Federal research. The report identifies the need for coordinated research in explosive issues. ATF's research and development efforts relating to explosives, such as, "Dipole Might" (relating to the study of large vehicle bombs) should be included.

Congress earmarked funding for this project. Additionally, Congress authorized and provided resources for ATF to study a variety of issues, including tagging explosives, rendering fertilizer inert, etc.

- Include ATF in teams referred to by the report; including, the Foreign Emergency Response Teams (FEST) and the Domestic Emergency Response Teams (DEST). The report lists what their resources and capabilities are. ATF's capabilities through the National and International Response Teams fall under this category.

*Question.* What role does ATF play with respect to counter terrorism and the level of expertise ATF brings to the investigations of counter terrorist bombings?

*Answer.* ATF's mission is a blend of regulatory and enforcement activities. We regulate certain industries and enforce the Federal firearms and explosive laws; particularly, those involving the criminal misuse of firearms, explosives and fire. ATF's expertise in the firearms, arson and explosives fields is among the best in the world and should be used to its fullest extent.

ATF's mission includes the investigation of bombings, firearms trafficking, arsons etc. These functions are at the core of our mission. The important thing to note is that the underlying crime is still a bombing, arson or firearms trafficking charge where existing statutory authority already exists, regardless of what the motive is. Therefore, regardless of what the motive for committing the crime is, ATF will dedicate the necessary resources to investigate violations under our jurisdiction. Because of our unique mission, we have a great deal of expertise in explosives research. Research is a necessary part of our job. Congress funded some of the existing research projects we have. For instance, in 1996, under the Anti Terrorism and Effective Death Penalty Act, the Congress funded a large vehicle bomb research program known as "Dipole Might". Additionally, ATF's laboratories are involved in other research projects such as explosive residue tests from large vehicle bombs, prevention of contamination and decontamination issues in bombing investigations, and advanced evidence packaging and preservation.

ATF has formed an Explosives Study Group to coordinate our research in the explosives field. Their focus is to study concerns mandated by Section 732 of the Antiterrorism and Effective Death Penalty Act of 1996 (April 24, 1996), of: 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 explosive materials; and State licensing requirements for the purchase and use of commercial high explosives. ATF is continuing to research and test methods for efficiently rendering inert or desensitizing Ammonium Nitrate fertilizer.

Congress tasked the Secretary of the Treasury with developing "odor recognition standards for explosives detecting canines." ATF developed these standards and they were published in September 1998.

Congress also authorized the Secretary of the Treasury (through ATF) to establish the first National Repository of information relating to arson and explosives incidents. This system is still under development and includes information from more than 80,000 arson and explosives related incidents. Additionally, ATF investigates nearly 700 explosives incidents per year.

Some of the resources and expertise that ATF has are:

- Three laboratories staffed with 26 forensic chemists trained in the analysis of fire and explosives debris. Analyze evidence from nearly 700 bombings per year.
- Four National Response Teams (NRT's) made up of 175 members, including Fire Protection Engineers, chemists, and bomb technicians.
- International Response Teams (IRTS) that were called into 19 activations around the world in conjunction with the Department of State, Office of Diplomatic Security. ATF also conducts assessments of foreign response capabilities relating to explosives issues for the Department of State's Anti-Terrorism Assistance program.
- Nearly 300 certified explosives specialists and 24 bomb technicians.
- A mobile forensic laboratory which travels to the scene.
- Forty-two NRT trucks (fully equipped).
- Seventy-five Certified Fire Investigators.
- An Explosives Study Group (ESG) tasked with a number of research and development projects relating to explosives used in bombings.
- Additional explosives research projects such as Dipole Might, (large vehicle bomb study) and Pipe Bomb study (effects of pipe bombs). Both are coordinated through the Technical Support Working Group (TSWG) which was formed by the National Security Council.
- A National Repository of explosive and arson related incidents. This system has records from more than 80,000 arson or explosives incidents from the past 22 years. The system links with other data collection systems. In addition, this system enables us to trace stolen and recovered explosives and compares things such as motives, component parts, device placement and initiating devices.
- Partnership with the explosives industry and the fertilizer industry to form programs such as "Be Aware For America."
- A world class Canine Explosives Detection Program. This training program has trained more than 170 explosives detecting canines for the Department of State's Anti-Terrorism Assistance Program.

These dogs are stationed in countries around the world. Additionally, ATF has 8 special agent handler teams in the United States and has trained canines for the CIA, IRS and other State or local departments.

—Two arson /explosives profilers assigned to the FBI's Behavioral Science unit.

*Question.* Does ATF's role in counter terrorism conflict with the FBI's role? When does ATF take the lead in a terrorist bomb situation?

*Answer.* There should be no conflict with the roles of ATF and the FBI when addressing legitimate terrorist incidents. ATF has always acknowledged the FBI's lead role in terrorist incidents and has supported them with our resources. Conflict does arise due to the constantly changing definition relating to "domestic terrorism." ATF relies on the definition of terrorism outlined in Title 18 U.S.C. section 2332b(g)(5). Others use different definitions developed within their agencies. The term "federal crime of terrorism" relates only to the underlying crime, such as a bombing or arson.

ATF approaches every investigation with an open mind in order to determine if a crime was committed and if so, who was responsible for the act. As mentioned earlier, terrorism is more of a motive. Motive is not an element that must be proven in many cases. In most cases, the investigative steps, regardless of whether or not it was committed by "terrorists" are handled the same way. The best way to handle these investigations is to share the best resources of each agency and work together to solve the crime.

During the past five years, the United States has experienced an average of 2,500 explosive incidents per year. This includes categories such as thefts of explosives, bombings and attempted bombings. According to the FBI's latest Bomb Data Center report for 1996, there were 11 bombing and hoax device incidents included in the 2,579 overall incidents in 1996. According to the FBI's latest "Terrorism in the United States" publication for 1996, they listed 17 "domestic terrorist" incidents be-

tween 1990–1996. Of those incidents, 11 were bombings (6 were pipe bombs), and 5 were attributed to arson. When looking at the history of these types of incidents, the data is relatively constant.

As one can see, it is fortunate that we experience very few acts of “domestic terrorism.” Therefore, ATF must continue to thoroughly and fairly investigate these other cases that have a Federal interest and not assume what the motive was. ATF has always welcomed the assistance of the FBI in bombing investigations and has shared information with the FBI in a timely manner. We have agreed that once a terrorist nexus is identified and validated, we would relinquish the lead investigator role to the FBI and assist them as necessary.

*Question.* Does ATF have the capability to respond to foreign bombing such as the East Africa bombing?

*Answer.* Yes, ATF does have the capability to respond to incidents such as those that occurred in East Africa. As a matter of fact, ATF’s International Response Team (IRT) has responded abroad to 19 incidents involving fires and explosions. These IRT’s are comprised of our most experienced forensic chemists with the most current forensic equipment, experienced explosive enforcement officers (bomb technicians) who regularly reconstruct bombs for investigative and court purposes, forensic crime scene mapping equipment, personnel trained in studying and documenting large vehicle bombs (Dipole Might), explosives detecting canine teams, and certified explosive specialists who regularly work on bombing cases. ATF has an agreement with the Department of State to provide technical and investigative assistance in foreign countries when it is required.

The Department of State also uses our staff to train foreign nationals in pre- and post-blast investigations, and we perform critical assessments of the capabilities of these foreign nationals to address threats in their countries. ATF bomb technicians have performed numerous threat assessments throughout the world.

#### ATF HEADQUARTERS FACILITY

*QUESTION.* What requirements exist for locating the entire headquarters staff of 900 within the District?

*Answer.* The Secretary has stated that he is committed to keep ATF’s Headquarters in the District. There are no specific ATF or Treasury policies requiring the entire Headquarters staff to be housed in the District. However, the dissection of Headquarters’ mission functions, the majority of which require critical interaction and support with each other and provide for effective ATF field operation activities, would be costly and inefficient.

*Question.* Does the Federal Government own any property in the District which is large enough to house the ATF requirement?

*Answer.* GSA has been unable to identify a Federally owned site that meets ATF’s requirements.

*Question.* Is ATF investigating the use of this Federal land, which would ultimately cost the Federal Government less?

*Answer.* GSA and ATF are pursuing options which would compare favorably in overall costs to development at a Federal owned site. GSA in cooperation with ATF has investigated several Federally owned sites within the District over the past several years. It has been determined in several instances that it would actually be more expensive to renovate existing facilities as opposed to constructing a new building.

*Question.* Are there any remediation requirements on the other available sites?

*Answer.* We are unaware at this time of the extent of remediation, if any, required on the District-owned site being evaluated for ATF Headquarters. Prior studies indicate minor contamination along the perimeter of the land. The original Southeast Federal Center site parcel offered for the ATF Headquarters required a contribution of approximately \$5 million in remediation costs.

*Question.* Has an environmental impact study been completed on the New York Avenue site? How does the construction of a headquarter facility impact the traffic flow on this major thruway?

*Answer.* A preliminary site study, identifying the major impact factors of the ATF project, will be complete by the end of this fiscal year. The answer to the impact of traffic flow to the NY Ave. area by the Headquarters project, along with the other new major developments beginning in that vicinity, will probably not be known until the completion of a full environmental impact study by the end of fiscal year 2000.

*Question.* Couldn’t the proposed visitor’s center have a potential security concern?

*Answer.* The ATF space requirements include an area inside of the building entrance of approximately 1,000 square feet called “Visitor Reception Center.” This

space is defined as the area for receiving and clearing visitors who have official business to conduct with ATF.

#### INTEGRATED VIOLENCE REDUCTION STRATEGY

*Question.* ATF has requested \$12.6 million and 56 FTE for an Integrated Violence Reduction Strategy. The Strategy will focus on several components of firearms enforcement aimed at reducing illegal acquisition and illegal use of firearms. ATF proposes to use new Federal purchase denial information, obtained from the National Instacheck System, which performs background checks before the purchase of every firearm, by electronically receiving information from the 120,000 referrals ATF receives, as a result of background checks. ATF is projecting an increase of each special agent's workload by seven violations per month. What is the current special agent's workload?

*Answer.* Currently, each special agent initiates an average of ten investigations per year, or nearly one per month.

*Question.* How many additional special agents are required to meet the demand of the increased workload as a result of the referral information?

*Answer.* Our previous submissions for the period up to and including fiscal year 2005 called for a total of 346 new special agent positions, along with support and inspectors. This proposal was made with the assumption of a continued workload as provided above.

*Question.* ATF proposed the use of National Instacheck Systems on purchases at gun shows. How would this system work? Would the seller conduct the background check or would ATF? How many gun shows are held annually? What level of increase in resources would be necessary to meet the referrals from these background checks?

*Answer.* Current law requires that retail purchasers of firearms from FFLs, whether at the retail premises or at a gun show, be the subject of a background check directly through the FBI's NICS system, or through a State serving as a point of contact to NICS. The Gun Control Act allows exceptions from the check in certain circumstances, such as persons holding a qualifying firearms permit. A recent study conducted by the Department of the Treasury with ATF and the Department of Justice recommended statutory changes that would require NICS checks be conducted on all retail purchasers at gun shows, whether they acquire the firearm from an FFL or from a non-licensee.

If this recommendation were enacted into law, a non-licensee would transfer a firearm to a purchaser only through an FFL. The FFL would enter the firearm into his or her records and would cause the purchaser to complete an ATF Form 4473, Firearms Transaction Record, and would conduct a NICS check. Only then could the purchaser take possession of the firearm. ATF would not be involved in conducting the background check.

It is estimated that there are over 4,000 gun shows annually throughout the country. It is estimated that roughly 25–50 percent of sellers at these shows are unlicensed persons. Our estimates to date when considering the effect of proposed legislation have tried to take into account these levels, and to plan for appropriate levels of resources to conduct inspections, investigations and pursue additional referrals which would result. These preliminary estimates through the 2003 outyear call for a total of 280 special agent, inspector and support positions for fiscal year 2001, 77 for fiscal year 2002 and 51 for fiscal year 2003.

*Question.* ATF proposed applying Federal statutes to firearm possessors if the Federal statute carries incapacitation and deterrence. Some have said that the criminal justice system is being federalized. Is this another step in that direction?

*Answer.* No. ATF has been enforcing firearms legislation for the past 30 years. Our focus has been to reduce the number of illegal firearms that are trafficked.

#### YOUTH CRIME GUN INTERDICTION INITIATIVE (YCGII)

*Question.* The February 1999 Youth Crime Gun Interdiction Initiative Performance Report states that the most immediate measure of success of YCGII lies in the investigations of illegal trafficking cases, which have resulted in participating YCGII cities submitting for prosecution almost 400 defendants. However, the report goes on to say that no baseline currently exists by which to measure changes in illegal trafficking. Has the compilation of this report led to ATF's development of a baseline?

*Answer.* The baseline is being developed through research, such as that conducted for this year's Performance Report. Even though this was the first year that Congress appropriated additional special agent positions for this effort, ATF felt that it was important to take an initial look at investigative efforts being conducted

across the country in firearms trafficking and the relationships to juvenile and youth possession. We are currently revising our information systems to capture this critical information at the proper level of detail to see the effects that these cases have on the youth gun market and to measure changes in illegal trafficking. With this increased emphasis on the illegal market, along with Brady checks, we are seeing a decrease in the average number of guns handled by the typical trafficking defendant, which, in simpler terms, means that it has become much more difficult for these dealers to conduct their illicit businesses.

*Question.* What is that baseline and when will the committee see some program performance indicators?

*Answer.* The baselines being considered to evaluate this program are referenced in the YCGII report published this year on the 27 affected cities. One of the key pieces of analysis conducted for each city's trace report focuses on categorizing crime guns by three age groups, "juvenile" (17 and under), "youth" (18 to 24), and "adult." We intend to achieve a continuing reduction in the percentages of crime guns associated with youth and juveniles.

*Question.* Does the fiscal year 2000 request include the resources necessary to conduct the research and to conduct a longitudinal study of the program?

*Answer.* Yes. Since the inception of this program, ATF has used technology to make full use of the unique assets of the firearms information under our control. We then tailor enforcement strategies to stem firearms trafficking by contracting with leading academic researchers. We have not only continued this partnership with institutions such as Harvard University and its scholars, but we have also maintained flexibility in commissioning new research when needed. This was evident in the research presented to Congress in this year's Performance Report.

*Question.* What type of annual reporting is ATF planning to provide on the YCGII program?

*Answer.* We will continue to provide relevant trace analyses of the partner cities and report on the results of our investigations. We will focus on the reduction of illegally trafficked firearms, many of which end up in the hands of juveniles, youths, and prohibited persons. ATF will also continue to provide the results of this effort in conjunction with our established performance measures, which demonstrate the cost savings to society when the illegal flow of firearms is impacted.

#### TOBACCO COMPLIANCE INITIATIVE

*Question.* How will this tobacco tax be different from existing tax programs? In other words, why are additional employees needed to run this program?

*Answer.* Effective fiscal year 2000 ATF is required by law (passed in 1997) to implement a tobacco tax program consisting of qualification of a new type of tobacco permittee, importers, and collect additional tobacco tax (floor stocks tax). The tax increases enacted for 1/1/2000 and 1/1/2002 will require that floor stock taxes be collected on all unpaid inventory held in stock (over a small exempt amount), involving collections from approximately 15,000 first time taxpayers. Qualifying tobacco importer permittee applicants and collecting tobacco floor stocks taxes are activities that ATF is not currently engaged. ATF does not have the resources to do this work and asked for the additional resources in order to meet the requirements of the new law. In the first year, additional resources will be used to qualify new tobacco importers and collect the floor stocks tax.

*Question.* In the future the employees will be utilized in increasing compliance and directing anti-diversion efforts. Will these agents be used for just tobacco programs or will this staff be used to expand the entire regulatory program?

*Answer.* The requested employees will be utilized just for tobacco programs. After the initial period of conducting approximately 1500 application inspections and floor stocks tax audits, these employees will be utilized to obtain compliance with the tobacco regulations, insure proper tax payments, investigate leads and develop cases pertaining to the illegal trafficking and diversion of tobacco products.

*Question.* Wasn't the explosives inspection program dramatically increased last year?

*Answer.* Explosives inspections increased from 7,924 in fiscal year 1997 to 8,908 in fiscal year 1998. This was due primarily to the funding of 26 FTE through the Treasury Asset Forfeiture Fund (TAFF). During that timeframe, ATF had requested 53 FTE in order to accomplish 100 percent of the explosives inspections. Presently, we are maintaining approximately an 85 percent completion rate. This level is expected to continue given the current resources and FTE dedicated to this effort.

*Question.* The report accompanying last year's appropriations bill stated "the Conferees directed the ATF to continue to fully fund its investigations on diversion and trafficking of contraband cigarettes, particularly on Indian lands." What can you tell

us about some of those investigations? Are these investigations any different than other contraband cigarette cases?

Answer. Contraband trafficking of cigarettes involving Indian lands is no different than contraband trafficking of cigarettes between States. Contraband trafficking off of Indian lands (reservations) has been on the rise over the past several years. Several of the cases have originated out of New York. Individuals travel from as far away as Michigan to purchase the cigarettes. They purchase these cigarettes State tax-free (NY), thus increasing their profit potential and withholding the required State taxes (MI or other target states). The Agency is investigating contraband trafficking cases out of Nebraska, Arizona and several other states. A majority of these types of investigations are centered around a tobacco store or smoke shop located on tribal lands. Native Americans receive substantial State tax breaks for the sale of tobacco and other products on their respective reservations. As a result, we have seen an increase of products purchased, State tax-free, on reservations and then taken off for consumption or sale. The States are the main reporters of loss in such circumstances. What makes this a Federal violation is when more than 60,000 cigarettes, the threshold for a Federal violation under the Contraband Cigarette Trafficking Act, are purchased and then transported to another state for sale. ATF has participated in numerous investigations involving this type of activity.

*Question.* The Director's written statement indicated that ATF provided funding to 101 different State and local agencies to support their participation in the G.R.E.A.T. program and that over 1,265 communities have officers certified in the G.R.E.A.T. program. Can you tell the subcommittee how many Indian nation law enforcement officers have participated in the program and what efforts are being made to increase training to these groups?

Answer. Our current records indicate that 61 Tribal Police Officers have been previously certified to teach G.R.E.A.T. Presently, 15 officers are currently teaching the G.R.E.A.T. curriculum. These statistics are based on the number of student graduation certificates the officer orders.

In fiscal year 1998, \$300,000 was awarded to the Department of the Interior, Bureau of Indian Affairs (BIA), and \$250,000.00 in fiscal year 1999. Unfortunately, no requests have been received from BIA soliciting reimbursement for funds incurred through their efforts to implement the G.R.E.A.T. Program.

ATF is making efforts to establish a more positive and effective approach to increase active participation of the Tribal Police and BIA with regards to the G.R.E.A.T. Program. The Bureau Assistant Director for Firearms, Explosives and Arson, Jimmy Wooten, has been elected as an officer in the Native American Law Enforcement Association. One of their goals is to improve relations and enhance training.

The Bureau will also continue efforts to attract more Tribal officers into the G.R.E.A.T. Program and let other Tribal Law Enforcement officials know that the program is available and their participation is welcomed. Communities that are currently being targeted for this effort include those in New Mexico, Wisconsin and Arizona.

In June of 1998, the G.R.E.A.T. Program published an article in the Native American Law Enforcement Association's newsletter. The article described the program and its need for more Native American G.R.E.A.T. officers.

Two separate meetings are scheduled for next week. One meeting is with BIA and the second is with the Boys and Girls Club of America (B&GCA). The B&GCA meeting is to discuss a proposal that would establish the G.R.E.A.T. Program at local Boys and Girls Clubs within the Tribal Police/BIA communities.



U.S. SECRET SERVICE

**STATEMENT BRIAN L. STAFFORD, DIRECTOR**

Senator CAMPBELL. Okay, Mr. Stafford. You are on.

Mr. STAFFORD. Mr. Chairman, Senator Dorgan, I am pleased to be here today. I have also submitted a more comprehensive statement.

Senator CAMPBELL. That will be included in the record.

Mr. STAFFORD. With me today are Deputy Director Bruce Bowen and Assistant Directors Jane Vezeris and Kevin Foley.

On March 4 of this year, I was sworn in as the 20th Director of the Secret Service. I have followed in the Secret Service tradition of being a career agent and I am proud to have served in this outstanding law enforcement agency for the last 27 years.

In light of the fact that I am making my first appearance before the committee as the Director, rather than provide you with a statement outlining appropriations and budgetary issues, my oral statement will be brief and will address my commitment to you.

I will also outline the challenges facing the Secret Service in the year ahead. I will seek your input on issues that arise of mutual concern to us and the American people and commit that I will always be available to respond promptly to any questions or inquiries from you or your staffs.

As you know, the Secret Service is one of the oldest Federal law enforcement organizations. Created in 1865 to suppress counterfeit currency, we now have very important dual missions of safeguarding our Nation's financial systems and protecting world leaders. Our traditional investigative mission of suppressing counterfeiting has expanded into areas of financial and economic crimes in order to respond to the needs of the American people and mandates of Congress.

Likewise, our protective responsibilities have expanded in scope beyond the President and Vice-President, former Presidents, visiting heads of states and others. We are now also mandated to take the lead role in the design, planning and implementation of security at events designated by the National Security Council as national special security events. Our role, as set forth in Presidential Decision Directive 62, is an example of how the Secret Service is recognized for one of its traditional areas of expertise, security planning and implementation.

In the protection arena, the Secret Service has no equal, but we will be facing new challenges in the weeks and months ahead. In less than a week we will face a challenge we are accustomed to, to protecting more than 40 visiting heads of state in the North Atlantic Treaty Organization summit here in Washington, DC. This event has been designated as a national special security event and the Secret Service's role has expanded beyond our traditional one of physical protection. The Service will be coordinating the security

for the event which will include more than 40 world leaders, 22 spouses of world leaders, and more than 180 total protectees.

Furthermore, in the months ahead, as we have done since 1968, we will be faced once again with the challenge of protecting presidential candidates.

Mr. Chairman, part of our success comes from partnerships developed over the years, partnerships with Federal, state and local law enforcement and public safety entities that work with the Secret Service on a daily basis. Our partnership with Federal agencies is highlighted by my colleagues sitting with me today at this table. The United States Customs and the Bureau of Alcohol, Tobacco and Firearms are a few that lend the Secret Service such a helping hand.

As you know, we also work closely with the FBI, FAA, FEMA, Department of Defense and the State Department to make these events come together.

Mr. Chairman, in your own State of Colorado, during the Denver Economic Summit of Eight, you saw those partnerships in action when we worked closely with many law enforcement and public safety agencies throughout the State. I can assure the committee that today these partnerships remain as strong as ever on all levels.

In our investigative mission, the Secret Service is dealing with challenges in the areas of counterfeiting and financial crimes. In the counterfeiting arena, the Secret Service is faced with a rise in production and passing of computer and color copier generated counterfeit Federal Reserve notes.

The Secret Service remains committed to attacking the problem in three ways. First, we will continue to work with Congress for legislative enhancements to sentencing guidelines and forfeiture provisions. Second, the Service will continue to form partnerships with private industry to develop technological solutions to deter this form of counterfeit currency. And third, and equally as important a component, is educating the public throughout the world about the threat of these new forms of counterfeit currency.

In the area of financial crimes, the Secret Service has increased its efforts to train and equip its personnel to address new and emerging high technology crimes in all areas of its jurisdiction. A key component in this arena is the electronic crimes special agent program. These highly trained agents are qualified as experts in the examination of electronic evidence and the use of the latest technology in the fight against new high technology financial crimes.

In conclusion, I wish to thank the committee for its long history of support, not just for our mission, but for the actions you have taken to ensure that the men and women of this agency have the tools they need to do their job.

PREPARED STATEMENT OF BRIAN L. STAFFORD

Mr. Chairman, this concludes my statement and I will be happy to answer any questions.

[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 2000 Budget Request.

With me today, Mr. Chairman, are Jane E. Vezeris, Assistant Director for Administration; Danny Spriggs, Assistant Director for Protective Operations; Barbara S. Riggs, Assistant Director for Protective Research; Kevin T. Foley, Assistant Director for Investigations; Gordon S. Heddell, Assistant Director for Inspection; Charles N. DeVita, Assistant Director for Training; Terrence Samway, Assistant Director for Government Liaison and Public Affairs; and John Kelleher, Chief Counsel.

## FISCAL YEAR 2000 APPROPRIATION REQUEST

The Service's fiscal year 2000 funding request totals \$745.9 million and 5,123 FTEs, and is comprised of four separate funding sources: the Salaries and Expenses appropriation; the Acquisition, Construction, Improvement and Related Expenses appropriation; transfers from the Violent Crime Reduction Trust Fund account; and reimbursements from the Departmental Super Surplus Forfeiture Fund. Together, the total budget for fiscal year 2000 is \$17.3 million, or 2.4 percent, above the level of funding the Service has received this fiscal year.

With this funding, the Service expects to further advance the attainment of its two mission goals, which are: to maintain the highest level of physical protection possible through the effective use of human resources, protective intelligence, risk assessment, and technology; and to protect the integrity of the nation's financial systems through aggressive criminal investigations and assessing trends and patterns to identify preventive measures to counter systemic weaknesses.

*Salaries and Expenses (S&E)*

The Service's Salaries and Expenses appropriation request for fiscal year 2000 totals \$664,508,000 and 5,123 FTE positions, of which \$3,196,000 shall be derived from the Violent Crime Reduction Trust Fund (VCRTF). This is a decrease of \$39,230,000 and 71 FTEs from the fiscal year 1999 appropriated level of \$703,738,000 and 5,194 FTEs. This request includes: \$13,790,000 and 23 FTEs in program increases, \$39,152,000 in upward adjustments necessary to maintain current program performance levels, and a transfer of \$7,000 from the National Archives and Records Administration. These increases are offset by a reduction of \$39,567,000 for non-recurring costs and program reductions totaling \$14,180,000 and 220 FTEs. This account is further adjusted with a proposal that would fund \$38,432,000 with the Department's Super Surplus Forfeiture Fund. With this amount from the Super Surplus Forfeiture Fund the Service will cover the costs of annualizing the staffing added in fiscal year 1999 with the Emergency Supplemental appropriation for Antiterrorism, the costs of the protective effort relative to the presidential campaign, and the costs of purchasing replacement vehicles.

*Salaries & Expenses Program Changes*

The Service is requesting \$5,854,000 and 38 positions (19 FTE) for its Presidential and Vice Presidential Protective Divisions. The threat of terrorist activity directed at this country and its interests continues to be a major concern for the Secret Service and, because of this concern, security measures are constantly being reviewed and enhanced as necessary.

Also included in this budget is \$880,000 needed to purchase new and replacement protective equipment. This equipment includes a sophisticated computerized system that will be used by the Service's advance personnel to survey protective sites prior to the protectee's visit. Specifically, this equipment will enhance the survey process for the Service's countersnipers. By using data such as barometric pressure, elevation, bullet velocity, distance to the target, air temperature and slope, this automated system, when developed, will calculate the exact angle and distance to the target.

The potential use of chemical and biological agents or other hazardous materials as weapons of mass destruction poses a very serious threat to the Service's protectees. With the increased number of intelligence reports involving the use or possession of chemical/biological materials, it is possible that the White House Complex could be a target of a chemical/biological (CB) attack in the near future. The incident in 1995 in Tokyo, Japan demonstrated the devastating effects of chemical agents. The intelligence community considers weapons of mass destruction to be an extremely serious threat. Terrorism experts are no longer talking about "if" an attack will occur. They are planning for the time "when" it occurs. The Service has budgeted \$3,325,000, to come from the Department's Super Surplus Forfeiture

Fund, to provide the means to purchase a variety of the latest, most sophisticated chemical/biological detection technologies, as well as decontamination and personal protective equipment, neutralizing materials and containment systems. It is extremely important that the Service have a deliberate, long-term concern for the potentially devastating impact of this type of terrorist activity.

The fiscal year 2000 budget request also includes \$3,857,000 and seven positions (4 FTE) to enable the Service to maintain, repair, and replace security systems and technologies at the White House in line with recent upgrades/enhancements in physical protection made there. The Service is continually involved in a risk assessment process as part of meeting its mandated protective mission. This ensures that appropriate security measures are in place. As part of this risk assessment process there must be adequate funding available to ensure that security systems for the White House continue to effectively counter new or evolving threats, and to remove vulnerability from those threats. This funding will allow the Service to take advantage of technological advances that can enhance security at the White House and during Presidential travel.

This coming summer the Secret Service will consolidate its headquarters operations at 950 H Street in Washington, D.C. The fiscal year 2000 Budget includes funding to cover the increased rental costs the Service will incur, as well as building operations costs. Contractor support services for this newly constructed building are required to ensure a smooth transition of building management and operations from existing leased space locations to the consolidated site. These services will make certain that building operations at this new headquarters site will be proper, safe, and economical, and that this new facility is properly maintained.

Finally, this budget includes the funding that the Service estimates will be required to provide for the protective effort relative to the upcoming 2000 presidential campaign. The Service has budgeted \$35,247,000, to come from the Department's Super Surplus Forfeiture Fund, to cover the costs of providing protection for the candidates and nominees involved in the campaign, and two national party conventions.

#### *Acquisition, Construction, Improvement, and Related Expenses (ACIRE)*

The Service's fiscal year 2000 request for its Acquisition, Construction, Improvement, and Related Expenses (ACIRE) account is \$4,923,000; a reduction of \$3,145,000 from the fiscal year 1999 appropriation of \$8,068,000.

#### *Acquisition, Construction, Improvement, and Related Expenses Program Changes*

There are no program initiatives budgeted for this account.

#### *Results Act*

The Performance Report for fiscal year 1998 is included in the fiscal year 2000 budget request. This report presents actual fiscal year 1998 performance results.

Fiscal year 1998 was an extremely productive and demanding year for the Secret Service. The total number of stops for all protectees was 9.2 percent higher than the number estimated. Although permanent protectee travel was slightly under that which was estimated, protection of foreign dignitaries was significantly higher.

The Secret Service closed 27,429 criminal cases during fiscal year 1998, just 571, or 2 percent, below the level estimated. This is a remarkable achievement given the heavier than anticipated protective workload.

For fiscal year 1998, the level of counterfeit money passed was held to \$92 per million dollars of genuine currency. This was significantly below the \$119 per million dollars of genuine currency in the performance plan, and means substantial savings in dollars lost to counterfeiting for the American public.

The Service continues to focus its efforts to curb the counterfeiting of U.S. currency in foreign countries. A total of \$3.2 million in counterfeit currency was passed overseas during fiscal year 1998. This was significantly below the total of \$5.0 million in the performance plan.

#### PROTECTIVE PROGRAM

The Secret Service's protective operations program provides security for the President, the Vice President, their families, as well as former Presidents and other dignitaries and designated individuals. This program also provides security for the White House Complex, the Vice President's residence, and foreign missions within the Washington, D.C. area.

The President and Mrs. Clinton, and Vice President Gore, continued to maintain extensive foreign travel schedules during fiscal year 1998. The President made 44 foreign stops, the First Lady made 62 foreign stops, and the Vice President made 28 foreign stops last fiscal year.

The Service's Office of Protective Operations also successfully coordinated a number of major protective events. The Service provided individual protection for the 53rd annual United Nations General Assembly and the 20th United Nations Special Session on the World Drug Problem, as well as individual protection and event security at the 17th Congress of the World Energy Council. This Congress of the World Energy Council was held in Houston, Texas, and was the first event for which the Secret Service assumed lead agency responsibilities for security in accordance with Presidential Decision Directive #62. This Presidential Decision Directive names the Service as the lead agency for security design, planning and implementation at events designated as national special security events.

All of the above events take significant planning, deployment of resources, and coordination with Federal, State, and local law enforcement to be successful. In spite of the tremendous protective workload associated with the heavy travel schedules of individual protectees, the Service was able to complete the necessary preparatory efforts required to ensure that the security plans for each of these events were successfully implemented.

In addition to the usual protective workload, this year the Service has also been involved with the large protective effort surrounding the visit to this country by the Pope. Also, the Service is currently planning for the upcoming presidential campaign, which will again place a heavy workload burden on all elements of the organization. In addition, a summit meeting of the North Atlantic Treaty Organization will be held in Washington, D.C., later this month. This event has been designated as a national special security event in accordance with Presidential Decision Directive #62.

Protective intelligence serves a critical role in the Secret Service's protective mission. The Intelligence Division develops threat assessments in support of protectee visits to domestic and foreign settings; provides warning indicators for specific and generalized threat environments; maintains liaison with the mental health, law enforcement, and intelligence communities; and conducts operational studies that are needed to stay at the forefront of the effort to predict the likelihood of danger.

To improve the Service's ability to process protective intelligence information, the Secret Service will be taking advantage of its newly developed PRISM system. PRISM is a state-of-the-art information technology system that facilitates case management and the preparation of threat assessments in support of protectees' foreign and domestic travel, and for protective intelligence investigations.

Additionally, a recently completed behavioral research study, the Exceptional Case Study Project (ECSP), will enhance the Secret Service's ability to identify, assess, and manage persons who might pose a risk of violence toward its protectees. This study analyzed the thinking and behavior of all persons known to have attacked or approached with a weapon, a prominent public official in the United States since 1949. The information developed by this study has increased the Service's understanding of violence directed toward persons of prominent public status, and has benefited the Service's risk assessment procedures, physical protection techniques, and training methodologies. The findings of the ECSP and subsequent interest by the law enforcement and criminal justice communities led to the creation of the Secret Service National Threat Assessment Center. This center will be developing threat investigations and assessment protocols, and has been assisting State and local law enforcement agencies in the prevention of stalking and violence in both the workplace and schools. Through the National Threat Assessment Center, the Service's goal is to provide leadership and direction to the criminal justice community in its efforts to prevent targeted violence.

The technical security program continues to develop measures to ensure the safety of the President, and other protectees, against weapons of mass destruction. Specifically, in response to the threat of chemical weapons, the Secret Service has developed a plan that incorporates detection, countermeasures, and survivability. The detection aspect is supported by baseline technology that will detect the presence of a chemical agent and activate an alarm. Countermeasures technology will not eliminate the threat from weapons of mass destruction, but will mitigate the effects. Survivability is accomplished through the transfer of protectees to areas that are equipped with special protective systems. In this program area, the Service has developed partnerships with the Massachusetts Institute of Technology's Lincoln Laboratories, the Lawrence Livermore Laboratory, the United States Army's Technical Escort Unit at the Aberdeen Proving Grounds, and the National Medical Research Institute.

During fiscal year 2000, additional chemical/biological teams will be trained to support the Service's protective responsibilities. These teams will require protective clothing, life support equipment, medical antidote kits, and chemical/biological field sampling and analysis equipment. The Service will also provide each special agent

and security specialist assigned to the field with the protective equipment necessary to counter chemical nerve agents and biological toxins. This measure is necessary due to the increasing number of domestic incidents involving extremist groups producing and storing lethal substances.

The Service continues to enhance the physical security around the perimeter of the White House. This fiscal year, additional hydraulic barriers, interim booths, and fixed bollards are being installed around the northside of President's Park. Also, approval for the southside construction and design has been finalized. Funding requested in the fiscal year 2000 Budget will allow the Service to complete the security enhancements along the southside perimeter of President's Park.

In fiscal years 1996, 1997, and 1998, the Service was appropriated approximately \$35 million to enhance the physical security of the White House Complex. Nearly all of these enhancements have been completed, including an access control system, a technical surveillance countermeasures system, an air intrusion detection system, security gates and barriers, armored windows, x-ray equipment, etc. To properly maintain these systems and ensure their effective long-term operation, additional technical support personnel and funds are needed to cover maintenance contracts, replace critical systems components with periodic upgrades, and incorporate new technologies as needed.

#### INFORMATION TECHNOLOGY

Completing a multi-year effort, the Service's wide-area communications network was transitioned to the Treasury Communications System (TCS) network. The TCS network architecture is designed to support the Service's future information technology needs. All domestic field offices have been transitioned to the TCS. Transition of headquarters and overseas offices will be completed in the fall of 1999.

The highest priority information technology initiative for the Secret Service is to ensure that all of its information technology systems are Year 2000 compliant. Significant progress has already been made for the compliance of personal computer and local area network-based systems, and the telecommunications infrastructure. Efforts will continue throughout 1999 to certify compliance of all information systems.

#### INVESTIGATIVE PROGRAM

The Secret Service is responsible for domestic and international investigations involving financial systems crimes to include bank fraud; access device crimes; telemarketing crimes; telecommunication crimes (cellular and hard wire); cyber crimes (attacks on critical infrastructures; desk top 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.

The Secret Service has long recognized the need to approach high-tech crime on a global basis. Through participation in the high-tech subcommittee of the G-8 and the drafting of the President's International Crime Control Strategy, the Secret Service has sought to bring actual cases based on investigative history to the forefront. At this time, the Secret Service recognizes that traditional methods of law enforcement practices in the international environment need to be changed. Through solid partnerships developed by our international field offices, including joint training initiatives with law enforcement and industry, significant high-tech investigations have been brought to successful conclusions by working beyond geographic boundaries.

As discussed last year, the U.S. dollar continues to be the currency of choice worldwide. Approximately \$480 billion of genuine U.S. currency is in circulation worldwide and nearly 60 percent of that is in foreign markets. As the General Accounting Office and the Federal Reserve Board have testified, foreigners have a tendency to hold U.S. currency, primarily because of their confidence in the dollar, and as a hedge against inflation affecting their own currency. This willingness to hold U.S. currency results in an interest free loan to the United States amounting to more than \$25 billion annually. The taxpayers of the United States directly benefit from this activity.

Competition for market share will be affected with the introduction of the "Euro-dollar." This represents a healthy challenge to U.S. currency remaining the currency of choice worldwide. The U.S. Secret Service will be tasked with increasing inves-

tigative efforts to combat the counterfeiting of the U.S. dollar both domestically and internationally in order to maintain confidence in the U.S. dollar.

During the Service's briefing last year the significant changes in counterfeiting methods due to technological advances were highlighted. The methods counterfeiters use to produce counterfeit currency have dramatically changed over the last few years. In fiscal year 1995, counterfeit U.S. currency produced by advanced reprographic technology accounted for only .5 percent of the total amount passed in the United States. This percentage increased to 44 percent in fiscal year 1998.

As the Service expected, there has been an increase of 30 percent in the amount of counterfeit currency passed from fiscal year 1997 to fiscal year 1998, the number of plant suppressions increased from 435 in fiscal year 1997 to 616 in fiscal year 1998, and the number of arrests increased from 2,178 in fiscal year 1997 to 2,926 in fiscal year 1998. The increase in counterfeiting is directly attributed to counterfeit currency manufactured with inkjet and advanced reprographic technology.

The Service's strategy to combat this problem remains the three-fold approach adopted in fiscal year 1997. The first part of this approach involves legislative proposals. In fiscal year 1998, Treasury Secretary Rubin asked the Justice Department to join with the Treasury Department in working with the Sentencing Guideline Commission to review and enhance the guideline ranges for imprisonment in counterfeiting cases. Attorney General Reno has been very supportive of efforts to heighten the awareness of prosecutors to the significance of successful counterfeit prosecutions as a deterrent to potential counterfeiters. Additionally, the U.S. Secret Service is aggressively seeking to obtain administrative forfeiture authority with regard to the equipment used to manufacture counterfeit U.S. currency. At this time, the Service must rely on formal Civil Forfeiture proceedings, carried out through the U.S. Attorney's Office. However, this formal Civil Forfeiture proceeding is often seen as a non-cost-efficient avenue due to the low dollar value of the manufacturing equipment. It is vitally important to take away the "weapons" used to perpetrate the crime, so as not to easily allow the offender to resume the criminal enterprise.

The second part of the approach, initiated in October 1998, involves finding technological solutions to deter reprographically generated counterfeit currency. Approximately one hundred representatives from private industry (laser printer manufacturers, computer manufacturers, and desktop software publishers) gathered at John Hopkins University with the Secret Service, the Bureau of Engraving and Printing, the Federal Reserve and senior Treasury officials to discuss technological solutions.

The third part of the approach made great strides in fiscal year 1998 when Secret Service agents participated in over 1,400 educational and training seminars around the globe. These seminars were held to discuss counterfeit currency issues as well as to highlight the design changes and security features in the newly designed 1996 series Federal Reserve Notes. Furthermore, the Secret Service participated in 20 national seminars co-hosted with the Federal Reserve Banks throughout the United States presenting these issues to the banking industry and merchants.

The Secret Service is increasing its efforts to train and equip its personnel to address high-tech crime in all areas of its jurisdiction. The Electronic Crimes Special Agent Program (ECSAP), consisting of 70 highly trained special agents qualified as experts in the forensic examination of electronic evidence, is the key component to this effort.

The Electronic Crimes Special Agent Program (ECSAP) has evolved to be an essential component of the investigative and protective missions of the Secret Service. With the extensive use of computers by the criminal element in all areas where the Secret Service has an investigative and protective interest, the demand by the field for ECSAP support has predictably and dramatically increased.

In accordance with Presidential Decision Directive #63, the Secret Service has provided personnel to staff the National Infrastructure Protection Center (NIPC) and Critical Infrastructure Assurance Office (CIAO). These two entities were designed for the facilitation of an inter-departmental approach to protection of the nation's critical infrastructures. The Secret Service brings unique capabilities and experience to this initiative with highly qualified investigators having significant high-tech experience, and with established partnerships in the computer, financial, and telecommunications industries.

When Attorney General Janet Reno announced a Nigerian Criminal Enterprise Initiative, she acknowledged the investigative expertise and historical commitment of the Secret Service in this area. In fiscal year 1998, the Secret Service was the lead agency in 28 domestic task forces involving 54 law enforcement agencies throughout the United States. The goals of these task forces are to identify individuals, organized groups and/or assets from fraud schemes intended to victimize individuals, banks, credit card issuers, or other financial institutions.

In one ongoing investigation involving fictitious instruments and bogus investment offerings, a seizure of approximately \$4 million was made in the United States, and bank accounts totaling approximately \$11 million were identified overseas. This investigation accelerated the efforts of the Department of Justice to finalize a Mutual Legal Assistance Treaty (MLAT) with their counterparts in New Zealand. This agreement enables both nations to recover proceeds of transnational criminal activity. As a result, the accounts were frozen by authorities in New Zealand pending forfeiture proceedings in both countries.

The Secret Service is acutely aware of the need for law enforcement to have a vision of the future as it relates to the transnational nature of financial crimes. Presidential Decision Directives #42, #62, and #63, along with the International Crime Control Strategy, have laid the foundation to implement this vision.

Under the Law Enforcement Sub-Group of the G-8, a number of projects were developed which directly impacted the jurisdictional authority of the Secret Service. High tech crime, access device fraud and West African fraud were recognized as having a detrimental effect on the economies of the G-8 member nations. The Secret Service is the head of the U.S. delegations in both the access device fraud group and the West African fraud group.

In response to initial findings of these groups, the Secret Service implemented a number of overseas initiatives to address these and other forms of transnational criminal activity. Three of these initiatives are recurring, and include temporary duty assignments of Secret Service Agents to the City of London Police Department, the German BKA, and Lagos, Nigeria.

The banking industry has identified "skimming" (the replication of electronically transmitted magnetic stripe data to allow or enable valid authorization to occur) as the most significant financial problem facing the credit card industry today and for the near future. The Secret Service has taken the lead in the development of a database that will give credit card issuers and other members of the financial services industry the ability to provide time sensitive investigative leads to a central location.

The Secret Service continues to take a very active role in matters involving missing and exploited children by making forensic technology available to Federal, State, and local law enforcement. During fiscal year 1998, forensic support for the National Center for Missing and Exploited Children (NCMEC) included polygraph examinations, handwriting examinations, ink analysis, voiceprint comparisons, audio and video enhancements, and fingerprint research and identification.

Since initiating the Children's Identification System (KIDS), which provides parents with a printed document that contains the thumbprints and a photograph of their child, the Service has processed more than seven thousand children at different sites across the country. The Service utilizes Livescan fingerprint equipment and digital cameras to produce the documents. Frequently, KIDS support is provided at events hosted for state and local law enforcement personnel. At these events, the Service publicizes the availability of the forensic support described above for investigators actually tasked with suppressing these heinous crimes. The Service does not maintain or make any use of these KIDS records.

#### WORKFORCE DIVERSITY

The Secret Service consistently recruits, hires, and retains a diversified workforce and has recently developed a three-year recruitment strategy for the continued achievement of this goal. This strategy encourages every employee of the Secret Service to become a recruiter for every position within the agency. This year the Service will hire 432 special agents, the largest special agent hiring in the history of the Secret Service. The three-year strategy is being published and distributed to all employees, along with recruiter handbooks which provide position descriptions, requirements and salary ranges to assist in advising of employment opportunities.

The recruitment strategy is also responsive to Presidential Decision Directive #63 which requires the Secret Service to, among other things, vigorously recruit undergraduate and graduate students with the relevant computer-related skills for full-time employment, as well as for part-time work with regional computer crime squads. Presidential Decision Directive #63 also requires the Service to facilitate the hiring and retention of qualified personnel for technical analysis and investigations involving cyber attacks.

The recruitment strategy also supports the International Crime Control Strategy by identifying employees with various language capabilities to fill overseas posts of duty.

## ROWLEY TRAINING CENTER

The Secret Service's Office of Training has embarked upon a number of major initiatives. Preparations have been made to conduct basic training for an unprecedented number of new agents and uniformed officers this fiscal year. Nearly 500 trainees will complete eleven-week training courses this year at the Service's James J. Rowley Training Center.

Also, the training staff is working closely with the Service's newly created Major Events Division to develop and conduct training needed to prepare for the protective effort relative to next year's presidential campaign.

The Office of Training has also begun the firearms training necessary for the Service to transition from using the 9mm Sig Sauer (P228) and the UZI submachine gun as standard equipment to the .357 Sig Sauer (P229) semi-automatic pistol and the Hechler and Koch MP5A3 submachine gun. Over 4,000 law enforcement personnel will receive this training over the next two years.

This office is also planning to intensify its academic relationship with Johns Hopkins University. In addition to enhancing the curriculum review and program validation projects already begun, staff members from the Police Executive Leadership Program at Hopkins are working with this office to develop new ethics and leadership courses for Service personnel.

Finally, the James J. Rowley Training Center is in the midst of a significant capital construction program that includes a new tactical live fire training facility and new classroom and administration buildings. The classroom building will feature 14 classrooms, two computer laboratories, a library, a canteen, and the Security and Incident Modeling Laboratory (SIMLAB). When completed, these new facilities will enable the Secret Service to conduct state-of-the-art training and better prepare its personnel to confront the daily challenges of both the protective and investigative missions.

## SECRET SERVICE HEADQUARTERS CONSOLIDATION

Work on the Service's new headquarters building is proceeding on schedule, with construction expected to be completed this summer.

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

## PRESIDENTIAL CANDIDATE/NOMINEE PROTECTION

Senator CAMPBELL. OK, I thank you. You mentioned that part of your responsibility is to protect presidential candidates. At the last count there was about 13 of them, I think. I know about half of them and the other half I wish I never heard of.

But how do you possibly budget now when you have no idea how many are going to be in the race? There may be another 13 for all we know.

Mr. STAFFORD. Mr. Chairman, that is correct. It has always been a challenge for us to put together that budget.

It really is divided up into four areas. The first one is the most difficult one, which this year we are asking for close to \$20 million. Rather than try to determine how many candidates that there will be, we base it historically on past campaigns. We found that it costs approximately \$30,000 per protection day, to protect each candidate.

Senator CAMPBELL. \$30,000 a day.

Mr. STAFFORD. Historically over the past five campaigns combined.

Senator CAMPBELL. Combined numbers of running, whether there is two running or 10 running?

Mr. STAFFORD. Correct. Historically, that is the figure that we use to estimate that portion of the budget, which is variable.

The other ingredient is the number of days of protection. We have estimated again historically that there will be approximately

654 days of protection at just a little over \$30,000, which puts us at about \$20 million, which is probably a conservative figure.

The conventions, of which there will be two, one in Philadelphia and one in Los Angeles, are both in August. Those will cost us about \$5 million each.

Also coordinating centers, of which there will be two or three. And then we have some overhead costs of equipment and rental vehicles.

#### ARMORED LIMOUSINES

Senator CAMPBELL. I noticed also that part of your budget request is to buy armored all-terrain vehicles and sedans. I guess it would be too much just to have you issue each one of those candidates one of those and let them be on their own, would it not? [Laughter.]

Let me ask you about these armored ATVs. First of all, how many vehicles do you think that is going to purchase, the requested amount, and what are you going to do with them?

Mr. STAFFORD. The ATVs?

Senator CAMPBELL. Yes.

Mr. STAFFORD. We asked for approximately \$5 million for the armored fleet, which includes—

Senator CAMPBELL. I see. I should have asked staff. This was money we did provide and you want to redirect use of that money now. You are not buying—

Mr. STAFFORD. That is correct, about \$3 million of the \$5 million. And we need to redirect that to our primary limo program. The primary limos are the cars that the President uses. We have four of those that we are working with the contractor right now to build and that is the final payment, the final \$3 million on the primary armored program.

#### NATIONAL SPECIAL SECURITY EVENTS

Senator CAMPBELL. All right, thank you. You mentioned the Summit of Eight that was in Denver that you were involved in, and you are going to, obviously, be involved with the 50th anniversary of NATO which will meet here in Washington, D.C. You coordinate with State and other Federal agencies and local law enforcement too. Is the NATO anniversary going to present any special and unique problems that the Summit of Eight and some of the other big international events you are involved with—

Mr. STAFFORD. Well, they all present problems and risks, as you know. Right now with what is going on in the world there will be some unique problems. But we feel very comfortable with the security plan. As I said earlier, the NATO summit has been designated a national special security event, which really brings forth the full force of the U.S. Government, the Secret Service being the lead in the planning and implementation of that plan. We work very closely with the FBI who has the lead in—

Senator CAMPBELL. The dates have already been set for that, have they not?

Mr. STAFFORD. Yes.

Senator CAMPBELL. What are the dates?

Mr. STAFFORD. They are April 23rd through the 25th.

Senator CAMPBELL. April 23rd?

Mr. STAFFORD. April 23rd through the 25th. It is three days of meetings that will involved—most of the meetings will take place in the Federal Triangle area, Customs building, Ronald Reagan building, and the Mellon Auditorium. There will also be about 13 other venues of social events which include the White House and the Naval Observatory.

Senator CAMPBELL. Would you send me a memo to remind me to be out of town? [Laughter.]

Mr. STAFFORD. It will not be a good place to drive around Friday afternoon, that is true.

Senator CAMPBELL. Senator Dorgan.

#### ANTI-COUNTERFEIT

Senator DORGAN. Mr. Chairman, let me ask Mr. Stafford the same question I asked Mr. Johnson. With the new currency that is in circulation you, I assume, agree with his assessment on its relationship to the ability to counterfeit. Are the anti-counterfeit features of the currency working in your judgment?

Mr. STAFFORD. Yes, they are working extremely well, as evidenced by most of the counterfeits that we seize and that are passed are the older counterfeits, the pre-1996 series. So counterfeiters will continue to counterfeit the older series. We seized, nationwide, \$110 million last year and most of that was generated from overseas and most of it was the older series of counterfeits.

#### PROTECTIVE THREATS

Senator DORGAN. Mr. Stafford, we obviously appropriate money for the Secret Service to protect our President and candidates for President and perform many other important functions. In a world that is increasingly difficult to predict, with terrorist acts that occur from time to time around the world, what kind of experience are we having with threats these days? Are there more threats that you perceive, or fewer threats, pretty stable?

Mr. STAFFORD. Threats specific to a protectee or just overall threats?

Senator DORGAN. Threats to the protectee that the Secret Service is required to protect, whether it is candidates or the President, Vice President.

Mr. STAFFORD. We track threats weekly. Actually, we track them daily for each of our protectees. Those numbers will vary depending on the protectee and depending on what happens to be going on in the world. The threats are up right now on our protectees. Particularly, we get probably sometimes up to 20 threats a day just on the Internet that we have to address. But the threats are high right now.

Senator DORGAN. My question is, what is the climate, and I guess you are answering that. That the climate in which we live is producing somewhat—

Mr. STAFFORD. An increased threat level? Yes, it is.

Senator DORGAN. And my expectation is that the action that is now occurring in Europe, of course, may even precipitate more.

Mr. STAFFORD. That is correct.

## ARMORED LIMOUSINES

Senator DORGAN. Let me ask you one little question. I know it is a difficult one probably for you to answer, but the amount of money that has been requested and now being requested to finish the purchase of four vehicles, obviously, the primary limousines in which the President and others are transported.

I have flown in Air Force One. In think the old Air Force One before the new 747s came was purchased, I think, in 1962 or so. I was on one of its last trips to Asia before it was retired. But I think it was used up until about 1989 by President Bush, so I think it had nearly a 25-year life as Air Force One for use by American Presidents. It was a great old airplane.

But the limousines, it looks to me like we only get a few years' life out of them, and I cannot conceive of a President driving around very much. You do not wear those things out, I would not expect. Yet the cost of them are extraordinary. I will not describe all the cost data here, but—

Senator CAMPBELL. In addition, as I understand it, they are torn down or something. Because they are specially constructed vehicles, you just do not take them down to the used car lot and put them up for sale.

Mr. STAFFORD. No, that is correct. There are only four in the primary armored program and those four are for the exclusive use of the President. The other armored limos are what we refer to as cut and stretch limos where they are standard vehicles that are stretched and cut and retrofitted with armor. The primary limos are built from the ground up. We need an assembly line unique just to those four vehicles. We have a very difficult time even finding a contractor.

Senator CAMPBELL. What is the oldest one in service now?

Mr. STAFFORD. The oldest cut and stretch?

Senator CAMPBELL. No, the specially constructed one. Is the oldest one—

Senator DORGAN. 1989, and three of them are 1993s.

Mr. STAFFORD. Right. We have the four new ones, of which we need the \$3 million to make the final payment on, they will be due in in October of next year.

Senator DORGAN. I am just asking if you can give me some information about why so expensive. I mean, these are extraordinarily expensive. It is not 10 times or 20 or 40 or 100 times more than an automobile—it is extraordinary.

Mr. STAFFORD. I can give you the particulars. Basically the vehicles are built from the ground up. They are not standard—

Senator DORGAN. I understand. But my uncle Harold he could, if he had this kind of money, Uncle Harold could get you one of these, be perfectly safe from any threat. But just give me some information so I can understand what possibly could require a car company to charge that much, even building it from the ground up with every technology conceivable to protect against a threat. It seems to me like an extraordinary amount of money.

Mr. STAFFORD. If I could just conclude—and I would be happy to supply that for you. But those vehicles first have to be designed. There is a no generation vehicle that are coming out now that are

front-wheel drive versus rear-wheel drive, so that had to figure into that. So they have to be specifically designed, not only for the new generation of vehicles so they look like other cars, but also the armorment for the weight. And the assembly line, again, is unique to those four vehicles.

So I know that it is not a money-making thing for the contractors. As I said, we have a very difficult time even getting contractors to be receptive to that program.

Senator DORGAN. It is a fairly specific question and I do not mean to hit you with it. But if you could just give me a memo that describes some of the special circumstances, I would appreciate it.

Mr. STAFFORD. I will be happy to.

Senator DORGAN. Mr. Chairman, that is all I have. Thank you.

Senator CAMPBELL. Look at it this way, we are saving money by not putting any armor on motorcycles.

Senator DORGAN. That is true. At this price though, I would encourage the President to drive around a bit. [Laughter.]

Just get some mileage out of these cars and get some enjoyment out of them.

#### SUBMITTED QUESTIONS

Senator CAMPBELL. I thank this panel for appearing. Appreciate it very much, and if you would like to stay, you are welcome to. But if you have other things to do, thanks for being here. We look forward to working with all of you again.

[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 DORGAN

##### CANDIDATE/NOMINEE PROTECTION

*Question.* Please explain the functions the Secret Service provides during presidential campaign years that are outside the scope of the Secret Service's regular activities.

*Answer.* During presidential campaign years, the Service is required by law to provide protection for major presidential and vice-presidential candidates, nominees and their spouses, and to provide security at both major conventions. These functions are a part of the Secret Services mandated workload. None of the activities are outside the scope of the USSS' regular activities, however, they do not occur every fiscal year.

*Question.* The Service provides protection for the major candidates. How does the Service determine the major candidates?

*Answer.* Public Law 98-587 places upon the Secretary of the Treasury the responsibility for determining, after consultation with an advisory committee, which persons qualify as major presidential or vice presidential candidates and as such, should be furnished with Secret Service protection; unless such protection is declined. The committee consists of the majority and minority leaders of the Senate, the Speaker of the House of Representatives, the minority leader of the House of Representatives, and one additional member selected by the other members of the committee.

The following guidelines assist the committee in advising, and the Secretary in determining, who the major presidential or vice-presidential candidates are, and thus who should receive protection.

- a. The candidate must have publicly announced his or her candidacy.
- b. The candidate must be entered in at least 10 primaries.
- c. The candidate must be seeking the nomination of a party who received at least 10 percent of the popular vote in the previous election.
- d. The candidate must qualify for matching funds of \$2 million under 26 U.S.C.9031-9042.

e. The candidate must register at least 5 percent in polls conducted by ABC, CBS, NBC and CNN, or receive 10 percent of the votes in two consecutive primaries or caucuses.

f. After April 1 of the election year, the candidate will qualify if he/she has received 10 percent of the delegates Notes:

a. Protection is only provided while the candidate/nominee is in the United States.

b. Protection will not be withdrawn as long as the candidate continues to have the commitment of 10 percent of the delegates.

The Secretary of the Treasury has the discretion to provide protection even if the above guidelines are not met.

*Question.* Should the Service spend less than anticipated can the subcommittee anticipate the funds would be lapsed, (returned to the General Fund of the Treasury) or would the Service request the funds be reprogrammed for other Service activities, such as White House protection?

*Answer.* The Service's fiscal year 2000 budget proposes that the Service seek reimbursement for candidate/nominee expenditures from the Treasury Asset Forfeiture fund for campaign related expenses. If funding is provided with this source, then no funding will be lapsed. However, if funding is ultimately provided with the Service's Salaries and Expenses appropriation, and the Service should spend less than anticipated on the campaign, any excess funding will either be lapsed, or a proposal to reprogram these funds for another purpose will be made.

#### ARMORED LIMOUSINES

*Question.* Given the weight and special engineering what is the average life of these vehicles.

*Answer.* Due to the weight and constant use, armored primary limousines have an expected life of only seven to ten years.

*Question.* What was the cost of the previous vehicles?

*Answer.* When the previous vehicles were purchased, the Service accepted a bid from Cadillac to build three vehicles at a cost of \$225,000. Upon completion of the first three vehicles, a fourth vehicle was purchased at cost of \$150,000. In addition to the cost of building these vehicles, an additional \$265,000 was expended by the Service to purchase armored glass and air filtration systems. These systems were provided to Cadillac for incorporation into the vehicles. Although the Service paid only \$375,000 to Cadillac, it actually cost Cadillac \$15 million to build these vehicles.

Cadillac is now familiar with the Service's armored limousine program, and what it costs to build the required vehicles. They are no longer willing to sustain a significant loss in order to win the contract to design and build these vehicles. Ford, who lost money building these vehicles in 1989, and Chrysler, were not interested in bidding for the most recent contract to build these vehicles.

In October of 1998, the Service awarded to Cadillac a contract for \$692,000 to do the feasibility study needed to provide the Service with the exact cost to engineer, design and manufacture four new primary limousines. The study was completed last year and Cadillac provided the Service with a proposal of \$13,434,000 to design, engineer, test and deliver the vehicles. The Service is paying for the engineering and design of these vehicles only. Because of the exposure and recognition of the brand name that accrues to the manufacturer of these vehicles, Cadillac has agreed to spend an estimated \$5,882,000, to manufacture these vehicles. The proposal calls for the Service to pay as follows: Fiscal year 1999—\$692,000 for feasibility study; Fiscal year 1998—\$4,608,000 phase I engineering and design; Fiscal year 1999—\$6,555,000 phase II engineering and design; Fiscal year 2000—\$2,271,000 phase III engineering and design.

*Question.* Did the Federal government purchase these vehicles?

*Answer.* Yes, the federal government purchased these vehicles.

## FEDERAL LAW ENFORCEMENT TRAINING CENTER

### STATEMENT OF W. RALPH BASHAM, DIRECTOR

Senator CAMPBELL. Our second panel will—if Under Secretary Johnson wants to stay, he is certainly welcome to do so. It will be Ralph Basham, director of FLETC, and Jim Sloan, the director of the Financial Crimes Enforcement Network.

Friends, if we could quiet down a little bit we will proceed with this panel. Under Secretary Johnson, you are welcome to stay, but if you have to go, we understand.

We will go ahead with Director Basham first. As I mentioned to the other panel, please abbreviate your comments and we will make sure that all the testimony is in the record.

Mr. BASHAM. Thank you, Mr. Chairman, Senator Dorgan. 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 fiscal year 2000. In the interest of time, I will submit a longer written statement for the record.

Senator CAMPBELL. That is fine.

### INTRODUCTION

Mr. BASHAM. While I have only been the director of the center for approximately one year, I am well aware of the outstanding reputation this organization has acquired over nearly three decades of delivering high quality training to law enforcement officers across the country. Throughout the center's 29 years of service to Federal law enforcement, this committee has been extremely supportive and most generous in its funding of consolidated training. The success enjoyed by the center and success of the consolidated training concept are directly attributable to this committee's strong and consistent support.

### TRAINING WORKLOAD INCREASE

As I mentioned in my testimony last year, the Center continues to face an unprecedented increase in its training workload. In fiscal year 1998, the Center delivered more student weeks of training than in any other time in its history, and we expect the training workload to be even heavier this year. Further, based on projections of our participating agencies, we expect this trend to continue for the foreseeable future.

The majority of increases in training workload result from initiatives to improve the effectiveness of the Immigration and Naturalization Service, counter-terrorism activity, security enhancement at Federal facilities, and the new Federal prisons coming on line. The initiatives outlined in our request are targeted at maintaining

the quality of training and increasing the center's training capacity in response to this growing workload.

#### STRATEGIC PLAN

They tie directly to the goals outlined in the Center's strategic plan, which is in the process of being revised to better align it with the center's mission and to make it more meaningful to our staff, this committee, and other stakeholders. A copy of the revised plan will be provided to this committee and our other stakeholders for review and comment prior to being finalized.

#### MASTER PLAN AND CONSTRUCTION

I would like to take a few minutes and briefly discussed the center's master plan and Construction initiatives outlined in our request. These initiatives are critical to the continued success of consolidated training.

To meet the dramatic rise in the training workload, the Center is moving forward on its master plan construction program to increase capacity at both Glynco and Artesia. Through 1999, Congress has appropriated over \$100 million for master plan construction projects. The plan has been updated several times over the last few years and copies of these updates have been furnished to the committee.

It should be recognized that the cost of fully implementing the master plan has increased over time because of inflation and changes necessary to meet the training requirements of our customers. The FLETC will continue to work through Treasury, OMB, and Congress regarding adjustments to the plan.

In the past two fiscal years, the center has completed construction on two additions to the main classroom building and a computer training facility at Glynco. Additionally, construction is well underway on one new dormitory, and construction recently began on a second new dorm as well. Further, construction of an administration building began this year and is nearing completion.

In Artesia, construction on a 73-bed dormitory is completed and we expect to award a contract for construction of a classroom and practical exercise building very soon. Funds for a 300-bed dormitory at Artesia should also be obligated later this fiscal year.

Our 2000 request includes \$13.1 million for new construction, and these funds will be used to complete funding already partially appropriated for construction of a new classroom building, construction of a specialized facility required for implementation of new counter-terrorism training program, and expansion of the center's chilled water system to support facilities being constructed.

#### PREPARED STATEMENT

The continued expansion of facilities at both Glynco and Artesia are vital if the closure of the temporary training facility in Charleston, South Carolina is ultimately to be realized.

Thank you, Mr. Chairman, and I am ready to answer any of your questions.

[The statement follows:]

## PREPARED STATEMENT OF W. RALPH 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 (FLETC) and to support our appropriations request for fiscal year 2000. The Center has seen tremendous growth since its establishment in 1970 when a handful of agencies joined together and established the Consolidated Federal Law Enforcement Training Center. There are now 71 agencies which train at the Center, and we expect this growth to continue 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, Robert E. Rubin, and Under Secretary for Enforcement, James E. Johnson, the FLETC has received strong support and active assistance for carrying out its responsibilities. I am especially thankful for the assistance and counsel they have provided during my first year as Director of the Center. We are indeed fortunate to have these two individuals playing a leadership role as the FLETC prepares to embark on the next century. While I have only been Director of the Center for approximately a year, I am well aware that this Committee is also owed a debt of gratitude. Throughout the Center's 29 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 year.

The Administration and Congress can be proud of the quality of the training being provided at the FLETC and the savings realized through consolidation.

Today, I am prepared to discuss a number of our initiatives outlined in the President's fiscal year 2000 budget. The Center's fiscal year 2000 request is for a Salaries & Expenses (S&E) appropriation of \$86,846,000 and 572 FTE, an increase of \$11,375,000 and 10 FTE from the fiscal year 1999 level. Further, the FLETC is requesting that an additional \$900,000 be made available from the Treasury Asset Forfeiture Fund for the purchase of training vehicles. Our request for Acquisition, Construction, Improvements & Related Expense (ACI&RE) is \$21,000,000 a decrease of \$13,760,000 from the fiscal year 1999 appropriation. The FLETC is also asking that \$4,600,000 be provided from Treasury's Asset Forfeiture Fund to support the expansion of the Center's chilled water system. The S&E and ACI&RE funding requested will support eight important initiatives: Counter Terrorism Training (\$2,506,000 and 4 FTE); Cost Accounting System (\$1,380,000 and 2 FTE); Audited Financial Statements (\$500,000); Equipment (\$1,973,000); Scheduling Automation (\$350,000); Construction (\$4,889,000—balance of funds for construction of a classroom building); Chilled Water System (\$6,950,000—includes \$4,600,000 from the Asset Forfeiture Fund and \$2,350,000 from the FLETC's ACI&RE account); and New Training Building Support (\$2,234,000 and 4 FTE). The Counter Terrorism Training initiative is split between the S&E and ACI&RE accounts because of the nature of the initiative. A breakout of the funding between the accounts for this initiative is as follows: Counter Terrorism Training—S&E, \$1,216,000 and 4 FTE; ACI&RE, \$1,290,000.

The S&E and ACI&RE request represents a decrease of \$2,385,000 from the fiscal year 1999 appropriation. Coupled with approximately \$38,000,000 in funds to be reimbursed to us for training related services, the total budget for fiscal year 2000 is \$151,346,000.

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.

Included in our budget request this year is a report on whether or not the FLETC achieved each of the targets proposed for fiscal year 1998. The performance measures used for the Law Enforcement Training activity in fiscal year 1998 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 index is based on a six point rating scale, and the student quality of services index is based a five point scale. Both indices are computed using evaluations completed by students attending Center programs. The variable unit cost per basic student-week of training funded is also an efficiency measure and is based on training dollars divided by funded student-weeks of training. The student-weeks trained outcome measure is based on whether the Center conducts 100 percent of the basic training requested by its participating agencies. Finally, the plan called for the FLETC to conduct 4 personnel input forums.

I am pleased to report that the Center's performance against established targets overall was excellent. The index for the most critical performance measure in our plan, the student quality of training survey measure, was "5.9". This exceeded the Center's performance plan target of "5.0". The student quality of services actual performance index was "4.5" which also exceeded our performance target of "4.0". Additionally the FLETC's training costs were below the cost figure established for the variable unit cost per basic student-week of training. The plan projected a per week cost of \$137 and the actual was \$129, a savings of \$8 per week or 6 percent. In the Plant Operations activity performance measures were either met or exceeded.

As stated earlier and in the Center's testimony last year, the FLETC will continue to refine its plan and existing performance measures and/or identify new performance measures in an effort to more accurately reflect its performance. Additionally, during fiscal year 1999 the FLETC began the process of revising its strategic plan to better align it with the Center's mission. A copy of the draft will be provided to this Committee and our other stake-holders 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 was established by a Memorandum of Understanding in 1970 and has experienced tremendous growth over the last 29 years. With but a few exceptions, the FLETC currently 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, 71 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 either the main 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 the participating agencies, particularly that of the Immigration and Naturalization Service (INS) and United States Border Patrol (USBP). The workload increase is the direct result of recent Administration and Congressional initiatives to control illegal immigration along the United States borders and efforts to protect Federal workers in the workplace.

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. The tremendous demand for basic training over the next three years will increase the FLETC's reliance on export training sites to meet these advanced training requirements. The Center's driver and firearms special training facilities cannot currently accommodate all of the training being requested. Therefore, much of the advanced training requiring the use of special training facilities will have to be accommodated elsewhere.

Realizing that a short-term solution was needed to meet the advanced training needs of our Federal customers until additional facilities are completed under the FLETC's construction Master Plan, the Center began to identify state and local facilities that could be used to accommodate this training. Several sites have been identified and FLETC is continuing to work on specific arrangement protocols. These sites will be used on a reimbursable basis when required and there will be no use of FLETC funds for capital expenditures. Essentially, FLETC will serve as

a "broker" in setting up training arrangements with selected non-Federal sites that can accommodate training that cannot otherwise be conducted at a FLETC site. Continued implementation of the Master Plan will eventually allow this advanced training to be returned and conducted at the Glynco and Artesia training centers.

Over the years, the FLETC has become known as an organization that provides high quality and cost efficient training with a "can do" attitude and state-of-the-art programs and facilities. In my first year as Director, I have quickly 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 agency training sites. Consolidation also ensures consistent high quality training and fosters interagency cooperation and camaraderie in Federal law enforcement.

We view FLETC and consolidated training as a National Performance Review concept ahead of its time. Quality, standardized, cost-effective training in state-of-the-art facilities, interagency cooperation, and networking are indisputable results of consolidation. However the concept of consolidated training is fragile and needs constant nourishment and support if it is to remain intact.

#### WORKLOAD

As I mentioned earlier, the Center is facing an unprecedented increase in its training workload that began in fiscal year 1996 and is projected to continue for several more years. The majority of the increase in training workload is the result of the fiscal year 1995 initiative by the Administration and Congress to increase the effectiveness of the INS in controlling our borders by increasing the number of INS and USBP law enforcement personnel. Other factors contributing to the Center's increasing workload include counter terrorism activity and security enhancements at Federal facilities and new Federal prisons coming on-line.

During fiscal year 1998 the Center graduated 25,762 students, representing 120,399 student-weeks of training. This total included 16,969 students who were trained at Glynco, GA; 3,565 students trained at Artesia, NM; 1,481 students trained at the temporary training site in Charleston, SC; and 3,747 students trained in export programs. There were 10,605 basic students; 11,038 advanced students; 3,494 state and local students, and 625 international students trained equating to an average resident student population (ARSP) of 2,315. Fiscal year 1998 was the heaviest workload in the Center's history and as I mentioned earlier we expect this workload to grow over the next few years.

The April 1998 participating agency projections indicate that during fiscal year 1999, the Center will train 35,315 students representing 167,449 student-weeks of training. This total includes 25,418 students to be trained at Glynco; 4,539 students at Artesia; 1,650 students at the temporary site in Charleston; and 3,708 students in export programs. A total of 15,809 basic students; 14,711 advanced students; 3,867 state and local students; and 928 international students are projected for a total ARSP of 3,220.

Our participating agencies indicate that during fiscal year 2000, the FLETC will train a total of 38,201 students representing 184,360 student-weeks of training. This total includes 26,430 students at Glynco; 6,683 students at Artesia; 1,650 students at Charleston; and 3,438 students in export programs. A total of 16,948 basic students; 15,918 advanced students; 4,407 state and local students; and 928 international students are projected for a total ARSP of 3,545.

The Center has experienced enormous growth in the training demanded by its participating agencies over the past decade. We have been able to accommodate many, but not all, of these increased training demands by being innovative and undertaking extraordinary measures.

To accommodate training during fiscal year 1985 and again in fiscal year 1989, the Center had to temporarily expand its capacity for housing, dining, classroom, office space, storage, and special training facilities by using temporary buildings and contracted or licensed temporary facilities. Further, the Center has not always had space to accommodate all of our students in on-Center housing and has used contractual arrangements with local motels to house our overload. Many of the temporary measures taken to meet these training demands were costly, and they adversely impacted the Center's operations.

The Center is again in a position where it has had to resort to using a temporary facility to meet the training needs of the participating agencies. As I mentioned earlier, a temporary training facility was established in Charleston, South Carolina, during 1996 because our current facilities do not have the capacity to accommodate all of the training being requested. It is exclusively being used to conduct USBP

training that cannot be accommodated at Glynco and Artesia. Plans called for Charleston to be closed in the early 2000's time frame, once the training requirements for the Border Patrol buildup are completed and/or new facilities become available to accommodate the training at FLETC's permanent locations. Given adequate funding to support planned new construction, FLETC should have sufficient capacity at Glynco and Artesia at that time to meet the overflow training requirements of the participating agencies now being accomplished at Charleston. As facility capacity increases over the next several years, training at Charleston can be phased out.

In addition to having to rely on temporary training facilities to accommodate the increased workload, the training being requested in fiscal year 1999 has also made it necessary to implement a dual-shift schedule at Glynco. Two overlapping shifts, one that runs from 7:00 a.m. to 4:00 p.m. and the other which runs from 9:00 a.m. to 6:00 p.m. are being used. The overlap in the dual-shift schedule provides some additional facility capacity because the training day under the dual shift is ten hours instead of the normal eight allowing for expanded use of the special training facilities.

The dual-shift schedule will increase usage of both training equipment and facilities and result in a shortened life cycle. Both will require earlier repair and/or replacement. Additionally, implementation of the dual schedule required numerous adjustments in FLETC's food, janitorial, transportation services, and role player contracts resulting in significant unprogrammed increases in operating expenses. There will be some impact on the quality of life for students and staff because some weekend training is also likely under the dual schedule.

This is the third time since fiscal year 1985 that FLETC has taken extraordinary measures to meet the projected training demands of the participating agencies. More importantly, it is the second time in the last 10 years that a temporary training facility has had to be established.

Opening temporary training facilities is a time-consuming and expensive process. Capital improvements must be made to bring the facility on line and, unlike capital improvements made at Glynco or Artesia, there is no permanent return on that investment. The dollars expended are lost when the facility is closed. It also impacts on the cost effectiveness of the training provided and on the student's quality of life and overall training experience.

#### FACILITIES MASTER PLAN

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 facilities to meet the projected training workload.

Over the years the original Master Plan has been updated to refine earlier estimates and incorporate changes necessary to meet the evolving training needs of our customers. It is important to note that this planning process is dynamic and ongoing. We anticipate additional and continuous revisions to the Master Plan in response to ever-changing law enforcement training requirements and mission enhancements. Since 1989, Congress has appropriated \$105,649,000 for construction. Of this amount \$87,068,000 was for Glynco projects; \$18,031,000 was for Artesia projects; \$300,000 for Marana projects; and \$250,000 for Davis-Monahan projects. In addition, funds have also been allocated from other sources (i.e. Treasury Asset Forfeiture Fund, etc.) for construction of new facilities at both Glynco and Artesia. Both the Marana and Davis-Monahan centers have been closed.

At Artesia, major projects that have been completed include: rehabilitation of the cafeteria/student center complex and main classroom building; construction of a physical training complex; 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: a dormitory; an expansion of the indoor firearms range complex; consolidation/expansion of the physical techniques facility; an expansion of the cafeteria; construction of two 25 firing point outdoor ranges; an addition to the Steed classroom building (two state-of-the-art classroom buildings); 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 two new dormitories, an administrative building and a security/registration building at Glynco. These projects are expected to be completed in 1999 and 2000. Construction of a 73 bed dormitory in Artesia is nearing completion and funding for a second dor-

mitory with 300 beds will be obligated this year. Additionally, we also expect to award a contract for the construction of a classroom/practical exercise building at Artesia soon.

The Center's fiscal year 2000 ACI&RE request is in the amount of \$21,000,000, a \$13,760,000 decrease from the fiscal year 1999 enacted level. The request includes \$13,129,000 for new construction. Projects that would be funded include: \$4,889,000 to complete funding already partially appropriated for construction of a classroom building, \$1,290,000 for construction of a specialized facility for implementation of a new counter terrorism training program and \$6,950,000 (includes \$4,600,000 from the Treasury Asset Forfeiture Fund) for expansion of the chilled water system that will provide the additional capacity needed to cool new facilities being constructed.

The construction initiatives outlined support goal two in FLETC's strategic plan which is 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. Not funding these initiatives will result in the continued reliance on the more costly method of establishing temporary training facilities to meet training requirements. It also endangers the concept of consolidated training as the larger agencies look at alternatives, such as individual agency sites, to meet their training needs.

The Center continues to consult closely with its participating agencies so that the design features of each project will meet current and future needs. This close consultation sometimes prolongs the period it takes to design and construct facilities; however, the time and effort are well spent because it ensures that funds are efficiently and wisely used. In an effort to increase the number of construction projects underway simultaneously, the Center is currently negotiating a partnership arrangement with the General Services Administration to provide assistance with related projects.

Obviously, changing events have and will continue to dictate modifications to the various projects outlined in the Master Plan. I assure you that we will continue to work through the Treasury Department, Office of Management and Budget, and the Congress in dealing with these changes.

Mr. Chairman, I want to thank you and members of the Subcommittee for the support given the Center in its Master Plan development and implementation. We are pleased and grateful that Congress has seen fit to appropriate the funds necessary to expand our facilities and better equip the Center to meet the training needs of its customers. Only by doing so is the concept of consolidated training nurtured and strengthened.

Now, if I may Mr. Chairman, I would like to take this opportunity to briefly discuss our funding request for the mandatory basic training workload increase and the remaining initiatives in the Center's fiscal year 2000 budget request that I briefly referred to earlier in my testimony.

#### MANDATORY BASIC TRAINING WORKLOAD INCREASE

In our fiscal year 2000 request the Center is asking for \$5,439,000 and 18 FTE to support the direct cost of basic training. As I discussed in some detail already, the Center is faced with an unprecedented increase in its workload over the next three years. Spring 1998 workload projections by the Center's participating agencies indicate that FLETC will conduct 149,171 basic student weeks of training in fiscal year 2000. The requested funding is essential if the consolidated training concept is to remain healthy. It supports goal one in FLETC's strategic plan—provide high quality law enforcement training.

The request is in accordance with the OMB/Treasury/FLETC policy that requires funding of the direct cost of basic training. The participating agencies do not request funding for these costs in their budget submissions and are fully expecting and relying upon the FLETC to provide that funding.

#### COUNTER TERRORISM TRAINING

The increasing threat of terrorism requires that the government be more proactive and aggressive in developing plans to protect its workforce, citizens and infrastructure. Training will be a critical element of any plan to combat terrorism, especially against weapons of mass destruction. Our fiscal year 2000 request includes \$2,506,000 and 4 FTE for Counter Terrorism Training (\$1,216,000 and 4 FTE S&E and \$1,290,000 in ACI&RE) which will fund the development of two training programs and related facilities targeted specifically at combating terrorism, the Weapons of Mass Destruction/Nuclear, Biological, or Chemical (NBC) Training Program and Critical Infrastructure Protection Training Program. Both are train-the-trainer

programs aimed at Federal, state and local law enforcement officers and emergency services agencies. The purpose of the first program is to prevent the first responders to an incident from becoming victims themselves upon arriving at incidents where large amounts of conventional explosives or NBC materials have been used. The second program is aimed at providing physical security training with an emphasis on prevention of terrorist attacks against facilities, utilities and cyber systems. This program would be conducted in a Special Classified Information Training Facility also funded by this initiative. The specialized facility is required because of the classified training that will be conducted. These initiatives support Goals 1 and 2 in FLETC's strategic plan—provide high quality law enforcement training and develop, operate, and maintain state-of-the-art facilities and systems responsive to inter-agency training needs.

#### COST ACCOUNTING SYSTEM

The Statement of Federal Financial Accounting Standard Number 4 requires all agencies to implement a managerial cost accounting system. This initiative requests \$1,380,000 and 2 FTE. It would provide the FLETC with the resources necessary to develop and support a customized cost accounting system. The complexities of the FLETC system in dealing with several accounts—S&E, ACI&RE, Violent Crime Reduction Trust Fund, Treasury Asset Forfeiture Fund, reimbursables from 71 agencies plus numerous state, local, and foreign governments—make a customized cost accounting system necessary. The initiative supports Goal 3 in FLETC's strategic plan—effectively organize, develop, and lead FLETC's personnel in support of the Center's mission.

#### AUDITED FINANCIAL STATEMENTS

The Chief Financial Officers Act and the Government Management Reform Act requires that Federal agencies have their financial statements prepared and audited by an independent party. If the Treasury's Office of Inspector General (OIG) cannot conduct this audit for the FLETC, additional resources will have to be provided for contract services if the Center is to comply with the requirements as set forth in the Acts. The \$500,000 requested in this initiative will allow the FLETC to contract with a certified public accounting firm for these services. The \$500,000 estimate for an audit is based on a pre-audit survey conducted by the OIG and directly supports Goal 3 in FLETC's strategic plan—effectively organize, develop, and lead FLETC's personnel in support of the Center's mission.

#### NEW TRAINING BUILDING SUPPORT

As I mentioned earlier in my testimony, the Center is requesting \$2,234,000 and 4 FTE for new training building support. The funding and FTE requested is necessary to support the operation and maintenance of new facilities that will have already come on-line or will be coming on-line at both Glynco and Artesia. At Glynco these include two dormitories, two office buildings, firearms ranges, a security/registration building, and an explosives range. In Artesia it includes a dormitory, a classroom/practical exercise 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, contracts (janitorial/grounds maintenance), and minor construction and maintenance. It is essential to protect the Government's investment in these facilities and supports both Goals 1 and 2 in FLETC's strategic plan.

#### EQUIPMENT

Our request includes \$1,973,000 for equipment. As I mentioned earlier, the FLETC is experiencing a tremendous growth in its workload. The heavier training workload and extended workday schedule makes it necessary to increase our training equipment inventory. Additionally, it also increases wear and tear on existing equipment thus shortening the life of existing stocks and requiring more frequent replacement. Further, new types of equipment must be purchased as technology changes because it is vital that students receive training on the types of equipment they will use in the field. This initiative supports the purchase of new Digital Radios which have been mandated by the National Information Administration under the Omnibus Budget Reconciliation Act of 1993 and will be used by our graduates on-the-job. It will also provide FLETC with the necessary resources to modernize its computer equipment. This funding will allow the FLETC to maintain its quality of training and respond to the needs of our customers. It supports Goals 1 and 3 in FLETC's strategic plan—provide high quality training for law enforcement and

effectively organize, develop and lead the FLETC's personnel in support of the Center's mission.

#### SCHEDULING AUTOMATION

This initiative requests \$350,000 to begin development of an automated scheduling process. As previously mentioned, FLETC's workload has seen tremendous growth over the last few years and this growth is expected to continue. Not only are our participating agencies projecting ever increasing basic training requirements, additional advanced training for journey level law enforcement personnel will also be required as a result of this growth. Currently the scheduling of facilities is done manually. This initiative will begin the process of automating the scheduling process and will result in more effective and efficient use of the FLETC's training facilities when completed. It supports Goals 2 and 3 in FLETC's strategic plan—develop, operate, and maintain state-of-the-art facilities and systems responsive to interagency training needs and effectively organize, develop and lead the FLETC's personnel in support of the Center's mission.

Now, Mr. Chairman, if I may, I would like to take a moment to briefly update the Committee on activities of our satellite training center in Artesia, New Mexico, and the activities of our National Center for State, Local and International Training.

#### ARTESIA OPERATIONS

The Artesia center was purchased and became operational in 1989. Training facilities at Artesia include a 164-room dormitory, cafeteria with seating to serve 270 persons per sitting with a serving capacity of 400 per meal, and a physical training complex. There are also 21 general purpose classrooms which will accommodate up to 675 students. Special purpose classrooms include a 24-person computer classroom and a 24-person fraudulent document lab. Other specialized facilities at Artesia include but are not limited to practical exercise areas, a mock courtroom, driver training and firearms ranges, an obstacle course, a rappelling tower and recreational facilities for students.

The Department of the Interior's Bureau of Indian Affairs (BIA) Indian Police Academy moved to Artesia during 1993 and is one of the largest customers. In addition to the BIA training that is conducted, Artesia also serves as an advanced training site for students posted in the Western United States. Further, because of its diverse special training facilities, it can accommodate overflow basic training that cannot be done at Glynco due to space limitations. Artesia is playing, and will continue to play, an important role in meeting the training requirements of the INS over the next three to five years.

During fiscal year 1998, the Center trained 3,565 students at Artesia. In fiscal year 1999, our latest estimates indicate that we will train 4,539 students. April 1998 projections by our participating agencies indicate that 6,683 students will be trained in fiscal year 2000. The majority of the increase in the fiscal year 1999 training workload is due to the increases in the BIA basic training requirement and the advanced training requirements of the INS, USBP, and the Bureau of Prisons.

Other users of Artesia, in addition to those already mentioned above, include the Bureau of Land Management, National Marine Fisheries Service, and the FLETC's National Center for State, Local and International Training.

The expansion of the Artesia center as authorized by the Congress is continuing essentially as planned. As I mentioned earlier in my testimony when discussing the Master Plan, many of the Artesia Master Plan projects have been completed and are in use. Construction of a 76 bed dormitory will be completed soon and construction should begin on a classroom building/practical exercise complex and site security system this year.

#### NATIONAL CENTER FOR STATE, LOCAL, AND INTERNATIONAL

Glynco's National Center for State, Local, and International Training was established in 1982 by the President to provide much needed training for state and local law enforcement agencies. Since its inception, the National Center has received broad support from the Federal, state, and local law enforcement communities. They provide subject matter experts for course and program development as well as instructional services.

The National Center is charged with training personnel from state, local and international law enforcement agencies in advanced topics designed to develop specialized law enforcement skills. By combining the expertise of the participating agencies' and FLETC's staff with the specialized training facilities already available, the Center is able to provide participants with instruction in advanced programs

that meet their specific needs. In most cases the training enables these agencies to be more supportive of Federal agencies and their missions.

During fiscal year 1998, there were 3,494 state and local students trained through the National Center in more than 40 advanced training programs. In fiscal year 1999 we expect to train 3,867 students. In fiscal year 2000 we project that 4,407 students will receive training through the National Center.

Because of the success of the National Center, many of these programs are being conducted on an export basis at sites across the country, including our Artesia center. This has proven to be a cost effective method to provide training to state and local agencies. Additionally, exporting training to state and local academies and other locations throughout the country increases the visibility of the Administration and Federal law enforcement and leads to improved cooperation between Federal and state and local agencies.

The FLETC has been involved in international training for more than 20 years and has provided assistance to selected foreign governments in a variety of ways, including operational briefings, technical assistance, and hands-on training programs. The same network and support structure in place to assist state and local agencies in meeting their training needs makes the National Center a logical focal point for international training at the FLETC.

Since 1979 the FLETC has provided training to more than 5,000 foreign law enforcement officials from more than 102 countries. Training has been provided at the Center (on a space available basis) or abroad with recent training focusing primarily on the areas of international banking and money laundering, financial fraud investigations, and telecommunications fraud.

The number of foreign training requests have grown substantially in the last few years, with student weeks of training increasing by nearly 200 percent since 1994. Two Administration and Congressional initiatives, the Freedom Support Act and the Support for Eastern European Democracies Act, are responsible for much of the upsurge in foreign training. As you know, these acts provide law enforcement technical assistance in combating organized crime, financial crime, and narcotics trafficking to Russia, the newly independent states of the former Soviet Union, and other eastern European countries.

The majority of recent training has been provided under the sponsorship of the Department of State's Office of Antiterrorism Assistance and Office of International Criminal Justice. During the last three years programs have been conducted in Russia, Poland, Hungary, Romania and Moldavia. In addition to this training, the FLETC also provides instruction in financial crimes to students attending each session of the program conducted at the International Law Enforcement Academy in Budapest, Hungary.

The FLETC maintains frequent contact and liaison with several foreign law enforcement academies, such as the Royal Canadian Mounted Police Academy, Bramshill Police College in England, and the Australian Police Academy to further collaborative efforts in training related to transnational crime.

During fiscal year 1998 the Center trained 625 foreign students, representing 1,375 student-weeks of training. Although the majority of the foreign training is done at the request and under the sponsorship of the U. S. State Department, the Center stands ready and has the capability to assist other agencies in meeting critical foreign training needs, particularly for money laundering and financial crime training for western hemisphere countries.

#### CLOSING

Mr. Chairman, I am committed to the mission of the Center to provide high quality training at the lowest possible cost. Substantial savings are being realized through the operation of the Center as a consolidated training facility. I look forward to 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.

#### ARTESIA CONSTRUCTION

Senator CAMPBELL. I think we will proceed as we did before. We will each ask a few questions before we go to Mr. Sloan.

You mentioned Artesia. Has the construction for the master plan been completed?

Mr. BASHAM. No, it is ongoing.

Senator CAMPBELL. What facilities are still in the planning stage?

Mr. BASHAM. We are currently working with GSA to assist us in completing the master plan construction projects. We currently have an additional classroom that is in the planning stages, as well as expanding our physical training facilities there. A new dorm is under—

Senator CAMPBELL. In these discussions with GSA, are these the projects they are taking on?

Mr. BASHAM. We have just this past week—this week, actually, entered into a contract with GSA to support us in bringing these facilities on line at a more rapid rate. Again, as I stated, that will assist us in closing the Charleston facility hopefully in the next several years. But we will continue to develop plans and work on construction projects at FLETC as well.

#### FIVE-YEAR PLAN

Senator CAMPBELL. Do you have a completion date the planning stage would be done?

Mr. BASHAM. At this point we have a five-year plan which we have gotten support from the Department as well as the Administration. We feel that if we are able to get the funding we will be able to complete that within five years.

#### PROJECTED NUMBER OF STUDENTS

Senator CAMPBELL. Each year FLETC estimates the number of students that it is going to train at the center and they estimate them to increase each year. In 1998 you estimated that the Center would train over 32,000 students, but the actual number was 25,762 as my notes say, about 20 percent less than you expected. This year you are projecting over 38,000 for the year 2000; 38,000 students in the year 2000.

Why is there such a large shortfall, and how do you determine the number of students that you expect to train?

Mr. BASHAM. We work through our participating organizations. They provide us with estimates of the number of students, or the number of new hires that they anticipate getting through their own appropriations process. That happens generally a year prior to actually getting the funds. So they request training slots based on what they anticipate they are going to get. That does not always occur. Therefore, what they actually receive and what we actually end up training can differ considerably.

#### COUNTERTERRORISM TRAINING

Senator CAMPBELL. Early on when we started this hearing Senator Dorgan mentioned something about counterterrorism. Do we have any form of counterterrorism training at FLETC?

Mr. BASHAM. As a matter of fact, Mr. Chairman, there is \$2.5 million that we requested to do training for counter-terrorism. Part of that, approximately \$1.5 million, will be to build a specialized facility to do the training, and the other is to provide for the resources to do that training. So if in fact we do receive the funding, we do intend to start that training in—

Senator CAMPBELL. That is good. That is the only questions I had of Director Basham. Did you have any questions of him?

EXPORT SITE CRITERIA

Senator DORGAN. I would just like the director, perhaps to furnish if you could, a memorandum to us to tell us how you choose or what criteria is used to choose the export sites. You indicate that you have to export some of your more specialized training because you do not have site capability at your permanent sites, and additionally, you want to be out in regions of the country where that training is necessary. That seems to me to make a lot of sense, and I would like to find out where you are doing that, what the criteria is used to do that.

One of the reasons for my question, obviously, is these more sparsely populated areas of the country, generally speaking do not do very well in those kinds of decisions. We are, in our region of the country, housing a fair number of contract Federal prisoners in State and local facilities, because States like our have fewer long term prisoners. We also are, obviously, more interested these days in recent years in developing training for our county sheriffs and police forces.

Your facility makes a lot of sense to me, and your program makes a lot of sense. Having the capability of substantial providing outreach all around the country for specialized training, and also general law enforcement training is very helpful to law enforcement locally. But if you would just get me some information about that, I would appreciate it. I would like at some point to be able to come down and see your permanent facilities, and see what you are doing, and what kind of training you are providing.

Mr. BASHAM. We are very aggressively pushing our programs in State and local training, and identifying sites around the country where we can deliver those services, products, because we do realize that it is needed. It is greatly needed, and we want to do what we can to provide that. But I will provide you with criteria.

SUBMITTED QUESTIONS

Senator DORGAN. All right, thank you very much. No further questions.

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

QUESTIONS SUBMITTED BY SENATOR CAMPBELL

*Question.* There has been some discussion of reclassifying the GS-1811 instructor positions at FLETC. Will you please update us on plans to reclassify these positions? How long will this take? How many GS-1811 positions are involved in this reclassification?

*Answer.* As FLETC instructor positions now filled by personnel classified as 1811 are vacated or there is a need for additional positions to be filled by personnel with Federal criminal investigative backgrounds, FLETC intends to recruit personnel with the appropriate criminal investigative experience. These positions are being classified and announced as 1801 series positions. However, if the appropriate backgrounds cannot be recruited into 1801 positions, these positions will be filled by detailed criminal investigators from participating agencies. Historically, FLETC has pursued the practice of having an instructor staff consisting of both permanent

FLETC staff and personnel detailed to FLETC from our participating agencies who have current criminal investigative field experience.

In addition, personnel currently in 1811 positions have a three-year window effective January 1, 1999, in which the transfer from 1811 to 1801 series. To help ease the transition on affected individuals, FLETC has agreed to reimburse salary costs, including LEAP, to those agencies which agree to move 1811 personnel from our rolls to their agency rolls. The FLETC will continue this reimbursement as long as the agency details the individual to the FLETC as an instructor or manager. Such details will not exceed three years. Effective January 1, 2002 any remaining FLETC positions classified as 1811 will be converted to 1801 and the LEAP pay terminated.

The FLETC currently has nine 1811 series instructors on the permanent staff. In addition, there are eight 1811 series personnel in supervisory/management/program specialist positions on the permanent staff at the FLETC.

*Question.* Explain why it is such a lengthy process from beginning to end to complete a construction project.

*Answer.* There are a number of factors which can affect the amount of time required to build a facility, ranging from whether it is a unique or special-use facility design (e.g. firearms ranges, targetry, technology, or special classroom requirements), the experience and reliability of the construction firm, to the amount of staff resources which can be devoted to a particular project. The actual construction of a building is usually accomplished within the normal industry standards, but can be impacted when significant unforeseen situations are encountered, (environmental assessment study of the proposed construction site, hidden subsurface conditions, etc.) The overall process required, subsequent to an appropriation (which includes the A&E award, A&E design, customer design reviews, contract award, and actual construction) can give the appearance of being an inordinately long time before the completion and occupation of a building. While a considerable amount of time is purposely allowed to ensure the full involvement in the design reviews from those persons who will be the ultimate users, or occupants of a building, FLETC's experience has shown this front-end investment of time yields a better final product and increased customer satisfaction. Also, there are several specific legal and regulatory requirements in the acquisition process which must be observed.

*Question.* Which projects have been completed since the construction Master Plan was put into place? How many projects are currently under construction and what is the expected date of completion of these projects?

*Answer.* The following projects have been completed:

*Glynco*

- Physical Techniques Consolidation/Expansion
- Indoor Firearms Range 1
- Outdoor Firearms Ranges 5 & 6
- Driving Range Expansion
- Cafeteria Expansion
- Brunswick Residence Hall/Road Improvements
- Two Classroom Buildings

*Artesia*

- Dormitory
- Physical Training Facility
- Interim Driver/Firearms Facility
- Interim Firearms Ranges
- Practical Exercise Area
- Recreation Area
- Walkways
- Architect/Engineering Services
- Permanent Driver/Firearms Facility
- Permanent Driver Training Ranges
- Permanent Firearms Ranges

*Marana*

- Driver Training Ranges and Practical Exercise Areas

*Davis Monthan*

- Site Preparation/Closedown

The following projects, with estimated completion dates, are under construction:

*Glynco*

- Dormitory 2/June 1999
- Administrative Office Building/June 1999

- Dormitory 3/June 2000
- Firearms Ranges 7 & 8/October 2000
- Security/Registration Building/November 1999 Burn
- Building/June 1999

*Artesia*

- Security System/July 1999
- Classroom/Practical Exercise Lab
- Building/February 2000

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QUESTIONS SUBMITTED BY SENATOR DORGAN

*Question.* FLETC is currently providing specialized training in alternative locations. FLETC acts as the broker in the identification of sites and develops specific arrangements. How are the alternative sites identified?

*Answer.* The alternative sites are identified by regions. There are five regions containing five to seven sites in each region for a current total of thirty-two export training sites. These sites are located at various State and local police academies as well as police training institutes associated with colleges and universities.

*Question.* What are the criteria for determining if a site meets the needs of FLETC?

*Answer.* Site selection is based upon the training requirements of specific programs to be offered at a location, including the sites availability during the desired scheduling dates, and the level of interest in that area for the training to be offered. Certain programs require special facilities and logistical support which further restricts the site determination process. For example, the Airborne Counterdrug Operations Training Program requires two airports with runways exceeding 5,500 feet, and a location that is not in an active air traffic control (ATC) area. Only a limited number of sites across the country have these capabilities. Many of the selected sites are in small cities and rural areas to enable State and local officers access to training while reducing travel costs and time away from their respective agencies.

*Question.* What cost factors does FLETC consider when identifying the alternative training sites?

*Answer.* All of the advanced specialized training offered by the FLETC is on a reimbursable basis. Some programs are funded through appropriations such as the Small Town and Rural Law Enforcement initiative in the Crime Bill. Also, some sites may charge an administrative fee which the FLETC includes in its tuition cost.

*Question.* How could a facility in North Dakota be considered by FLETC?

*Answer.* As in the case with other States, a facility in North Dakota could request a site visit by writing the National Center for State, Local and International Law Enforcement Training. The request should indicate which programs the site would be interested in hosting, and when the site would be available to host the training. The National Center publishes a Catalog of Training Programs which outlines training available to State and local officers. This catalog is available upon request.

*Question.* The Booze Allen Report indicated that there was a lack of support for the Artesia facility from Glynco and that there was poor communications between staff at the facilities. Have steps been taken to provide Artesia greater support?

*Answer.* Numerous actions and activities have been undertaken to increase the level of support and communications to the Artesia Center. Beginning with Director Basham's visits to Artesia to personally assure the staff of his commitment to their success, there have been significant investments dedicated to improving communications, providing requisite staffing, increasing infrastructure support, and delegating decision making necessary for self-sufficiency. In addition to the staffing increases, reclassifications and promotions have been accomplished with 34 percent of the Artesia workforce being upgraded. Television/conference meetings with the entire Artesia staff are arranged so the Director and senior staff may interact with their staff on a personal basis, in addition to the on-site visitations. Weekly video conferences are held with the management staff, and regularly scheduled counterpart video/teleconference sessions are convened for specific functional areas. Artesia staff are invited to attend training and/or conferences at Glynco in person in order to have the advantage of personal interaction with their counterparts. In the area of facilities development, 55 percent of the resources requested and reflected in the Five-Year Plan for FLETC are specifically for Artesia requirements; in fiscal year 1999, \$14,149K of \$27,149K for new construction went to meet Artesia needs.

*Question.* What actions are being taken to improve staff communications?

*Answer.* Addressing and improving communications between the Glynco and Artesia staffs continues to be a priority initiative for the FLETC's management

team. The Director has emphasized the absolute requirement that a consolidated FLETC viewpoint on issues is comprised of employee input from both the headquarters training facility at Glynco and the western-based training facility at Artesia. To this end, the Director has mandated that managers, specialists and technicians from both locations regularly visit the other site to review processes, systems, and issues that affect the overall FLETC operation as well as their respective component parts. In fact, the frequency of site visits of employees between both locations and use of video conferencing on a cross section of issues has increased within the organization. The result has been the opportunity for more consistent and productive communications across all employee levels.

In addition, the Director and other management staff regularly visit Artesia and conduct meetings with all levels of employees on a variety of issues. Further, "all-hands general staff meetings" are conducted either in person or via video conferencing to facilitate a more personalized and meaningful approach to communications. Throughout the summer of 1998, the Director led various employee focus groups at Glynco and Artesia to identify issues, then acted upon the concerns raised by the employees in these forums. For example, the FLETC Employee Development Services (FEDS) at Glynco opened its doors in February 1999. The work group included representation from the Artesia staff, who served on the team through site visits and via teleconference. Based on this experience, the FEDS is being duplicated at the Artesia facility.

*Question.* The FLETC implementation response has indicated that all inherited sexual harassment allegations were settled informally. Please explain what is meant by inherited sexual harassment cases, and how with a goal of zero tolerance they were settled informally?

*Answer.* In the FLETC's implementation response, the term "inherited sexual harassment cases" referred to allegations of sexual harassment that were pending at the time of the change in Directors. All those cases/allegations (of sexual harassment) have been resolved. Additionally, the zero tolerance sexual harassment policy is defined as top management's strong, aggressive stance of taking immediate, appropriate and equitable action, including corrective action, when warranted, on any and all allegations of sexual harassment. This policy is in accordance with Codified Federal Regulation and current case law.



## FINANCIAL CRIMES ENFORCEMENT NETWORK

### STATEMENT OF JAMES F. SLOAN, DIRECTOR

Senator CAMPBELL. Why don't we proceed, Director Sloan?

Mr. SLOAN. Thank you, Mr. Chairman, Mr. Dorgan. I am pleased to be here today. As you may know, this is my first appearance before you. In fact, given the fact that I was sworn in on Monday, it is my first appearance anywhere. I consider it an honor to both testify before this subcommittee—

Senator CAMPBELL. Hopefully it will not be your last.

Mr. SLOAN. Hopefully. We will know at the end of this testimony.

I consider it to be an honor to both testify before the subcommittee and to represent the Financial Crimes Enforcement Network, FinCEN. As the others before me have indicated, I will abbreviate my remarks and ask that my written statement be included in the record.

2000 will mark FinCEN's first full decade. From what I have seen and heard over the past few weeks, the subcommittee's support and guidance during FinCEN's developing years has been invaluable. FinCEN began with programs which were pilot efforts, experiments in discovering what would work best in terms of quality products and the timely delivery of those products. Because of your help and assistance, we now know what works.

Each of the programs I am going to describe, support FinCEN's mission, using our knowledge, technology, and partnerships, especially the partnerships, which is essentially our network, to assist law enforcement against the high tech, high speed world of financial crime.

Our fiscal year 2000 budget request of \$29.7 million includes the cost needed to maintain base funding of the programs which are now the core of our support to law enforcement. It is these programs which you, the Congress, and our law enforcement partners have told us are working and merit additional funding.

### DIRECT SUPPORT

Briefly, the key programs. FinCEN's flagship program is its direct case support to Federal agencies. Last year, FinCEN worked with more than 150 agencies. Through the use of advanced technology and numerous data sources, FinCEN links together various aspects of a case, finding the missing pieces to the criminal puzzle.

The experience we have gained in analyzing financial data to support criminal investigations, combined with improved outreach efforts, has resulted in greater demands for the case support services. For example, the casework which requires our immediate attention, that which we call rapid response requests, has increased by 73 percent over the previous year.

## PLATFORM

Another program supporting Federal law enforcement agencies is the program known as "Platform." This program permits others to use FinCEN's resources, including office space and database access, to work on cases being conducted by their own agencies. FinCEN has trained and is currently assisting 73 Platform participants from 32 agencies. Work done through Platform is handled the same as traditional FinCEN case work in terms of case management and security.

All told, using direct case support and the Platform concept, FinCEN supported approximately 7,000 cases last year, and we expect the demand to continue.

## GATEWAY SYSTEM

In fiscal year 2000, FinCEN is requesting funding for recurring costs associated with the Gateway system, a critical program for State and local law enforcement. It provides rapid electronic access to information FinCEN collects under the Bank Secrecy Act to designated, specially-trained law enforcement coordinators in every State. In fiscal year 1998, the Gateway system processed almost 70,000 queries from our State and local law enforcement partners from around the country.

If Gateway is to continue to provide this critical support to all of law enforcement, resources must be provided in our base funding.

## IMPROVED ANALYSIS AND TECHNOLOGY

In addition to providing valuable intelligence information, law enforcement also looks to FinCEN to combine analytical expertise with the latest in technology in order to dig deeper into today's complex money laundering schemes.

The Suspicious Activity Reporting System, SARS, for example, is a good illustration of why FinCEN needs to reinforce both its analytical and technological capabilities. These reports of suspected criminal activity ranging from bank and tax fraud to embezzlement, money laundering, check kiting, and credit card fraud, are rapidly proving their value to more than a dozen Federal law enforcement and regulatory agencies. I would point out that the SARS have proven very useful in a number of suspected terrorism cases.

As financial institutions improve the quality of the SAR reporting, and as law enforcement continues to benefit from the data contained in these reports, FinCEN is being looked to for creative ways to make the information even more meaningful.

Additional analysts with specialized training in financial examination and technology who can further enhance our capabilities in data manipulation and data mining are critically needed to meet our customers' understandable expectations. The fiscal year 2000 budget request will provide funds for these additional analysts to enhance SARS and other Bank Secrecy Act database analysis.

## REGULATORY EFFORTS: NON-BANKS

In the regulatory arena, FinCEN will continue to focus on what we call non-banks. As the subcommittee knows, FinCEN has worked very closely with the financial services industry over the last 10 years to ensure that effective programs are in place to prevent money laundering. Banks and many other financial service providers have been very successful at cutting off these avenues to money launderers and other criminals through strong compliance with the Bank Secrecy Act regulations. The information provided by banks and others also creates a valuable financial trail for law enforcement to follow.

FinCEN must be prepared to accommodate the additional information these regulations will generate. The sources of information make it absolutely necessary that we upgrade our computer systems and increase our pool of analysts in fiscal year 2000. Without the upgrade and resources requested in the 2000 budget, the information will be far less useful to our law enforcement partners.

## INTERNATIONAL EFFORTS

FinCEN also continues to maintain a key leadership role in assuring that the United States has a strong voice in international anti-money laundering initiatives. A central objective has been the development of an international network of financial intelligence units, or FIUs. These organizations are willing and able to assist one another in practical terms in the fight against money laundering.

Just as FinCEN is able to assist Federal, State and local law enforcement from various regions of the United States by bringing varied pieces of information and individual investigations together, so too FinCEN can reach out to other FIUs to obtain information that might prove critical to American Federal, State, and local investigations.

That is the point. We want to have the best information for our investigators as quickly as possible, in order for them to pursue criminals around the world. FinCEN has already been able to support a number of investigations within the United States by gathering information from its FIU counterparts, and we will continue to improve this important link to foreign law enforcement entities.

FinCEN will also continue to maintain its efforts to strengthen its international teamwork through venues such as the financial action task force and its satellite organizations in the Caribbean, Asia, and South Africa. Our 2000 request will enable us to continue to foster an FIU network, as well as supporting these key programs which promote international anti-money laundering standards.

## MAGNITUDE OF MONEY LAUNDERING

Finally, Mr. Chairman, FinCEN has learned to better identify what resources are needed to more effectively target our support to law enforcement. The programs I have described are aimed at providing that support in a variety of specific ways. But as we have stressed in our annual performance plan and in budget submissions, it is difficult to truly gauge the effectiveness of the Nation's

battle against financial crime until we have found a way to measure the magnitude of the problem we are addressing.

Fiscal year 2000 phase of our attempt to determine the magnitude of money laundering will also continue to use the expertise drawn from national research organizations and academic institutions in concert with the knowledge and experience of law enforcement, regulatory, and financial professionals. It is our expectation that the early estimate of the magnitude will result in elementary baselines which will be refined with greater precision over time. We will continue to keep the subcommittee informed about the progress on this difficult but very necessary effort.

PREPARED STATEMENT

In conclusion, Mr. Chairman, I am honored to lead this organization of dedicated men and women, all professionals, as we begin the next decade and chapter in FinCEN's history. I am grateful to the subcommittee for its guidance and support as we continue to explore innovative ways to further our country's effort to combat financial crime and protect the integrity of our Nation's financial systems.

Thank you, sir.

[The statement follows:]

PREPARED STATEMENT OF JAMES F. SLOAN

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today. As you know, this is my first appearance before you. I consider it an honor to both testify before the subcommittee and to represent the Financial Crimes Enforcement Network—FinCEN.

2000, the year of the millennium, will also mark FinCEN's first full decade. This request reflects the directions we must take in fulfilling our mission as we move into the 21st century. FinCEN's key mission—support for law enforcement has not changed. Over the last nine years, FinCEN has learned how to capitalize on its network—a link between the law enforcement, regulatory, and financial communities. This strategy maximizes information sharing among its partners in these communities and fosters cost-effective and efficient measures to address the complex problem of money laundering. My testimony will briefly describe how FinCEN is applying that knowledge to assist all law enforcement in its battle to outsmart criminals in today's world of high-tech, high-speed financial crime.

The Committee's support and guidance during these developing years has been invaluable. FinCEN began with programs which were pilot efforts—experiments in discovering what would work best in terms of quality products and the timely delivery of those products. With your help and assistance, we now know what works. A number of our pilot projects have become viable programs with a proven track record.

Our fiscal year 2000 budget request of \$29.7 million reflects our commitment to these important programs. This request includes the costs needed to maintain base funding of these programs which are now the core of our support for law enforcement. It is these programs which the Congress and our law enforcement customers have told us are working and merit more resources. I am referring to case support provided in various ways to our federal law enforcement customers: the Gateway System which supports the state and local enforcement community; research and analysis efforts provided to both the regulatory and enforcement community using enhanced financial databases and the latest technology; expansion of secure communications to expedite case support and share sensitive case information; continuing anti-money laundering regulatory efforts governing non-bank financial institutions; international outreach and training efforts to increase the number of Financial Intelligence Units (FIUs); and a study to gauge the magnitude of money laundering. FinCEN is committed to strengthening these essential programs—programs that are essential to our government's overall anti-money laundering strategy.

All of these programs support FinCEN's mission—identifying, managing, packaging, and delivering, in a timely fashion, the massive amounts of information which investigators need to do their jobs.

#### CASE SUPPORT

##### *Direct, Platform and Gateway*

FinCEN's support to law enforcement is provided in two ways: through direct case support which consists of in-house staff of experts who respond to field requests for data searches and analysis; and through programs, called Platform and Gateway, which permit others to take advantage of our services while using their own resources. This second approach enables FinCEN to accommodate the increasing demand for our services by providing our law enforcement customers with access to our resources themselves in a variety of hands-on, interactive ways.

Described below are these key programs, which successfully demonstrate how FinCEN uses its network to achieve its mission of providing case support.

##### *Direct Case Support*

FinCEN's flagship program is its direct case support to federal law enforcement agencies. Last year, FinCEN worked with more than 150 different agencies. Through the use of advanced technology and numerous data sources, FinCEN links together various aspects of a case, finding the missing pieces to the criminal puzzle. The experience we have gained in analyzing and disseminating financial data to support criminal investigations, combined with improved outreach efforts has resulted in greater demands for our case support services. For example, in response to significant increases in priority or sensitive requests, rapid response and expeditious casework increased by 73 percent over the previous year. Requests for on-site field support are becoming equally as demanding.

A new software program illustrates how FinCEN is assisting investigators with their on-site field support investigations. FinCEN has developed a new case management software system, Analytical System for Intelligence Analysis (AS IS) which has resulted in FinCEN providing assistance to a large number of entities in support of major cases. The software program is provided on a diskette to case agents as a type of "fill in the blank" process to save time in converting the raw data into a form that our analysts can easily merge with FinCEN's multi-source database information.

AS IS has been very helpful in a number of investigations. For example, FinCEN supported the IRS and other federal agencies including the FBI and Postal Service in a large-scale investigation of money laundering, fraud, conspiracy, and tax violations. A team of FinCEN analysts and an IRS representative conducted research and analysis on more than 100 subjects, some with organized crime links. Using link charts and other analytical tools, including AS IS, FinCEN's products portrayed over \$14 million in currency transactions, several million dollars in assets, and hundreds of links among individuals, businesses and various records.

In another case, FinCEN supported the Customs Service and other federal and state agencies in a money laundering investigation involving an international scheme to defraud private citizens through fraudulent investments. FinCEN used currency transaction reports and suspicious activity reports, filed by banks, to link the subjects to banks, currency exchange houses, and casinos. Twenty-five subjects were responsible for approximately \$100 million in illicit activity. FinCEN's support included link charts, analytical reports, and on-site field support through AS IS.

##### *Platform*

Another program supporting federal law enforcement agencies is called "Platform." This program is a way to permit others to use FinCEN's resources directly to carryout their own work. FinCEN pioneered the "Platform" in 1994, offering training, office space and database access to employees of other federal agencies who come to FinCEN, on a part-time basis, to work only on cases being conducted by their own agencies. These individuals know the needs of their organization and can support that need directly through database access. FinCEN is currently assisting 73 Platform participants from 32 agencies. Work done through Platform is handled the same as traditional FinCEN casework in terms of case management and security. Platform cases accounted for about 20 percent of the cases closed by FinCEN in 1998.

All told, using direct case support and the Platform concept, FinCEN supported approximately 7,000 cases last year.

### *Gateway System*

The Gateway System supports state and local law enforcement by providing rapid, electronic access to information FinCEN collects under the Bank Secrecy Act. Access to the information—large currency transactions, for instance—is provided to designated, specially-trained, law enforcement coordinators in each state, the District of Columbia, and Puerto Rico. In fiscal year 2000, FinCEN is requesting \$600,000 for recurring costs for this critical program, which was funded from the Violent Crime Reduction Trust in fiscal year 1999.

Gateway saves investigative time and money because subscribing agencies can conduct their own research and not rely on the resources of an intermediary agency to obtain financial records. In fiscal year 1998, the Gateway System processed 69,335 queries from our state and local law enforcement partners around the country, a 20 percent increase over fiscal year 1997.

One of the most outstanding and useful features of this system is its “alert” mechanism that automatically alerts 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 statistics for the Gateway System speak for themselves. The number of “alerts” issued in fiscal year 1998 rose to 1,429, a 55 percent increase over fiscal year 1997.

If Gateway is to continue to provide this critical support, resources must be provided in our base funding.

#### USING TECHNOLOGY TO IMPROVE ANALYSIS AND DELIVERY OF INFORMATION

The programs described above have demonstrated the importance of delivering valuable intelligence information as it relates to suspected money laundering and other financial crimes. Law enforcement also looks to FinCEN to combine analytical expertise with the latest in technology upgrades in order to dig deeper into the hidden folds of today’s complex money laundering schemes.

### *Improved Analysis and Technology*

The Suspicious Activity Reporting System (SARS), for example, is a good illustration of why FinCEN needs to reinforce both its analytical and technological capabilities. These reports of suspected criminal activity ranging from bank and tax fraud to embezzlement, money laundering, check kiting and credit card fraud are rapidly proving their value to law enforcement. Because of the centralized feature of the system, more than a dozen law enforcement and regulatory agencies are able to access its reports simultaneously. But as financial institutions improve the quality of their reporting and law enforcement discovers the benefits of the data contained in these reports, FinCEN is being looked to for creative ways to make the information even more meaningful. Additional analysts with specialized training in financial examination and technology who can further enhance our capabilities in data manipulation and data mining are critically needed to meet our customer’s understandable expectations. The fiscal year 2000 budget request will provide funds for these additional analysts.

### *Secure Communication*

But the value of our work is not just measured in terms of how well we manage data systems or what information our analysts uncover. Information is worthless if it does not get to the people who need it in time for them to act. Timeliness of delivery is just as important as the quality of the product in today’s “Information Age.” FinCEN has been making a concerted effort to shorten the time it takes to analyze, package and deliver its analytical products to law enforcement. In addition to streamlining the time it takes our experts to analyze law enforcement data, our experts on the technical side have built a secure Internet system to facilitate law enforcement’s ability to request and receive case support information electronically from FinCEN as well as rapidly exchange information with their counterparts within a secure e-mail system.

Using fiscal year 1998 funds, the initial secure outreach system is allowing Treasury law enforcement bureaus to begin to communicate among themselves about sensitive law enforcement information. Through the application of sophisticated encryption and the Internet, this secure outreach network has the potential to provide a real time means of sharing information quickly and securely.

#### REGULATORY EFFORTS: NON-BANKS

As the Committee is aware, FinCEN has worked closely with the financial services industry over the last 10 years to ensure that effective programs are in place

to prevent money laundering at these institutions. Banks and many other financial service providers have been very successful at cutting off these avenues to money launderers and other criminals through strong compliance with Bank Secrecy Act regulations. The information provided by banks and others also creates a valuable financial trail for law enforcement to follow. FinCEN has worked very hard to cultivate partnerships within the banking community in order to encourage and assist them in improving their compliance program.

It also is working to expand requirements of the Bank Secrecy Act to other segments of the financial services industry. FinCEN must be prepared to accommodate the additional information these regulations will generate. These sources of information make it imperative that we upgrade our computer systems and increase our pool of analysts in fiscal year 2000. Without the upgrades and resources requested in the fiscal year 2000 budget, the information will be far less useful to our law enforcement customers.

#### INTERNATIONAL EFFORTS

FinCEN continues to have a key leadership role in assuring that the U.S. has a strong voice in international anti-money laundering initiatives. A central objective has been the continued development of an international network of financial intelligence units, or FIUs. These organizations are willing and able to assist one another in practical terms in the fight against money laundering. Just as FinCEN is able to assist federal, state and local law enforcement from various regions of the U.S. by bringing disparate pieces of information and individual investigations together, so FinCEN can reach out to other FIUs to obtain information that might prove critical to a U.S. federal, state, or local investigation.

One successful outcome of this effort is the Egmont International Secure Web System, developed almost entirely by FinCEN, this system permits members of the Egmont Group (the core group of FIUs) to communicate with one another via secure e-mail, and to post and access information on FIUs, money laundering trends, financial analysis tools, and technical developments.

This international information exchange for tracking "dirty money" just helped uncover Australia's largest cocaine seizure—225 one-kilogram blocks of cocaine recovered from a yacht off the coast of New South Wales. FinCEN provided critical information on financial transactions and property records in support of this investigation. In a recent news report, the head of the Australian FIU, Elizabeth Montano, praised FinCEN for its assistance with this case, saying "the [exchange] with the United States has been amazingly successful in terms of providing us with lots of linkages, showing us that what we are following are not silly hares down rabbits' hollows that don't matter."

And that is the point—we want to have the best information for our investigators as quickly as possible in order for them to pursue criminals around the world. FinCEN has already been able to support a number of U.S. investigations by gathering information from its FIU counterparts and will continue to improve this important link to foreign law enforcement entities.

FinCEN will also maintain its efforts to strengthen its international network through venues such as the Financial Action Task Force (FATF) and its satellite organizations in the Caribbean, Asia, and Southern Africa. FATF, a 26-nation organization created by the G-7, serves as the world leader in promoting the development of effective anti-money laundering controls and cooperation in counter money laundering investigations among its membership and around the globe.

Another international priority for FinCEN is its efforts related to Presidential Decision Directive-42 (PDD-42). This directive focuses U.S. efforts on encouraging countries known to be money laundering havens to cooperate in denying criminals access to their financial systems. To that end, working with other agencies, FinCEN has provided results-oriented training and technical assistance programs. Our efforts are demonstrating the benefits of sharing our expertise with other governments.

Our fiscal year 2000 request will enable us to continue to foster an FIU network, our PDD-42 efforts and other work, to include: devising coordinated strategies to combat money laundering schemes; and providing training and technical assistance.

#### MAGNITUDE OF MONEY LAUNDERING

Finally, Mr. Chairman, FinCEN has learned to better identify what resources are needed to more effectively target our support to law enforcement. The programs I have described are aimed at providing that support in a variety of specific ways. But as we have stressed in our fiscal year 1999 and fiscal year 2000 Strategic Plans and budget submissions, it is difficult to truly gauge the effectiveness of this na-

tion's battle against financial crime until we have found a way to measure the magnitude of the problem we are addressing.

Our overriding objective then is to seek a workable methodology for creating estimates of the volume of laundered money. As we have pointed out in previous testimony, there have been a few attempts made by international organizations, such as the United Nations, as well as by governments to address the problem. These studies, however, have fallen short of their objective because of a lack of available data as well as standardized data collection systems within the international community.

Keeping in mind the difficulties others have experienced, FinCEN allocated staff resources with the funding this Committee provided in fiscal year 1999 to look at the problem on both a national and international level. Because the problem is global, the first step in the process has been to approach the issue at a macro level. The U.S. led this effort by presenting a concept paper to the FATF plenary last spring. Although the national interests of the FATF members coupled with broad differences in the collection of relevant data make it difficult to proceed as quickly on the international level as we would like, FATF discussions have made it clear that the U.S. is in a relatively strong position to move forward with our own national study. We have been collecting data regarding drug supply and demand for sometime in this country, which will help provide the basis of a methodology to estimate money laundering.

Under the direction of Treasury's Office of Enforcement, two committees of experts from a wide variety of federal law enforcement and economic policy agencies within our own government have been established and will begin to identify available data sources and analytical approaches to the study. The fiscal year 2000 request of \$500,000 will support the implementation phase of the methodology currently being explored with fiscal year 1999 funds. This phase will include development of the survey instrument and initial collection of data. The fiscal year 2000 phase will also continue to use expertise drawn from national research organizations and academic institutions in concert with the knowledge and experience of law enforcement, regulatory and financial professionals. It is our expectation that the early estimate of the magnitude will result in elementary baselines, which will be refined with greater precision over time. We will continue to keep the Committee informed about progress on this difficult but necessary effort.

#### CONCLUSION

In conclusion, Mr. Chairman, we have attempted in our testimony today, to describe those paths FinCEN has been following which are producing demonstrable benefits. As we continue to progress as an organization, it is essential that we receive base funding for those projects which have now become integral to the fulfillment of our mission. Again, we are grateful to this Committee for its guidance and support as we continue to explore innovative ways to further our country's efforts to combat crime.

#### REGULATORY

Senator CAMPBELL. Thank you for your testimony. I am going to wing it a little bit here. I am sure Senator Dorgan is going to ask much more intelligent questions than I am because he has had a much stronger background in understanding this than I have. But let me ask you just a couple of questions, and maybe Under Secretary Johnson might want to chime in here, too.

As I understand it, the money services businesses is really kind of the new wave of money laundering. You mentioned something along that line. Money launderers are turning to the unsupervised financial services because they do not have to register, nor do they have any rules to govern them. There are over 160 unregistered businesses nationwide with transactions of over \$200 billion a year that do not maintain account relationships comparable to banks. So it is difficult for these businesses to know their customers well enough to identify any suspicious activity.

I understand that the rules for registration are being written, or are written for governing the money services businesses but they

are waiting on clearance from Treasury. Is that correct, and can you give us the status on those rules, either one of you?

Mr. JOHNSON. After a notice and comment period the proposed rules have—the comment period closed and the proposed rules have left FinCEN and they are being evaluated within Treasury. The process, before we implement any program with respect to this new unregulated industry we need to make sure that the resources are available, and then we have—

Senator CAMPBELL. Once those rules are written you are going to have an increased workload, I assume.

Mr. JOHNSON. Yes, sir, we are.

Senator CAMPBELL. Have you requested additional employees to handle that increased workload?

Mr. JOHNSON. There is a component in FinCEN's budget that deals with the increased workload. There are also issues with respect to other elements of the workload. We had envisioned, at least in preliminary plans, was that it would be handled by IRS exam. We are still working through those issues with respect to implementation. And as you know, there have been changes within the structure of IRS as a result of the reform act of last summer.

Senator CAMPBELL. When is the expected date that the rules will be finalized?

Mr. JOHNSON. We expect that, and this is with respect to the registration rule which is the first rule that would form the basis for the program. We have put together a group that expects to be able to report out to us, and for us to report to the Hill at the end of 45 days. And they will do the final analysis of the resource requirements, and at that time we would be in a better position to inform the committee as to our timelines.

Senator CAMPBELL. All right, if you would, I would appreciate that. I have two or three additional questions that I will put in writing, if you could get back to us.

Mr. JOHNSON. Yes, sir.

Senator CAMPBELL. Senator Dorgan?

#### INTERNATIONAL

Senator DORGAN. Let me just ask briefly a question about the international aspect of this. We hear every day in Congress that this is a global economy. The implication of that is that there are really not many geographic borders any more when we are talking about trade and so on. I assume exactly the same is true with crime, especially financial crime. It is a global economy in financial crime, which means that international relations and arrangements are critically important to addressing it.

Tell me, if you would, about your agencies' work in international relationships and creation of the state-of-the-art communications systems and so on to accommodate that.

Mr. SLOAN. Senator, I am very fortunate to have inherited an organization that has a very well established program that continues to work to develop and foster global anti-money and laundering strategies, policies, and programs in the international arena. As you may know, the G-7 Economic Summit created an organization known as the Financial Action Task Force which is comprised of

26 countries and is recognized as the leading organization is setting international anti-money laundering standards, if you will.

As an outgrowth of that, many nations around the world have created parallel organizations similar to FinCEN, known as FIUs. FinCEN's relationship with these FIUs has been, as I have been able to determine in the few days that I have been here—because I have met with some of the counterparts from the foreign FIUs already—has been incredibly successful.

You are absolutely right, our success or failure with regard to international anti-money laundering initiatives, the success would be non-existent if we did not pay attention and did not have the cooperation of foreign countries as far as the transmission of laundered cash.

Senator DORGAN. You get fairly good cooperation?

Mr. SLOAN. It is my understanding, both from the historical perspective that has been presented to me and from my personal contact with several of the foreign representatives in the last several days, that the cooperation is outstanding.

#### GATEWAY

Senator DORGAN. Just one last question on the Gateway program. My understanding is that program supports State and local law enforcement by providing rapid electronic access to the information you have. What kind of utilization exists with that program by State and local, and do you have outreach efforts to make sure that State and local authorities know that this opportunity exists for them?

Mr. SLOAN. Yes, we do. In fact, the training continues. As I mentioned in my oral statement, we now participate with every State in the Union, as well as the District of Columbia and Puerto Rico relative to the Gateway project. There were close to 70,000 queries last year alone from the various States. Our training and our relationship with the States not only concentrates on their ability to take advantage of the system, but also focuses on making sure that the system is utilized for law enforcement activity exclusively.

Senator DORGAN. Mr. Sloan, thank you very much. We appreciate the dedication of the employees in your agency and your work. Yours is one of those areas that is not very visible from the outside, but it is critically important to enable a lot of other law enforcement agencies to do their work in a very sophisticated area of financial crime here and also internationally. So thank you for your work.

Mr. SLOAN. Thank you.

#### INTERNATIONAL

Senator CAMPBELL. Mr. Sloan, one last question. Senator Dorgan and I just came back from a CODEL to South America and most of our work down there dealt with trade. But in Argentina I noticed that dollars were almost interchangeable when you would purchase things as their own currency, and they seemed to be moving more and more towards that. In those countries that have almost unlimited use of dollars on the streets as well as their own currency, does that increase the difficulty of monitoring international laundering? With respect to crimes in the U.S. the dollars

must first be “placed” into the financial system here, or smuggled out of the United States, before the situation in any other country is relevant. More generally, of course, the United States and its citizens derive significant continuing benefit from the fact that the dollar is one of the world’s reserve currencies. Of the approximately \$500 billion in circulation, it is estimated that approximately \$300 billion or 60 percent, circulates overseas. Many government programs, including our programs to deal with money laundering, must take those basic economic facts into account.

Mr. SLOAN. To the degree that I could speak specifically about South America and Argentina I would probably have to respond after some research on my own and get back to you with an answer on that, sir.

Senator CAMPBELL. Would you do that?

Mr. SLOAN. Absolutely.

Senator CAMPBELL. I would be interested in knowing that.

Mr. SLOAN. I shall.

Senator CAMPBELL. Did you have anything further?

Senator DORGAN. No, Mr. Chairman.

#### SUBMITTED QUESTIONS

Senator CAMPBELL. We have additional questions that will be submitted in writing to be answered for inclusion in the record.

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

#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

##### FINANCIAL CRIMES ENFORCEMENT NETWORK (FINCEN)

*Question.* It has been noted that state investigators remain largely untrained and ill equipped to investigate money laundering, leaving the bulk of the investigating to Federal investigators who lack the staff to handle the entire job. Certain states do not utilize the Gateway automation commercial data base as much as others. How has FinCEN made these states aware of the resources available to them, and assisted them in their efforts to combat money laundering through Gateway?

*Answer.* Over the past few years, FinCEN has worked with state and local law enforcement, policy makers, and prosecutors to stress the benefits and importance of attacking criminal proceeds. This outreach encompasses a three-prong strategy: working with states to ensure anti-money laundering and asset forfeiture laws are in place; encouraging them to utilize to the fullest extent possible the financial data available through Gateway; and promoting the establishment of financial intelligence units within the states. FinCEN has been joined in this strategic outreach effort by the National Association of Attorneys General (NAAG) and the International Association of Chiefs of Police (IACP).

Approximately 26 states have been visited over the past two years in which this strategy was articulated. Overall, these efforts have resulted in a substantial increase in Gateway usage.

FinCEN also provides more in-depth case support to its state and local enforcement customers through its Office of Investigative Support (OIV). Under OIV, FinCEN analysts provide support to more complex cases requiring greater in-depth analysis and expertise. In the last two years, approximately 1,000 cases were processed by OIV. This number is in addition to Gateway.

*Question.* It is important to maintain an international network of Financial Intelligence Units (FIU’s). Explain how this network works in the money laundering process.

*Answer.* FinCEN continues to have a key leadership role in assuring that the U.S. has a strong voice in international anti-money laundering initiatives. A central objective has been the continued development of an international network of financial intelligence units, or FIUs. These organizations are willing and able to assist one another in practical terms in the fight against money laundering. Just as FinCEN

is able to assist federal, state and local law enforcement from various regions of the U.S. by bringing disparate pieces of information and individual investigations together, so FinCEN can reach out to other FIUs to obtain information that might prove critical to a U.S. federal, state, or local investigation.

One successful outcome of this effort is the Egmont International Secure Web System. Developed almost entirely by FinCEN, this system permits members of the Egmont Group (the core group of FIUs) to communicate with one another via secure e-mail, and to post and access information on FIUs, money laundering trends, financial analysis tools, and technical developments.

A recent example helps illustrate the importance of this international information exchange for tracking "dirty money." The information exchange helped uncover Australia's largest cocaine seizure—225 one-kilogram blocks of cocaine recovered from a yacht off the coast of New South Wales. FinCEN provided critical information on financial transactions and property records in support of this investigation. In a recent news report, the head of the Australian FIU, Elizabeth Montano, praised FinCEN for its assistance with this case, saying "the [exchange] with the United States has been amazingly successful in terms of providing us with lots of linkages, showing us that what we are following are not silly hares down rabbits' hollows that don't matter." Importantly the information sharing was not one-way. AUSTRAC, Australia's FIU, provided U.S. law enforcement via FinCEN with important bank account information helping authorities to target drug proceeds here in the United States.

In all these instances, FinCEN ensures that the information-exchanges adhere to privacy protection guidelines, policies, and regulations.

In another example of information-exchange, Treasury's Office of Enforcement has asked FinCEN to find ways to expand access to cross-border data with the Mexican FIU. It is hoped that through this and similar activities, the two FIUs can establish additional cooperative efforts.

The strategy behind all of these efforts is to have the best information for our investigators as quickly as possible in order for them to pursue criminals around the world. FinCEN has already been able to support a number of U.S. investigations by gathering information from its FIU counterparts and will continue its efforts to improve this important link to foreign law enforcement entities.

*Question.* FinCEN's budget doesn't reflect any new initiatives; however, the overall increase is more than \$4 million over fiscal year 1999. Please explain the reasons for the increase.

*Answer.* FinCEN, an agency that is just nine years old, is concentrating on ensuring the continuity of existing programs—which are proving valuable to law enforcement—rather than asking for additional funds for the new programs. The Committee's support and guidance during these developing years has been invaluable.

A number of FinCEN's pilot programs, such as the Gateway Program and Secure Outreach (Internet Communication), have been funded out of the Violent Crime Reduction Trust Fund and Treasury Forfeiture Fund. These programs have been designated to improve FinCEN's ability to strengthen and broaden its information-sharing network among law enforcement agencies, and thus should be reflected as part of FinCEN's core funding.

The additional funding also will address workload increases to meet increasing customer demand, especially for law enforcement case support, as well as mandatory cost increases.

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#### QUESTIONS SUBMITTED BY SENATOR DORGAN

##### GATEWAY PROGRAM

*Question.* What efforts is FinCEN making to ensure this program is being utilized by State and local law enforcement agencies to the maximum degree?

*Answer.* Over the past few years, FinCEN has worked with state and local law enforcement, policy makers, and prosecutors to stress the benefits and importance of attacking criminal proceeds. This outreach encompasses a three-prong strategy: working with states to ensure anti-money laundering and asset forfeiture laws are in place; encouraging them to utilize to the fullest extent possible the financial data available through Gateway; and promoting the establishment of financial intelligence units within the states. FinCEN has been joined in this strategic outreach effort by the National Association of Attorneys General (NAAG) and the International Association of Chiefs of Police (IACP).

Approximately 26 states have been visited over the past two years in which this strategy was articulated. Overall, these efforts have resulted in a substantial in-

crease in Gateway usage. Currently, there are also 34 states with anti-money laundering legislation, with more anticipated in the near future.

#### INTERNATIONAL RELATIONS AND LAW ENFORCEMENT

*Question.* Money Laundering is a global problem; it doesn't stop at our borders. What is being done to address the money laundering issue on an international scale? Are you utilizing international task forces or intelligence efforts?

*Answer.* Fundamental to FinCEN's mission and ultimate success in fighting international crime and money laundering is its work with other governments. Enhancing bilateral and multilateral anti-money laundering efforts with foreign governments, such as identifying and working toward eliminating financial safe havens, is receiving increased focus by FinCEN. Most recently, FinCEN issued an Advisory to banks and other financial institutions to give enhanced scrutiny to all financial transactions routed into or out of Antigua. This advisory was immediately followed by a similar advisory from Britain. FinCEN's advisory resulted after months of U.S. interagency deliberations by a group set up to specifically look at money laundering havens around the world. After the decision to issue the advisory, FinCEN led the effort to inform the Financial Action Task Force (FATF), the Caribbean Financial Action Task Force (CFATF), and the Egmont Group of FIUs.

FinCEN's work with other governments to fashion and put in place a regional and global response to the threat of money laundering is expanding. FinCEN continues to strengthen its international network through venues such as the FATF and its satellite organizations in the Caribbean, Asia, and Southern Africa. FATF, a 26-nation organization created by the G-7, serves as the world leader in promoting the development of effective anti-money laundering controls and cooperation in counter money laundering investigations among its membership and around the globe. FinCEN serves as the lead agency for coordinating the U.S. role within the FATF. We are strengthening and expanding multilateral efforts against money laundering in other forums such as the G-8, the Organization of American States and international financial institutions.

In addition FinCEN coordinates and provides training and technical assistance to partner nations seeking to legislate against financial crimes, to put in place anti-money laundering regulatory regimes and to establish financial intelligence units (FIUs). Using information provided by banks and other sources, FIUs find innovative tools to delve into the information to make it useful for law enforcement and others. Whereas in 1995 there were 14 FIUs, today, there are 38—with many others in development. This international network of FIUs is willing and able to assist one another in practical terms in the fight against money laundering. FinCEN can reach out to other FIUs to obtain information that might prove critical to a U.S. federal, state or local investigation.

#### FINCEN REGULATORY ROLE

*Question.* What is the status of the three money services businesses regulations?

*Answer.* The rules related to registration of Money Services Businesses (MSBs) and the reporting of suspicious transactions by MSBs are in the clearance process at the Department of Treasury. The rules are being reviewed by all affected Treasury functions to ensure that all of the issues involved are carefully considered.

The rule concerning the reporting of foreign-bound wire transfers paid in currency is being reviewed at FinCEN. Since it would have a significant effect on resources, FinCEN is exploring a variety of options before finalizing the rule.

In addition, it's imperative that the resources are in place to support implementation of the rules. A working group, which includes representatives from various Treasury agencies and offices, including FinCEN, is charged with devising a detailed strategy to implement the new program and to ensure its long-term viability. In recent testimony, Treasury's Office of Enforcement indicated that a report on the group's plans for implementation of the MSB regulations will be provided to the Congress in 45 days.

#### CONCLUSION OF HEARINGS

Senator CAMPBELL. I have no further questions, and I appreciate this panel for appearing. With that, these hearings are concluded. Thank you.

[Whereupon, at 11:38 a.m., Thursday, April 15, the hearings were concluded, and 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. Those statements and answers to questions submitted by the chairman follow:]

### GENERAL SERVICES ADMINISTRATION

#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

##### GSA'S MANAGEMENT CONTROLS

*Question.* According to GSA's Inspector General (IG), GSA's reinvention initiatives to reduce administrative barriers and promptly respond to customers' needs have detracted from controls designed to deter fraud, waste, and abuse. GSA's fiscal year 2000 performance plan doesn't address goals or strategies to ensure that GSA's activities are protected from fraud, waste, and abuse. What goals and strategies does GSA have in this area?

*Answer.* GSA sees the establishment of management controls to deter fraud, waste, and abuse as part of every performance goal. Clearly, no reinvention initiative, no matter how innovative, can be considered effective if it results in the likelihood that Government assets will be stolen or diverted to improper uses. As new approaches to meeting customer needs are developed, new means of management control to deter fraud waste, and abuse will also be developed.

*Question.* What mechanisms does GSA have in place to ensure that the strategies and controls are working?

*Answer.* At present, GSA primarily relies on IG reviews of activities to determine whether management controls are working. If problems are identified, we follow-up with the activity until the problems are corrected.

##### GSA'S ORGANIZATIONAL STRUCTURE

*Question.* GSA's administrative processes, organizational structure, systems, and procedures were designed based on the needs of a large, central oversight agency. The organizational structure, created when GSA was a 40,000-employee organization included many headquarters and regional components that reflected a traditional hierarchical approach. According to the IG, GSA's organizational structure has not changed to keep pace with the downsizing, streamlining and reform that have taken place within the agency. GSA's fiscal year 2000 performance plan does not mention the organizational structure or the possibility of assessing it to foster efficiencies and economies. What is GSA's view on the IG's observation regarding GSA's organizational structure?

*Answer.* The IG needs to take into consideration changes in GSA's organizational structure over the past years. Our processes, structure, systems and procedures have continually evolved from the time when we consisted of more than 40,000 employees until today with less than 15,000. Recently we have made a number of changes to serve our customers better. For example, the Public Buildings Service now has 12 Centers of Expertise around the country that function as corporate knowledge centers, offering specialized information and hands-on assistance quickly and efficiently to clients. Only four of these centers are based in Washington.

*Question.* Would an organizational make-over better equip GSA to meet the performance goals identified in the fiscal year 2000 and future performance plans, such as reducing administrative barriers and improving customer service?

*Answer.* GSA believes that a comprehensive "organizational make-over" is not warranted at this time and would, in fact, be a distraction from adding value and

servicing customers. We do, however, believe that the organizational structure must be fine-tuned from time to time to improve performance. For example, in supporting preparations for the Year 2000 Census, GSA has organized its support around our customer's regional structure (that is, the Census Bureau) rather than our own.

## OFFICE OF PERSONNEL MANAGEMENT

### PREPARED STATEMENT OF JANICE R. LACHANCE, DIRECTOR

Mr. Chairman and members of the subcommittee. I appreciate this opportunity to discuss for the record the appropriations request for fiscal year 2000 for the Office of Personnel Management.

In order to provide some context for the President's request for appropriations for OPM for the next fiscal year, it may be useful to review the recent history of our agency and the Human Resources Management (HRM) area generally before turning to the specifics of our budget.

Although you may be familiar with our recent history, I believe it is imperative to reemphasize the dramatic changes that have occurred in OPM since 1993. Our reduction in our full-time equivalent employment level by 52 percent is virtually without parallel in the federal government. It was achieved not only by a thorough restructuring of our operations, but also through the privatization of two of our major components, training and investigations, with the latter being converted into an employee stock ownership plan, the first to result from a federal entity.

This restructuring, along with our emphasis on tighter financial controls across all programs and increased accountability, enabled us to make the tough management decisions that are paying off today. The best evidence of our success is the elimination of the \$48,800,000 deficit which existed in our revolving fund at the end of fiscal year 1994.

Our successes in focusing on our core mission and doing more with less have provided leadership by example for the reinvention effort in the federal community. We have built on that position by supporting other agencies as they undertake workforce reductions and restructuring. Significant downsizing of human resources management staff in many agencies has created an even greater need for and reliance upon OPM expertise.

We have responded to that challenge in numerous ways. Permit me to mention a few examples. In the area of performance management, our recently issued study of poor performers in the federal service has received considerable attention. But equally important to us and our agency constituents is our development of a booklet, CD-ROM, and web-based training on addressing and resolving poor performance. OPM staff is also focusing on assisting agencies with aligning individual performance plans to agency strategic plans, as envisioned by the Government Performance and Results Act.

In addition, with two of our executives cochairing the Human Resources Technology Council, we are working with agencies to ensure that they are able to do more with less through the best and most cost-effective use of automation in their HRM activities. This year, we will complete a vision and concept of operations for a Federal Human Resources Data Network, a broader approach to the government-wide application of human resources automation that encompasses the more limited objective of an electronic personnel folder.

We have also placed increasing emphasis on communicating with agency HRM personnel through our web page and through focused conferences on a variety of subjects. From our annual benefits officers conference to our annual symposium on employee and labor relations, we have had great success in bringing together hundreds of HRM professionals to share information and experiences. Increases in demand and in satisfaction with our presentations have led to the consolidation of some of our workshops and seminars on leave, position classification, and performance management into a new total compensation conference.

In fiscal year 1998, we engaged in outreach to provide a more diverse workforce. Our efforts included a strengthened nine-point plan to increase Hispanic employment, an initiative to improve black representation at higher grade levels, and targeted recruitment guidance for persons with disabilities and for women. During that fiscal year, representation in the federal workforce generally improved from 6.2 percent to 6.4 percent for Hispanics, from 17.0 percent to 17.1 percent for blacks, from 4.0 percent to 4.1 percent for Asian/Pacific islanders. And from 42.8 percent to 42.9 percent for women.

We also responded to evolving policy concerns relating to the quality of managed health care by implementing the patients bill of rights throughout the entire Fed-

eral Employees Health Benefits Program. This included issuing regulations barring health plans from imposing a "gag rule" limiting the disclosures physicians may make to patients regarding treatment options.

Of course, we are involved in much more than just the management of existing systems. In fiscal year 1998, five personnel management demonstration projects were begun, and we are expecting four more to be implemented this fiscal year. By helping agencies design, implement, manage, and evaluate alternative approaches to personnel management, we not only improve the operations of those agencies, but also learn lessons to apply throughout the federal establishment.

As rewarding as our accomplishments have been, we recognize that there is no room for complacency in view of the challenges facing us. Accordingly, we have established a set of priorities to carry us forward to address these challenges.

First, we intend to continue to improve our ability to compete for skilled and motivated employees in the next century. A significant component of our ability to do so effectively will be our earned benefits package. The development of a center for benefits design and delivery will enable us to improve our benefits publications by using plain language and to move forward with appropriate enhancements, such as additional life insurance options and a long-term care insurance program for federal employees, annuitants, and their families. In that regard, we would urge the careful consideration of the administration's proposal for long-term care insurance which is currently pending before the Congress.

Second, we have taken note of the requests by agencies for help in enhancing their ability to recruit and hire. We will be working with them to develop quick hiring programs tailored to their specialized needs. At the same time, we will give priority to enhancing employment opportunities for adults with disabilities, Hispanic Americans, and women, as well as to initiatives targeting computer security professionals.

Third, we have rededicated ourselves to our core mission of providing oversight of the merit system. With many agencies already exempted from key provisions of civil service laws and many others seeking additional flexibilities, we must redouble our efforts to support compliance with the basic merit system principles. Additional oversight visits, coupled with our assistance to agency delegated examining units and our work on the development of agency internal accountability systems, will reduce the potential for mistakes and abuses.

In fiscal year 2000, OPM will lead the effort to refocus attention on training and development programs for federal employees. By chairing the President's task force on federal training technology, I will be uniquely positioned to assist in the development of recommendations for using technology most effectively to promote lifelong learning throughout our workforce.

We will also continue our internal work to modernize systems and processes in ways which complement the governmentwide vision of a federal human resources data network. Consistent with our leadership of the interagency human resources technology council, we have concentrated our efforts on significant improvements in our central personnel data file and on our retirement systems modernization project.

Additionally, our ongoing commitment to family friendly programs in the federal workplace will be even more evident this year. The establishment of our family friendly workplace advocacy office will allow us to serve as a point of contact for those employees who need information about affordable child care, elder care, alternative work schedules, telecommuting, or any other related programs.

Finally, we intend to build on the progress we have made in recent years in improving our financial management systems and procedures. Through the use of quality improvement teams which include representatives from various organizational components, including the Office of the Inspector General, we can eliminate the weaknesses in these areas and improve the quality of service we provide to all of our constituencies.

Turning to our appropriations request for fiscal year 2000, we are seeking \$91,600,000 in general fund basic operating expenses. The 733 full-time equivalent positions supported by this request will enable us to continue to provide leadership to the human resources management community as well as pursue the priority goals discussed earlier.

The requested increase of \$6,200,000 over fiscal year 1999 includes a required reimbursement of the National Archives and Records Administration (NARA) in the amount of \$3,400,000. This payment compensates that agency for the cost of storing and servicing the government's official personnel files, and reflects the decision to change NARA's financing from appropriated funds to a reimbursable basis.

Another \$2,000,000 of the increase will be devoted to the creation of a cyber corps. Developed at the request of the national security community, this program will involve outreach to high schools, colleges, and universities to address a critical need

by facilitating the recruitment and training of students for information technology positions in the federal service, with particular emphasis on information security occupations, where we are currently experiencing a shortage of qualified candidates.

The remaining \$800,000 of the increase will be devoted to our efforts to ensure compliance with the merit system principles, principally through expanded oversight, and to improvements in OPM's information technology infrastructure.

For the administration of the government's retirement and insurance programs for its employees, we are asking that \$95,500,000 be transferred from the trust funds for those programs to support 1,357 full-time equivalents. An increase of \$4,000,000 in funding to remain available until expended is sought for the retirement systems modernization effort previously mentioned. In addition, a small increase of \$300,000 will assist in the development of a new center for benefits design and delivery.

Of course, a significant portion of the funding for OPM's Office of the Inspector General is also provided through transfers from the trust funds. I would note that, of their total request for \$10,600,000 to support 111 full-time equivalents, \$9,600,000 will be provided through such transfers. A more detailed explanation of their request will be provided by that office in a separate statement for the record.

It is also important to note that OPM uses payments from other agencies to its revolving fund, to finance a wide variety of services. From providing training for federal managers and executives to providing employment information to the public, from conducting investigations of individual candidates for critical-sensitive positions to testing potential inductees for the Department of Defense, our fiscal year 2000 budget includes an estimated \$194,100,000 million in obligations and 673 full-time equivalents to be financed through the revolving fund.

As always, since annuitants have no employing agencies to contribute the government's share of the costs of the health benefits and life insurance programs on their behalf, mandatory appropriations to include those contributions are included in OPM's budget request. Given the mandatory character of these accounts, we are requesting a "such sums as may be necessary" appropriation for each of them.

We estimate that, for the 280,000 non-postal annuitants retiring since 1989 and electing post-retirement life insurance, we will need \$36,200,000 while the financing of the health benefits coverage of the 1,900,000 annuitants will require an estimated \$5,100,000,000.

Also, consistent with the mandate of Public Law 91-93, which established the current retirement financing system, we are requesting a "such sums as may be necessary" appropriation for the civil service retirement and disability fund. In order to address the payment of annuities under special acts (such as lighthouse widows) and the 30-year amortization of liabilities produced by changes (principally pay increases) made since the date of that act (1969) which have affected benefits, we estimate that a payment of \$9.1 billion will be required.

Finally, we believe it is important to note that we have again included in the general provisions the necessary legislative language to ensure consistency in the levels of pay adjustments provided to federal blue-collar and white-collar employees.

For those white-collar employees, the President's budget for fiscal year 2000 seeks a pay increase of 4.4 percent, with the appropriate distribution between an across-the-board raise and locality pay to be determined following discussions with interested parties, including employee and professional organizations and others.

Thank you for this opportunity to submit this Statement for the record. I would be pleased to respond to any additional questions or provide such additional information for the record as the subcommittee may require.

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#### QUESTIONS SUBMITTED BY SENATOR CAMPBELL

##### MERIT SYSTEM PRINCIPLES AND FLEXIBILITIES

*Question.* One of OPM's priorities in its fiscal year 2000 Annual Performance plan is to prevent merit system abuses and enhance human resources management in agencies through systematic oversight of agency systems and practices. Human resources management authorities increasingly have been made more flexible. What is OPM doing to ensure that agencies, including those exempted from standard civil service provisions, adhere to merit system principles and requirements while preserving the benefits associated with more flexible human resource systems?

*Answer.* The Office of Merit Systems Oversight and Effectiveness (O&E) within OPM ensures that agencies covered by standard civil service provisions adhere to the merit system principles and requirements through a comprehensive onsite evaluation program that covers all the major departments and agencies on a four-year

cycle and the small and independent agencies on a five-year cycle. The emphasis of these reviews is two-fold: to determine if agency human resources systems are taking full advantage of new flexibilities, and to ensure that the systems are adhering to merit system principles and requirements. In addition, O&E works with agencies to establish their own accountability systems to help them ensure adherence to merit system principles and requirements. For agencies that are exempted from standard civil service provisions such as the Internal Revenue Service and the Department of Defense Laboratories, OPM ensures that the design of these alternative human resources systems has at its core the merit system principles and ensures that there are provisions for oversight and accountability. We are also continuing to review ways that we can assist agencies exempted in whole or in part from standard civil service provisions in establishing and maintaining accountability in their personnel systems.

#### INTERNAL CONTROL IMPROVEMENTS

*Question.* The independent audit of OPM's 1996 and 1997 financial statements noted internal control weaknesses in a number of areas for OPM's retirement, health benefits, and life insurance programs. One of OPM's strategic goals is to resolve material weaknesses and improve financial systems and internal controls to maintain the integrity of the benefit trust funds by the year 1999. What improvements has OPM made to its internal controls?

*Answer.* We are pleased to report the following internal control improvements in OPM's administration of the retirement, health benefits and life insurance programs:

##### *Agency Oversight*

Our earned employee benefits systems rely on the accuracy and completeness of the data employing agencies provide to Office of Personnel Management (OPM). We have made significant progress in this area by working jointly with the Office of Management and Budget (OMB) on the issuance of OMB Bulletin 98-08. This bulletin requires Inspectors General and Independent Public Accounting (IPA) firms to review agency systems and procedures for collecting, updating and transmitting benefits information, and to report their findings to OPM. We have reviewed the first round of reports submitted by agencies and have determined that they do not contain findings or other reportable matters that, when taken as a whole, would have a material impact on the withholdings and contributions presented in OPM's fiscal year 1998 financial statements.

##### *Annuity Payments*

The Retirement and Insurance Service (RIS), OPM's Office of the Inspector General (OIG), and the IPA firm under contract to OPM performed an audit of OPM's retirement benefits payment system (annuity roll) in early 1998. Although the IPA recommended that RIS establish additional controls to ensure the accuracy of payments, they issued an unqualified audit opinion on the fiscal year 1997 Retirement Program financial statements. In late 1998, RIS and the IPA performed additional test work to determine the accuracy of annuity roll payments. The results were consistent with the IPA's earlier determination that the impact of erroneous payments on the Retirement Program's financial statements did not rise to the level of materiality. Although not a material weakness we continue to address the IPA's recommended improvements.

##### *Health Benefits Program Claims Payments*

In consultation with OPM's Office of the Chief Financial Officer, OIG, carriers, OMB and the General Accounting Office, RIS fully implemented the Federal Employees Health Benefits Program (FEHBP) Carrier Audit Guide in 1998. This guide requires experience-rated carriers to have the FEHBP portion of their financial statements audited annually and provides procedural guidelines and standards covering a wide range of carrier activities, such as claims processing, benefit payments and funds management. We have reviewed the 1998 audit opinions and other reports submitted by carriers in accordance with the Guide, and have determined that they do not contain adverse opinions, findings, material weaknesses or other reportable conditions that, when taken as a whole, would have a material impact on the portion of OPM's fiscal year 1998 FEHBP financial statements relating to experience-rated carriers. Accordingly, OPM's IPA firm has issued an unqualified opinion on its fiscal year 1998 audit of the FEHBP financial statements.

*Financial Systems*

We have also made substantial progress towards correcting the non-conformance reported on the absence of a transaction-level General Ledger for the Employee Benefits System. On October 1, 1998, RIS implemented a new core financial system. This system meets OMB Circular A-127 and all other Government-wide financial management systems requirements. We also consider this non-conformance to be corrected.

Although all material weaknesses reported for the fiscal year 1997 financial statements have been downgraded and/or resolved, OPM's IPA did report a material weakness relating to financial reporting under the FEHBP in its audit of the fiscal year 1998 financial statements. This new material weakness arose due to a difference between the general ledger (GL) and the benefits accounting system. This material weakness had no effect on the overall audit opinion because OPM and its IPA were able to obtain the necessary information by extracting, eliminating and reconciling the general ledger accounts. We are in the process of reviewing and modifying our accounting structure to resolve this problem, and expect to do so by the end of fiscal year 1999.

## PAY ADJUSTMENT PROCESS

*Question.* OPM's fiscal year 2000 performance plan has a goal of proposing a credible annual pay adjustment process during fiscal year 1999. In addition, OPM has committed to develop legislative proposals by 2002 under which annual pay adjustments would be considered in the context of a performance-oriented system of total compensation. What is OPM doing to follow through on its stated goals of developing a credible annual pay adjustment process and of considering pay in the future in light of the full compensation package available to Federal and non-Federal employees?

*Answer.* The Conference Report on the Treasury and General Government Appropriations Act, 1999, directed the President's Pay Agent (the Directors of the Office of Personnel Management and the Office of Management and Budget and the Secretary of Labor) to provide the Senate and House Appropriations Committees by May 1, 1999, with any pay-setting methodology concerns it has with regard to the Federal Employees Pay Comparability Act of 1990 (FEPCA). The Pay Agent's report, dated April 30, 1999, discusses the Administration's major methodological and technical concerns about the annual pay adjustment process for General Schedule employees and suggests a few basic principles that should guide the Government's efforts to address these concerns. In a letter transmitting the report to the Senate and House Appropriations Committees, the Pay Agent stated that it would be pleased to work with Congress "to fashion an appropriate package of legislative reforms that will go a long way toward achieving our mutual goal of establishing a credible annual pay adjustment process."

With respect to the longer-term effort to reexamine all aspects of Federal compensation and benefits, the present report touches on only one of those aspects, that is, the annual across-the-board adjustments to the rates of pay within the General Schedule salary structure. OPM's total compensation policy review will look at a much broader range of compensation issues such as the methods used to evaluate and classify work, better ways to emphasize and reward performance and results, the kinds of employee benefits that will help attract and retain a quality workforce in the next millennium, and effective approaches for meeting the merit system principle that private sector pay should be considered in setting the levels of pay for Federal employees. Stakeholders will be fully involved in examining these issues and considering options for possible legislative changes in the future.

## QUESTIONS SUBMITTED BY SENATOR SHELBY

## ADVANCED VEHICLE TECHNOLOGIES PROGRAM

*Question.* The Advanced Vehicle Technologies Program is a joint Department of Transportation/Department of Energy program designed to demonstrate the market viability of U.S.-built medium and heavy duty vehicles that meet emission standards for 2004 and contribute to a reduction in greenhouse gases. The Research and Special Programs Administration is the lead agency on this program for DOT; the Office of Energy Efficiency and Renewable Energy is the lead office at DOE. Currently, the program is managed under the auspices of the Defense Advanced Research Projects Agency (DARPA) at the Department of Defense. Please detail the funding history of this program, from its inception through the funding levels requested for fiscal year 2000, in each applicable executive branch department, agency

and office. Provide both the requested level, the appropriated level, and total for each year. What is the statutory authorization for this program? When does the authorization expire? Who is the congressional authorizing committee?

Answer. In 1998, the Transportation Equity Act for the 21st Century (TEA-21) authorized the Advanced Vehicle Program (AVP) at \$50 million annually through fiscal year 2003, to be directed by the Secretary of Transportation. The authorizing committee in the House was the Committee on Transportation and Infrastructure, and the authorizing committee in the Senate was the Committee on Commerce, Science and Transportation.

Fiscal year 1999 marks the first year of existence for the Advanced Vehicle Technologies Program (AVP). In fiscal year 1999, a total Federal allocation of \$14 million will be matched by at least an equal amount provided by the seven regional consortia, a partnership funded by public/private sources. fiscal year 1999 Transportation Appropriations included \$5 million for the Research and Special Programs Administration (RSPA) of the Department of Transportation (DOT) to "support a public/private partnership to design, develop, and deploy alternative fuel and propulsion systems focusing on medium and heavy vehicles." Congress directed the Department of Defense (DOD) to provide another \$9 million from the Defense Advanced Research Projects Agency (DARPA) for this joint program. The fiscal year 1999 President's Budget requested \$20 million for this program comprised of \$10 million for DOT and \$10 million for the Department of Energy (DOE), Office of Transportation Technologies; subsequently, no funding was requested by DOD or provided by Congress for DOE.

The fiscal year 2000 President's Budget includes \$20 million for DOT/RSPA to support the AVP and represents the total Federal investment requested for this program. A total estimated fiscal year 2000 program level of over \$40 million leverages the Federal request for \$20 million of DOT funding with an equal amount provided by the seven regional consortia, which represent a public/private partnership and conduct research under the program. In fiscal year 1999, the seven regional consortia developed 100 full proposals which requested over \$40 million in Federal funding with more than a \$40 million public/private sector match. The Department of Energy did not request funds for AVP in fiscal year 2000.

The AVP represents the successful transition to civilian agency management of the Electric and Hybrid Vehicle Technologies (EHV) partnership program previously run by DARPA. Under DARPA management, the EHV program had been specifically earmarked within appropriations by Congress for \$25 million in fiscal year 1993, \$46 million in fiscal year 1994, and \$15 million each for fiscal year 1995, fiscal year 1996, fiscal year 1997, and fiscal year 1998. This funding was not included in the President's Budget for those fiscal years. Having successfully transitioned EHV to civilian agency management, DARPA has no plans to continue funding support for the AVP after fiscal year 1999.

The following represents DOD and other non-transportation investments in establishing the global positioning system, including the network of satellites. The summary table shows the Department of Defense (DOD) research and development, procurement and military construction investment in the Global Positioning System satellites and ground control systems from 1974-2005. Per the Committee's request, it does not include Department of Transportation funding. It also does not include DOD or other Department funding specifically related to the nuclear detonation detection capability which is installed on some GPS satellites; launch funding, or funding for development and procurement of applications, or user equipment.

*DOD and Other Non-Transportation Investments in the Global Positioning System*

[In Millions of Dollars]

<i>Fiscal Year</i>	<i>Amount</i>
1974-1998 .....	\$4,179
1999 .....	196
2000 .....	284
2001-2005 .....	1,555
<b>TOTAL 1974-2005 .....</b>	<b>6,214</b>

MAGNETIC LEVITATION TECHNOLOGY DEPLOYMENT PROGRAM

*Question.* Why has the Administration requested that a firewall-protected TEA-21 program, the Magnetic Levitation Technology Deployment program, be zeroed out in order to transfer the \$20,000,000 in guaranteed highway trust funds to the Advanced Vehicle Technologies Program? Please provide a name, title, office location, and phone number for the staff coordinator in each participating agency.

Answer. The Administration supports the eventual deployment of cost effective and economically justified Magnetic Levitation (Maglev) systems. In fiscal year 1999, the Federal Railroad Administration (FRA) received \$15 million in guaranteed contract authority for Maglev pre-construction activities. These funds are being used to design up to five potential sites for Maglev development. TEA-21 also authorized \$950 million in non-guaranteed funds for a competitively awarded grant for the construction of one of these sites.

Most public and private studies conclude that Maglev's public benefits fall short of its public costs. FRA currently estimates that the public benefits from investing in Maglev would be less than half of public cost. To make Maglev a more cost-effective public investment, the President's fiscal year 2000 Budget requests \$20 million for FRA to conduct research designed to reduce the costs of developing and implementing Maglev systems. At the same time, the President's Budget proposes to reallocate the \$20 million provided for Maglev pre-construction in fiscal year 2000 to the Advanced Vehicle Technologies program. This program will play an important role in making commercially available vehicles which meet the 2004 emission standards.

Federal Railroad Administration contact:  
James T. McQueen, Associate Administrator for Railroad Development (202) 493-6381, 400 7th Street, S.W., Stop 20, Washington, DC 20590

#### NATIONWIDE DIFFERENTIAL GLOBAL POSITIONING SYSTEM (NDGPS)

*Question.* In the fiscal year 1999 Senate Report 105-249 accompanying the Transportation Appropriations bill, on page 112 the Department of Transportation was directed to submit a report to the House and Senate Committees on Appropriations as part of the fiscal year 2000 budget justification identifying the long-term costs, benefits, and cost sharing that might be reasonably expected for the nationwide differential global positioning system. The likely financial role of each affected federal agency, as well as states and the private sector were to be specified to the greatest extent possible. This report was not included in the Federal Railroad Administration's detailed justification. Was it included in another agency's justification? If so, please specify where that report is located. If not, please provide that report for the record.

Please detail the funding history of this program, from its inception through the funding levels requested for fiscal year 2000, in each applicable executive branch department, agency and office. Provide both the requested level, the appropriated level, and total for each year.

What is the statutory authorization for this program? When does the authorization expire? Who is the congressional authorizing committee? Please provide a name, title, office location, and phone number for the staff coordinator in each participating agency.

Answer. The Federal Railroad Administration (FRA), the lead agency for the Administration in this effort, submitted it for final Administration clearance in early May. All participants in the program (including the Departments of Transportation, Commerce, Interior, Agriculture; the Army Corps of Engineers, and the United States Air Force) provided input to the report through their representatives on the DOT-chaired NDGPS Policy and Implementation Team (PIT). The report will outline the costs of deploying NDGPS and describe the potential benefits to be derived from the system as well as possible cost-sharing arrangements.

Section 346 of Public Law 105-66, authorized the USDOT to establish, operate, and manage the NDGPS, including taking receipt of necessary Ground Wave Emergency Network (GWEN) sites and equipment. This provision does not expire. While Public Law 105-66 is an appropriations bill, the authorizing committees with jurisdiction are the House Transportation and Infrastructure Committee and the Senate Commerce Committee.

The funding history for NDGP's capital is as follows: \$8 million total was appropriated for fiscal years 1998 (\$2.4M) and 1999 (\$5.5M). For fiscal year 2000 the FRA is requesting \$7.2 million for capital and \$3.2 million for operating costs, both to be derived from the unanticipated increase in highway guaranteed spending resulting from higher than expected gas tax receipts, referred to as the Revenue Aligned Budget Authority (or RABA). This request reflects the full amount originally sought by the Department of Transportation in the fiscal year 2000 President's Budget. All NDGPS funding in fiscal year 1998 and fiscal year 1999 was appropriated directly to the Coast Guard. On February 8, 1999, the Secretary of Transportation delegated his authority under Section 346 of Pub. L. 105-66 to the Federal Railroad Administrator to determine the Federal requirements for the NDGPS (64 Fed. Reg. 7813, February 17, 1999).

The following list provides the names, titles, office locations, and phone numbers for the staff coordinators in each participating agency which are serving as their agency's representative on the DOT-chaired NDGPS Policy and Implementation Team (PIT):

James A. Arnold, Engineer and FHWA Representative, Federal Highway Administration, Room T201, Turner Fairbank Highway Research Center, 6300 Georgetown Pike, McLean, Virginia 22101, 202-493-3265

LCDR John Macaluso, PIT Chairman and OST Representative, USDOT (Office of the Secretary of Transportation, Office of the Assistant Secretary for Transportation Policy, Office of Radionavigation and Positioning), 400 Seventh Street, S.W., Room 10309, Washington, DC 20590, 202-366-0362

John A. Kern, Senior Attorney and Federal Railroad Administration Representative, Federal Railroad Administration, 1120 Vermont Avenue, N.W., Mailstop10, Washington, DC 20590, 202-493-6044

Richard C. Shamberger, NDGPS Program Manager and Federal Railroad Administration Representative, Federal Railroad Administration, 1120 Vermont Avenue, N.W., Mailstop 20, Washington, DC 20590, 202-493-6371

LCDR Leonard W. Allen III, U.S. Coast Guard Representative, USCG Navigation Center, 7323 Telegraph Road, Alexandria, VA 22315-3940, 703-313-5888

William Bergen, U.S. Army Corps of Engineers Representative, HQUSACE, 20 Massachusetts Avenue, NW, Washington, DC 20314-1000, 202-761-1553

Richard Snay, U.S. Department of Commerce, NOAA/NGS (Room 8112), 1315 East-West Highway, Silver Spring, MD 20910, 301-713-3205 ext 155

In addition, representatives from other agencies are:

Larry Hothem, Senior Physical Scientist, U.S. Department of Interior, U.S. Geological Survey, 1521 National Center, Reston, VA 20192, 703-648-4663

William Belton, U.S. Department of Agriculture, U.S. Forest Service, 201 14th Street, SW, Washington, D.C. 20250, 202-205-1428

Stanley Howard, Lt. Col., U.S. Air Force, Chief, Readiness and Sustainment Division, Directorate, Communications and Information, U.S. Air Force, Langley AFB, VA 757-764-4166

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## 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 appropriations for the U.S. Merit Systems Protection Board and other components of the Federal government's civil service system, to discuss MSPB funding for the next year.

As we celebrate the 20th anniversary of the enactment of the Civil Service Reform Act of 1978, I must comment on what a different world the Federal workplace is than it was 20 years ago. It is much smaller—the workforce has been cut by some 300,000 jobs. It is more customer oriented. Regulations have been streamlined. Accountability and performance are the focus of management. And, information technology is changing everyone's daily work.

But, despite all these changes, it is also true that the principles underlying the CSRA remain sound and viable. And, there is no change in the MSPB's commitment to promoting merit and fairness in the operation of the Federal civil service system. The Board's neutral, independent adjudication of employee appeals ensures a fair and efficient workplace and its published studies provide a broad view of trends, issues, and problems facing Federal employees and managers. Both functions are critical to preserve a merit-based employment system that benefits not only Federal employees but the public they serve.

### MANAGING FOR THE FUTURE

I am pleased to report that the MSPB today is 23 percent smaller than when I became Chairman in 1993, a decrease from 323 to 250 employees. At the same time, we have not experienced the decline in case receipts that we had anticipated because of government-wide downsizing. Rather, the historic level of about 10,000 cases a year continues. To process cases at this level with our reduced resources has required significant organizational planning.

The increasing complexity of cases has also shaped our long-range strategic plans. Basic adverse actions are becoming more complex. To claims of removals and suspensions, many appellants are adding allegations of disability, sex, race and/or age discrimination, Family and Medical Leave Act issues, claims of reprisal for whistle-

blowing, and Uniformed Services Employment and Reemployment Rights Act (USERRA) rights. All of these issues must be addressed, lengthening the time required for hearings and decision writing.

In addition, Board jurisdiction and appealable matters are changing. The Board estimates that it might receive some 1,000 additional appeals under the Veterans Employment Opportunities Act of 1998. The Veterans Programs Enhancement Act of 1998 extended Board jurisdiction under USERRA to cover claims of violations that occurred before USERRA was enacted (October 13, 1994). The Presidential and Executive Office Accountability Act of 1996 extends the Board's jurisdiction to some 1,700 employees and requires the Board to apply civil rights and labor laws.

In light of these circumstances and budget constraints, we have continued to review our operations, reducing management layers, consolidating field offices, eliminating administrative and support staff, and devoting more resources to critical case-processing functions. Even with all that, we determined that more must be done. After careful evaluation, we concluded the answer was to change our processes through information technology.

#### INFORMATION TECHNOLOGY

MSPB is in the process of implementing an integrated document management and workflow system that will revolutionize the way we do business. After full implementation, agencies, representatives, and Board employees will have easy electronic access to documents in case records. The electronic filing system will improve employee productivity, allow the Board to reduce staff costs, reduce legal research and administrative costs, provide better customer service—and produce significant cost savings—some \$1,015,000 to the Board, \$250,000 to our customers, for a total of \$1,265,000 annually. See attached analysis of projected savings.

The first phase of the system includes modules for case management, document management, document creation, and legal research. The next phase involves online submission and acceptance of appeals, briefs, and other case-related materials and provides access to electronic case records by all Board employees. The project is being carefully implemented, step by step, using off-the-shelf software rather than expensive custom-designed—and untested—products. To avoid costly mistakes, we are using prototypes and pilot projects to test components during each phase of the development process. In this initiative, we have kept in mind the Government Paperwork Elimination Act that encourages use of electronic information technologies (Pub. L. No. 105-277 (1998)) and the recently proposed OMB regulations requiring agencies to provide optional use and acceptance of electronic documents and electronic record-keeping by October 2003.

#### ALTERNATIVE DISPUTE RESOLUTION

The MSPB has long looked to alternative dispute resolution to promote settlement of cases. The MSPB was authorized by the CSRA to experiment with alternatives to litigation and the Board early on established a policy to make settlement efforts in every case. For over a decade, the Board has settled some 50 percent of the cases not dismissed on jurisdictional or timeliness grounds. Last year, the Board settled almost 54 percent of cases not dismissed—a new high.

In 1993, the Board initiated a program focused on settling cases pending for review of the initial decision by the full Board. Last year, the Board settled almost 30 percent of the cases selected for the program.

The Board has also initiated planning for a formal training program to help agencies and employees achieve early resolution of potential cases. The program, to be conducted in partnership with the Public Administration Forum and a major university, is intended to develop a cadre of knowledgeable and skilled certified appeals resolution advisors who will be able to resolve cases prior to their being filed with the MSPB.

#### THE MSPB RECORD

The MSPB record remains strong. During fiscal year 1998, the Board's timeliness in issuing decisions meant that, on average, an appeal to the Board was processed through both initial and Board level review in about 10 months. This speedy processing is important because about 90 percent of Board appeals involve review of agency personnel actions—actions having a real impact on lives.

At the same time, the MSPB has maintained the quality of its decisions. In fiscal year 1998, our principal reviewing court, the U.S. Court of Appeals for the Federal Circuit, left 92 percent of the MSPB decisions it reviewed unchanged.

And, in the studies program, the MSPB provides relevant, timely assessments of basic personnel matters—important in light of the increasing decentralization of

personnel authorities. MSPB studies of the civil service and merit systems are deliberately emphasizing issues of practical importance to Federal employees and managers. Recent reports focused on helping agencies recruit, select, motivate and manage a highly qualified workforce. Not only do Board studies provide useful recommendations, they also provide benchmarks against which current practices can be measured.

FUNDING REQUEST

Our fiscal year 2000 request is for \$28,957,000 in appropriated funds and a \$2,430,000 limitation on reimbursements from the Civil Service Retirement and Disability Fund. Because we believe the long-term ability of the Board to provide due process to those who come before it is at stake, we are exercising our budgetary bypass authority, 5 U.S.C. 1204(k), and request additional funds beyond the OMB passback level—an additional \$1,371,000.

Funding at the requested level is critical to maintain our current staffing levels—a bare minimum necessary to provide timely adjudication of cases and basic studies. We have assessed our operation repeatedly and further savings from cuts in personnel or operations are simply not feasible. We have little flexibility in our budget. In fiscal year 2000, about 74 percent of the budget will go for personnel compensation. Another 14 percent will go for fixed costs (11 percent for such things as rent, utilities, and maintenance costs and another 3 percent for direct case processing costs, including travel, court reporting and legal research).

The requested funding will also provide the resources necessary to implement the electronic case filing and document management systems, systems we believe are critical to our long-term ability to handle our cases. OMB expressed strong support for the integrated electronic case system but was only able to approve \$529,000 of the \$1,900,000 needed in fiscal 2000. As I noted, we have carefully planned this system to make our process more efficient, and, when implemented, to provide better service at lower cost.

Thank you Mr. Chairman, Ranking Member Dorgan, and Members of the Subcommittee for your interest in and support of the civil service. We can all agree that neutral, third-party adjudication and oversight is essential to a Federal government that functions well. As you deliberate over the difficult funding choices this year, I ask you to take into account that litigation before the MSPB is not decreasing—either in volume or complexity. Support of our efforts to provide timely, quality adjudication of appeals through effective use of information technology will pay off.

I look forward to working with you and your staff, and I will be happy to provide any additional information you would like.

PROJECTED SAVINGS FROM THE MSPB ADP IMPROVEMENT PLAN

Under the Five Year ADP Plan the Merit Systems Protection Board will replace its outdated information technology with an integrated system featuring electronic filing, electronic publishing, and electronic case records. The plan provides a state-of-the-art system integrating case processing, case management, automated document preparation, and electronic storage of case documents. All components of the new system will be built using well tested commercially available off-the-shelf software (COTS). As a quality assurance check, the system will be implemented in phases using prototypes and pilot systems.

*Summary of Annual Cost Savings*

[At fiscal 1999 rates]

Savings to MSPB .....	\$1,015,000
Savings to our Customers .....	\$250,000
 Total Annual Savings .....	 \$1,265,000
(1) Reduce cost of legal research and end maintenance of outdated systems (\$215,000 annually).	
(2) Reduce staff costs (\$750,000 annually).	
(3) Reduce administrative costs such as paper, postage, and storage of documents (\$50,000 annually).	
(4) Reduce customer costs and improve customer services (\$250,000 annually).	

PROJECTED SAVINGS THE MSPB ADP IMPROVEMENT PLAN

*Explanation of Savings*

(1) Reducing costs of legal research and ending maintenance of outdated systems. (\$215,000 annually)

—Using Dataware software will reduce our on-line legal research costs of \$230,000 per year by approximately 50–60 percent for savings of about \$115,000;

—Using electronic legal research will reduce our paper subscriptions to research tools, saving MSPB about \$50,000 annually; and

—Eliminating obsolete hardware and ending software maintenance contracts will save about \$50,000 annually.

(2) Reducing staff costs. (\$750,000 annually)

The efficiency of the ADP system will increase staff productivity in adjudicating appeals. These efficiencies will be translated into savings through a combination of reducing staffing levels, if future workload levels permit, reassigning staff to other priorities, and/or reducing the overall grade levels required to process work.

—Implementing a HotDocs based expert system and an improved Document Management System will reduce the time Administrative Judges and Headquarters attorneys spend on initially developing a case, and lower graded staff can be assigned to the early stages of case processing; and

—Implementing an improved Case Management System, an Electronic File, Electronic Filing, and a Document Management system will automate tasks such as preparing and mailing routine correspondence, orders and decisions, reviewing case files, entering data, and filing of briefs and pleadings, tasks now largely performed manually by MSPB attorneys and support staff.

(3) Reducing administrative costs such as paper, postage, and storage of documents. (\$50,000 annually)

Using electronic correspondence and maintaining case records electronically through an enhanced Case Management System, Electronic Case File, Electronic Filing, coupled with an advanced Document Management System, will save about \$50,000 annually in paper, postage, and storage costs.

(4) Reducing customer costs and improving customer services (\$250,000 annually)

Allowing our customers to file electronically will generate a savings of about \$25 per appeal on the average 10,000 appeals MSPB receives each year.

## 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 DR. RAYMOND E. BYE, JR., INTERIM VICE PRESIDENT FOR RESEARCH, FLORIDA STATE UNIVERSITY

Mr. Chairman, thank you and the Members of the Subcommittee for this opportunity to present testimony. I would like to take a moment to acquaint you with Florida State University. Located in the state capitol of Tallahassee, we have been a university since 1950; prior to that, we had a long and proud history as a seminary, a college, and a women's college. While widely known for our athletics teams, we have a rapidly emerging reputation as one of the Nation's top public universities. Having been designated as a Carnegie Research I University several years ago, Florida State University currently exceeds \$110 million per year in research expenditures. With no agricultural or medical school, few institutions can boast of that kind of success. We are strong in both the sciences and the arts. We have high quality students; we rank in the top 25 among U. S. colleges and universities in attracting National Merit Scholars. Our scientists and engineers do excellent research, and they work closely with industry to commercialize those results. Florida State ranks fourth this year among all U.S. universities in royalties collected from its patents and licenses, and first among individual public universities. In short, Florida State University is an exciting and rapidly changing institution.

Mr. Chairman, let me describe an outstanding project that FSU is pursuing this year—The Institute on World War II and the Human Experience. This Institute is working to amass and make available to scholars, teachers, and the general public the letters, diaries, memories, oral histories, photos, and other memorabilia of millions of Americans who served under the colors or labored to equip those who did. The largest collection in the country, that of the Army at Carlisle Barracks, contains the donation of only 20,000 individuals; namely, less than one percent of one percent of those who served, not including defense workers. Unfortunately, much more of this irreplaceable material is being lost, misplaced, or destroyed than is being donated to institutions around the country. To protect the legacy of the surviving 6.5 million veterans, it will take a determined effort and the cooperation of all interested parties.

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Mr. Chairman, this is just one of many exciting activities going on at Florida State University that will make important contributions to solving some key problems and concerns our Nation faces today. Your support would be appreciated, and, again, thank you for an opportunity to present these views for your consideration.

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PREPARED STATEMENT OF ROBERT M. TOBIAS, PRESIDENT, NATIONAL TREASURY  
EMPLOYEES UNION

Chairman Campbell, Senator Dorgan and distinguished members of the subcommittee, my name is Robert M. Tobias and I am National President of the National Treasury Employees Union (NTEU). Our union represents 160,000 dedicated federal employees in the Department of the Treasury, and twelve other agencies. The actions of this subcommittee directly affect their lives, livelihood and working conditions.

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INTERNAL REVENUE SERVICE

Last year, Congress passed the IRS Restructuring and Reform Act. Congress made many changes and needed reforms as to how the IRS works and how it can better serve the American taxpayer and its mission to enforce the tax law. If Congress was serious when it passed the Restructuring Act, it must now give IRS the resources necessary to make that legislation meaningful. Too much work and effort went into that legislation for it to be cavalierly ignored in the funding process.

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Mr. Chairman, I need to mention one other matter that also has the possibility of undermining the IRS employee morale. NTEU believes that Section 1203 (b) of the IRS Restructuring and Reform Act regarding termination of employment for certain matters of misconduct is a sledgehammer approach with the potential for excessive unfairness to employees. Our members refer to §1203 (b) as "The Ten Deadly Sins." Employees found to have committed one of the "Ten Deadly Sins" must be terminated. Once misconduct has been found, a lesser penalty cannot be substituted for the decision to remove regardless of the circumstances. NTEU finds this particularly troubling as many of the provisions are vague and untested. Under Section 1203 (b) every taxpayer complaint must be investigated by the newly created Treasury Inspector General for Tax Administration (TIGTA) and in many instances employees are not allowed to have a union representative present as was the case in the past. Employees are terrified that disgruntled taxpayers will make false claims that they will not be able to "unprove." I fear that their fear will have a negative

impact on tax collection efforts and I would ask this subcommittee to look into the potential of reduced revenue collection due to fears of 1203 (b) actions.

More than just adequate funding is needed at IRS. The funding must be spent right. The purchase of improved technology is important, but even more critical is the need for greater employee training to handle increasing complex tax law and tax administration responsibilities. In the previous two years alone, Congress brought about over 1,260 changes in the tax code.

The new IRS will become more accessible to taxpayers by providing 24 hour/7 day a week telephone service, expanded walk-in service and improved service to small businesses. But expanded service is not true service unless these frontline workers have had the proper training and receive the necessary technology to do their job. The Administration proposal asks for \$17,000,000 for technical training. NTEU is pessimistic that this is an adequate amount and certainly believes any less is courting disaster. I would note, Mr. Chairman, that in a recent IRS customer satisfaction survey, the areas of lowest needs for improvement was the general courtesy and professionalism of IRS employees. The areas of highest need was the accessibility of the toll-free line, expanded office hours at the walk-in centers and the shortness of time employees had to spend with customers.

It is critically important that Congress fund the agency request of \$140,000,000 for IRS to restructure, reorganize and retrain the IRS workforce. Realigning the IRS to four new operating divisions (wage and investment, small business/self-employed, large and mid-sized businesses, and non-profits) creates some temporary expenses for implementation, but without this funding the entire Reorganization Act can fall apart. This is not a huge sum considering the enormous changes Congress has asked the IRS to make. We do recognize it is a substantial increase from the \$25,000,000 appropriated in fiscal year 1999. However, one could not find a better example of being penny wise and pound foolish than the failure to fund this request.

#### U.S. CUSTOMS SERVICE

The Administration has requested a funding level of \$1,930,000,000 and 17,389 FTEs for fiscal year 2000 for the U.S. Customs Service. The importance of the work of this agency cannot be overemphasized. Customs makes more drug seizures than every other federal agency combined, keeping 1,300,000 pounds of illegal drugs out of this country. Its employees processed 19,700,000 commercial entries (up 1,800,000 from last year) and 460,000,000 personal entries (up by 13,100,000 from the previous year). Despite the great successes of Customs employees in these fields, the growth in legitimate trade as well as illegal narcotic smuggling and currency laundering continues at incredible rates, far outpacing federal resources. In addition, the agency is underfunded in fulfilling its duty to stop the importation of products made by forced child labor and of child pornography sent over the Internet. Moreover, with the recent allied action in Serbia and the often violent reaction of America's critics in parts of the world, NTEU questions if the U.S. Customs Service's resources to combat terrorism are sufficient.

NTEU strongly supports new funding for better employee training. The Administration proposes a new position of Assistant Commissioner for Training and Development. We believe this is a good start. NTEU supports expansion of the new employee training program for cultural awareness initiated last year at major airports. Customs inspectors must greet every arrival not knowing if they are facing someone trying to fill our children's veins with drugs or an elderly couple returning from their first overseas trip after a lifetime of scrimping and saving. It is a tough job and Congress should not be miserly in providing funds to help these workers do their job right.

It is also important that Congress fund the Automated Commercial Environment (ACE) system. NTEU recognizes that this is an expensive and vital initiative. But the alternative is to rely on a 16 year old, dated system that makes it impossible for employees to do their work efficiently. The continued growth in trade, tourism and illegal activities show no signs of abating. Congress cannot leave Customs behind as the world moves into the third millennium.

Our Union has been working with Customs management in a partnership. We believe that such a relationship is the most productive for the employees, the managers and the mission of the Customs Service. We appreciate Commissioner Kelly's statements that the extremely successful Operation Brass Ring would not have been possible without the labor-management partnership at Customs. NTEU members in the Customs Service are committed to accomplishing both the drug interdiction and trade facilitation missions of the agency, but they need adequate resources to be successful.

The Administration's budget request proposed a number of user fees to fund the Customs Service. NTEU has no particular philosophical objection to any of these fees. We are very concerned, however, that failure to either enact such fees or find money elsewhere would cause extreme damage to the important work of Customs. Any cuts in funding from the proposed budget threaten to cause real disruptions in international trade and tourism, real barriers to drug seizures and terrorism prevention, real deficiencies in fighting child labor and money laundering. However the agency is funded, reductions in resources are not acceptable.

#### FEDERAL EMPLOYEE PAY

Finally, Mr. Chairman, let me address the issue of compensation for federal employees. Federal pay is governed by the Federal Employees Pay Comparability Act of 1990 (FEPCA). Under FEPCA, federal employees should receive an annual nationwide pay adjustment based on the Employment Cost Index (ECI), plus a locality-based adjustment designed to close the gap between federal and private sector salaries. No federal pay raise since the law was signed have provided the full pay raise called for under its formula. The pay gap, as measured by the Bureau of Labor Statistics, is approximately 30 percent.

FEPCA authorizes the President to issue an alternative pay proposal in the event of a "national emergency or serious economic conditions affecting the general welfare." Each year, the President has used this loophole and declared an economic emergency—even in this year of budget surpluses.

The federal budget is now balanced and the country has entered a period of budget surpluses, in no small part due to the sacrifices in federal pay and benefit cuts made by employees over the last decade. It is time for FEPCA to be followed and for federal employees to be paid a fair wage.

President Clinton has recommended 4.4 percent raises for military and civilian federal employees in fiscal year 2000. Legislation providing a 4.8 percent military pay raise in January of 2000, a second substantial pay increase in July of 2000, and future military raises one-half percent more than private sector increases measured by the ECI is moving quickly through Congress.

Parity between federal and military pay has been the norm for decades and federal civilian employees want parity with their military counterparts again in fiscal year 2000. Uniformed members of the military often work side by side with civilian federal employees. NTEU asks that the Appropriations Committee support parity between uniformed military and civilian pay in fiscal year 2000 and all efforts to close the pay gap between federal and private sector pay.

I would like to thank the Subcommittee again for the opportunity for our Union to present its views on the proposed budget for fiscal year 2000. As we enter this exciting, new millennium, I know we can count on Congress to stand with federal employees as we look to a future of progress and social betterment for our nation.

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#### PREPARED STATEMENT OF THE COUNCIL FOR CITIZENS AGAINST GOVERNMENT WASTE

The Food and Drug Administration's (FDA) consolidation project reminds one of the movie "Terminator." In it, the monster calmly declares, "I'll be back" and sure enough, it never seems to die. It keeps rearing its ugly head, recreating itself and attacking the hero and heroine, no matter what weapons are used against it. Finally, good wins over evil, and the monster dies the final death it should.

The FDA's monstrous consolidation project, formally known as the Taj Mahal or Kessler's Kastle, is once again rearing its ugly self in the President's fiscal year 2000 budget in the form of a \$136,000,000 funding request. The plan is to build a consolidated campus at the former White Oak Naval Surface Warfare Center in Montgomery County, Maryland. It will provide space for the Office of the Commissioner, the Center for Drug Evaluation and Research, the Center for Devices and Radiological Health, and the Center for Biologics Evaluation and Research. According to a General Services Administration (GSA) estimate in November 1998, the total cost for this consolidation is expected to be \$484,813,000. It appears that GSA has a project and construction manager, a public-private partner and an architect for the project. Yet, it appears, no prospectus has been approved by Congress for this boondoggle.

But this is nothing new. Apparently no prospectus has been approved by Congress for the construction of an FDA facility to support a campus for the Center for Food Safety and Applied Nutrition. Yet, construction is underway. Congress unwisely appropriated \$55,000,000 in the fiscal year 1996 Treasury, Postal Service, and General Government Appropriations Act. GSA figured this was a green light to proceed but, according to Public Law 104-52 "funds available to the General Services Adminis-

tration shall not (emphasis added) be available for expenses in connection with any construction, repair, alteration, and 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." Is the GSA breaking the law and misusing taxpayer dollars? That question must be addressed by the subcommittee.

Without a prospectus, how is Congress supposed to know how much these buildings will cost the taxpayer, what type of yearly appropriations will be needed and, no doubt considering the construction of most federal buildings, when and how much the project will be over budget? Will there be another scenario like the Ronald Reagan International Trade Building, originally expected to cost \$362,000,000, but ended up costing taxpayers \$818,000,000? Or how about the Patent and Trade Office building in Northern Virginia, estimated to cost taxpayers \$1,600,000,000 billion over the next 20 years in construction and leasing?

For years, FDA has been requesting a consolidated campus. But the one being proposed is not "consolidated." There is one campus that is supposed to be built in Maryland's Prince George's County, another campus that is supposed to be built in Montgomery County, and there is already a laboratory facility in Beltsville. It appears that FDA consolidation is not really the issue. What is really happening is pork-barrel spending and the creation of a lush, suburban office complex, close to a golf course, for FDA bureaucrats.

Since the era of big government is supposed to be over, the Council for Citizens Against Government Waste (CCAGW) questions why Congress is even considering building a huge campus for the FDA. In an era of downsizing, it would appear Congress' first priority should be how to make FDA smaller and more effective—not providing expensive campuses that would allow the FDA to grow and hire more bureaucrats so it can find new areas to regulate, fill the Federal Register with more rules and cause more mischief.

Most FDA employees are not running off to meetings across town so spending millions of dollars to convenience a small percentage of FDA employees seems a bit much. Building a sprawling campus will not decrease drug and medical device approval times. Furthermore, the Montgomery campus is not located near a metro station, which will force most employees to drive to work. This seems to be in direct conflict with the Clinton administration's efforts to protect the environment and encourage citizens to take advantage of public transportation!

If FDA offices need to be improved, it would be more cost-effective to spend money to remodel them or to move employees into existing buildings rather than build a brand new facility. Modern technology such as computers and telephone or video conferencing allow employees to talk to one another in an efficient manner. More and more private sector businesses are using these modes of communication, why not the government? Furthermore, spending huge sums of federal dollars in wealthy Maryland suburbs seems unfair. This process goes against the Clinton Administration's desire of revitalizing the District of Columbia's economy or encouraging the location of federal offices into historic buildings located in cities.

It is time for once and for all for Congress to terminate this expensive monster and fight on the side of the taxpayers.

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PREPARED STATEMENT OF THE INTERNATIONAL COMMUNITY CORRECTIONS  
ASSOCIATION

On behalf of the International Community Corrections Association (ICCA), we are pleased to submit this statement addressing the United States Appropriations with respect to Treasury and General Government operations for fiscal year 2000. The International Community Corrections Association is a membership organization representing more than fifteen hundred residential and non-residential programs and over 250 private agencies throughout the United States. Over the past twenty five years, ICCA has provided information, training, and other services to improve the quality of care for offenders and to promote effective management practices.

ICCA's comments focus on federal drug control activities critical to improving community corrections and intermediate sanctions. ICCA urges strengthening ONDCP's resources for assuring that all appropriate offenders receive drug treatment in every community.

Until recently, community corrections options have been a neglected part of the National Drug Control Strategy. Community corrections options include: pre-trial supervision, probation and parole, intensive supervision, fines and day fines, restitution, forfeiture, impoundment, ignition interlock, community services, victim-of-

fender reconciliation, home confinement, electronic monitoring, day reporting, halfway house residential treatment, and other services for offenders. It is estimated that at least sixty percent or more of all offenders are in need of substance abuse services. Approximately twenty percent receive services. At least two thirds of all offenders who need treatment do not receive it. Recent research, cost analysis, and longitudinal studies show that offenders who receive such transition programs as education, substance abuse intervention, and job training are much less likely to return to prison.

Many programs with components that improve community corrections, such as the National Institute of Corrections and the Federal Bureau of Prisons community corrections centers, are worthy of sustained support. However, these programs have only a small impact on the thousands of lives that are ravaged by substance abuse. The National Drug Control Budget and the Office of National Drug Control Policy's Office of Demand Reduction should receive increased funding to actively address drug treatment for those under correctional supervision in the community.

#### *National Drug Control Budget*

We support the ONDCP's priorities in the National Drug Control Strategy. A range of community corrections programs such as Treatment Accountability for Safer Communities (TASC), drug courts, the Federal Bureau of Prisons Drug Treatment Program, Break-the-Cycle, and the need for partnership between corrections and treatment professionals are mentioned. However, an inadequate amount of funding is dedicated for these programs and for ONDCP's efforts to coordinate this fragmented field. The ONDCP budget should reflect greater emphasis on developing treatment throughout the entire correctional system. At least a ten to twenty percent increase in funding and oversight is necessary to impact addicted offenders.

With respect to the President's budget, ICCA supports the request for criminal justice treatment through the Break-the-Cycle programs. The Break-the-Cycle programs should be expanded to many more jurisdictions and there should be funding for graduated sanctions, relapse prevention, and structured transitions back into the community.

At the present time, the Federal Bureau of Prisons (FBOP) supports halfway houses where inmates serve the last few months of their sentences, preparing for release into the community. During this time, many offenders who are substance abusers receive treatment, seek employment, and re-establish family and community ties. Over the past several years the FBOP has increasingly supported improved drug treatment in prison and quality treatment in halfway house beds in federal community corrections centers. ONDCP should be encouraged to seek similar improvements at the state correctional level and for the District of Columbia.

#### *Office of Justice Programs*

In recent years, Congress has excluded community corrections from many categorical and block grant programs in favor of other initiatives. We support the administration's proposed Drug Intervention Program for fiscal year 2000. However, A review of the Office of Justice Programs budget request for fiscal year 2000 reveals that with the exception of Break-the-Cycle and drug treatment and testing for offenders, there is insufficient funding for drug treatment for offenders in drug courts or other programs.

ICCA urges this Committee to encourage ONDCP to expand the proportion of demand reduction to interdiction programs and to place a higher priority on the expansion of intermediate sanctions. The federal appropriation should provide resources and oversight to address the critical shortage of treatment slots in community corrections.

In closing, we must emphasize that community corrections are most often a public and private partnership. To provide adequate leadership, ONDCP must include local, federal, and state governments as well as private agencies in its efforts. Federal, state, and local governments should be encouraged through the appropriations process to enter into partnerships to plan, implement, and deliver effective community corrections programs which include substance abuse treatment. The ONDCP is well-positioned to provide the valuable assistance needed to carry on this work.

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#### PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

AARP appreciates the opportunity to comment on appropriations next year for the Tax Counseling for the Elderly (TCE) program. Over the last two decades, TCE has helped millions of middle and low income older persons accurately prepare their Federal, State or local tax returns. The AARP Foundation—a separate 501(c)(3) cor-

poration—operates the largest nationwide TCE program under a cooperative agreement with the Internal Revenue Service (IRS).

In authorizing TCE, Congress found that elderly taxpayers are often confronted with confusing tax provisions, resulting in overpayments or reliance upon expensive professional tax services. It also concluded that the particular needs of the elderly population were not being adequately addressed by the Internal Revenue Service. Under TCE, volunteer tax counselors are specially trained regarding those tax provisions which affect older Americans. IRS reports that many people with incomes below a specific level needlessly file returns. This results in unnecessary costs for all concerned. TCE helps to prevent such occurrences.

Electronic filing and other alternative methods are now utilized under TCE, all of which increase the accuracy of tax returns while being cost effective to the IRS. Electronic tax filings—both business and personal—have proliferated during this decade. IRS states that one of its goals is to have 80 percent of all personal income taxes filed electronically by 2007. The growing complexity of taxes makes this type of filing desirable for TCE “customers”. The program managed by AARP has expanded its use of alternative filing methods. In 1997, they accounted for roughly 28,000 of returns. One year later, they accounted for 59,290 returns—an increase of 111 percent.

Funding for TCE has remained at the current \$3,700,000 level since fiscal year 1994. In light of continued program growth and expanded use of electronic filing, AARP recommends a slight increase next year—from \$3,700,000 to \$3,950,000. This modest amount will help address the growing demand for assistance while meeting increased costs.

Tax Counseling for the Elderly enables the IRS to assist minorities more effectively as well as disabled and hard-to-reach taxpayers. This includes the rural elderly and shut-ins, especially those residing in nursing homes or senior housing. Last year, assistance was offered in 25 languages including American sign language.

Approximately 31,000 volunteers are involved in providing TCE services at more than 10,000 sites across the country. When the program first began, it helped 846,000 taxpayers. Currently, over 1,600,000 people receive tax counseling annually. While we do not have complete data for the current tax season, we expect TCE to continue to grow in the future. There are several reasons why this is likely to happen.

First, the elderly population is increasing.

Second, the complexities of our tax code cause many aged taxpayers particular difficulty in computing their tax obligations. Moreover, many aged citizens are not aware of the changes made in our tax laws over the past few years.

Third, the Internal Revenue Service has increasingly turned to TCE programs for assistance, in large part because budgetary constraints have stretched the ability of the agency to respond directly to numerous public inquiries. Volunteers are contributing millions of hours annually in direct public service to older taxpayers.

Older taxpayers with dependent children or grandchildren are also counseled regarding their eligibility for the earned income tax credit (EITC). Many older low income wage earners find themselves responsible for providing care for their dependent children or grandchildren. EITC is an important benefit for these individuals.

The TCE program will continue to participate in successful campaigns such as the Reduce Unnecessary Filing initiative. Three-fourths of the taxpayers notified by IRS regarding this effort last year were 61 years of age or older. Many of these individuals subsequently turned to the TCE program for clarification and advice.

Thank you again for this opportunity to comment on appropriations next year for the Tax Counseling for the Elderly program.



## NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on the Treasury and General Government for inclusion in the record.

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impact on tax collection efforts and I would ask this subcommittee to look into the potential of reduced revenue collection due to fears of 1203 (b) actions.

More than just adequate funding is needed at IRS. The funding must be spent right. The purchase of improved technology is important, but even more critical is the need for greater employee training to handle increasing complex tax law and tax administration responsibilities. In the previous two years alone, Congress brought about over 1,260 changes in the tax code.

The new IRS will become more accessible to taxpayers by providing 24 hour/7 day a week telephone service, expanded walk-in service and improved service to small businesses. But expanded service is not true service unless these frontline workers have had the proper training and receive the necessary technology to do their job. The Administration proposal asks for \$17,000,000 for technical training. NTEU is pessimistic that this is an adequate amount and certainly believes any less is courting disaster. I would note, Mr. Chairman, that in a recent IRS customer satisfaction survey, the areas of lowest needs for improvement was the general courtesy and professionalism of IRS employees. The areas of highest need was the accessibility of the toll-free line, expanded office hours at the walk-in centers and the shortness of time employees had to spend with customers.

It is critically important that Congress fund the agency request of \$140,000,000 for IRS to restructure, reorganize and retrain the IRS workforce. Realigning the IRS to four new operating divisions (wage and investment, small business/self-employed, large and mid-sized businesses, and non-profits) creates some temporary expenses for implementation, but without this funding the entire Reorganization Act can fall apart. This is not a huge sum considering the enormous changes Congress has asked the IRS to make. We do recognize it is a substantial increase from the \$25,000,000 appropriated in fiscal year 1999. However, one could not find a better example of being penny wise and pound foolish than the failure to fund this request.

#### U.S. CUSTOMS SERVICE

The Administration has requested a funding level of \$1,930,000,000 and 17,389 FTEs for fiscal year 2000 for the U.S. Customs Service. The importance of the work of this agency cannot be overemphasized. Customs makes more drug seizures than every other federal agency combined, keeping 1,300,000 pounds of illegal drugs out of this country. Its employees processed 19,700,000 commercial entries (up 1,800,000 from last year) and 460,000,000 personal entries (up by 13,100,000 from the previous year). Despite the great successes of Customs employees in these fields, the growth in legitimate trade as well as illegal narcotic smuggling and currency laundering continues at incredible rates, far outpacing federal resources. In addition, the agency is underfunded in fulfilling its duty to stop the importation of products made by forced child labor and of child pornography sent over the Internet. Moreover, with the recent allied action in Serbia and the often violent reaction of America's critics in parts of the world, NTEU questions if the U.S. Customs Service's resources to combat terrorism are sufficient.

NTEU strongly supports new funding for better employee training. The Administration proposes a new position of Assistant Commissioner for Training and Development. We believe this is a good start. NTEU supports expansion of the new employee training program for cultural awareness initiated last year at major airports. Customs inspectors must greet every arrival not knowing if they are facing someone trying to fill our children's veins with drugs or an elderly couple returning from their first overseas trip after a lifetime of scrimping and saving. It is a tough job and Congress should not be miserly in providing funds to help these workers do their job right.

It is also important that Congress fund the Automated Commercial Environment (ACE) system. NTEU recognizes that this is an expensive and vital initiative. But the alternative is to rely on a 16 year old, dated system that makes it impossible for employees to do their work efficiently. The continued growth in trade, tourism and illegal activities show no signs of abating. Congress cannot leave Customs behind as the world moves into the third millennium.

Our Union has been working with Customs management in a partnership. We believe that such a relationship is the most productive for the employees, the managers and the mission of the Customs Service. We appreciate Commissioner Kelly's statements that the extremely successful Operation Brass Ring would not have been possible without the labor-management partnership at Customs. NTEU members in the Customs Service are committed to accomplishing both the drug interdiction and trade facilitation missions of the agency, but they need adequate resources to be successful.

The Administration's budget request proposed a number of user fees to fund the Customs Service. NTEU has no particular philosophical objection to any of these fees. We are very concerned, however, that failure to either enact such fees or find money elsewhere would cause extreme damage to the important work of Customs. Any cuts in funding from the proposed budget threaten to cause real disruptions in international trade and tourism, real barriers to drug seizures and terrorism prevention, real deficiencies in fighting child labor and money laundering. However the agency is funded, reductions in resources are not acceptable.

#### FEDERAL EMPLOYEE PAY

Finally, Mr. Chairman, let me address the issue of compensation for federal employees. Federal pay is governed by the Federal Employees Pay Comparability Act of 1990 (FEPCA). Under FEPCA, federal employees should receive an annual nationwide pay adjustment based on the Employment Cost Index (ECI), plus a locality-based adjustment designed to close the gap between federal and private sector salaries. No federal pay raise since the law was signed have provided the full pay raise called for under its formula. The pay gap, as measured by the Bureau of Labor Statistics, is approximately 30 percent.

FEPCA authorizes the President to issue an alternative pay proposal in the event of a "national emergency or serious economic conditions affecting the general welfare." Each year, the President has used this loophole and declared an economic emergency—even in this year of budget surpluses.

The federal budget is now balanced and the country has entered a period of budget surpluses, in no small part due to the sacrifices in federal pay and benefit cuts made by employees over the last decade. It is time for FEPCA to be followed and for federal employees to be paid a fair wage.

President Clinton has recommended 4.4 percent raises for military and civilian federal employees in fiscal year 2000. Legislation providing a 4.8 percent military pay raise in January of 2000, a second substantial pay increase in July of 2000, and future military raises one-half percent more than private sector increases measured by the ECI is moving quickly through Congress.

Parity between federal and military pay has been the norm for decades and federal civilian employees want parity with their military counterparts again in fiscal year 2000. Uniformed members of the military often work side by side with civilian federal employees. NTEU asks that the Appropriations Committee support parity between uniformed military and civilian pay in fiscal year 2000 and all efforts to close the pay gap between federal and private sector pay.

I would like to thank the Subcommittee again for the opportunity for our Union to present its views on the proposed budget for fiscal year 2000. As we enter this exciting, new millennium, I know we can count on Congress to stand with federal employees as we look to a future of progress and social betterment for our nation.

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#### PREPARED STATEMENT OF THE COUNCIL FOR CITIZENS AGAINST GOVERNMENT WASTE

The Food and Drug Administration's (FDA) consolidation project reminds one of the movie "Terminator." In it, the monster calmly declares, "I'll be back" and sure enough, it never seems to die. It keeps rearing its ugly head, recreating itself and attacking the hero and heroine, no matter what weapons are used against it. Finally, good wins over evil, and the monster dies the final death it should.

The FDA's monstrous consolidation project, formally known as the Taj Mahal or Kessler's Kastle, is once again rearing its ugly self in the President's fiscal year 2000 budget in the form of a \$136,000,000 funding request. The plan is to build a consolidated campus at the former White Oak Naval Surface Warfare Center in Montgomery County, Maryland. It will provide space for the Office of the Commissioner, the Center for Drug Evaluation and Research, the Center for Devices and Radiological Health, and the Center for Biologics Evaluation and Research. According to a General Services Administration (GSA) estimate in November 1998, the total cost for this consolidation is expected to be \$484,813,000. It appears that GSA has a project and construction manager, a public-private partner and an architect for the project. Yet, it appears, no prospectus has been approved by Congress for this boondoggle.

But this is nothing new. Apparently no prospectus has been approved by Congress for the construction of an FDA facility to support a campus for the Center for Food Safety and Applied Nutrition. Yet, construction is underway. Congress unwisely appropriated \$55,000,000 in the fiscal year 1996 Treasury, Postal Service, and General Government Appropriations Act. GSA figured this was a green light to proceed but, according to Public Law 104-52 "funds available to the General Services Adminis-

tration shall not (emphasis added) be available for expenses in connection with any construction, repair, alteration, and 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." Is the GSA breaking the law and misusing taxpayer dollars? That question must be addressed by the subcommittee.

Without a prospectus, how is Congress supposed to know how much these buildings will cost the taxpayer, what type of yearly appropriations will be needed and, no doubt considering the construction of most federal buildings, when and how much the project will be over budget? Will there be another scenario like the Ronald Reagan International Trade Building, originally expected to cost \$362,000,000, but ended up costing taxpayers \$818,000,000? Or how about the Patent and Trade Office building in Northern Virginia, estimated to cost taxpayers \$1,600,000,000 billion over the next 20 years in construction and leasing?

For years, FDA has been requesting a consolidated campus. But the one being proposed is not "consolidated." There is one campus that is supposed to be built in Maryland's Prince George's County, another campus that is supposed to be built in Montgomery County, and there is already a laboratory facility in Beltsville. It appears that FDA consolidation is not really the issue. What is really happening is pork-barrel spending and the creation of a lush, suburban office complex, close to a golf course, for FDA bureaucrats.

Since the era of big government is supposed to be over, the Council for Citizens Against Government Waste (CCAGW) questions why Congress is even considering building a huge campus for the FDA. In an era of downsizing, it would appear Congress' first priority should be how to make FDA smaller and more effective—not providing expensive campuses that would allow the FDA to grow and hire more bureaucrats so it can find new areas to regulate, fill the Federal Register with more rules and cause more mischief.

Most FDA employees are not running off to meetings across town so spending millions of dollars to convenience a small percentage of FDA employees seems a bit much. Building a sprawling campus will not decrease drug and medical device approval times. Furthermore, the Montgomery campus is not located near a metro station, which will force most employees to drive to work. This seems to be in direct conflict with the Clinton administration's efforts to protect the environment and encourage citizens to take advantage of public transportation!

If FDA offices need to be improved, it would be more cost-effective to spend money to remodel them or to move employees into existing buildings rather than build a brand new facility. Modern technology such as computers and telephone or video conferencing allow employees to talk to one another in an efficient manner. More and more private sector businesses are using these modes of communication, why not the government? Furthermore, spending huge sums of federal dollars in wealthy Maryland suburbs seems unfair. This process goes against the Clinton Administration's desire of revitalizing the District of Columbia's economy or encouraging the location of federal offices into historic buildings located in cities.

It is time for once and for all for Congress to terminate this expensive monster and fight on the side of the taxpayers.

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PREPARED STATEMENT OF THE INTERNATIONAL COMMUNITY CORRECTIONS  
ASSOCIATION

On behalf of the International Community Corrections Association (ICCA), we are pleased to submit this statement addressing the United States Appropriations with respect to Treasury and General Government operations for fiscal year 2000. The International Community Corrections Association is a membership organization representing more than fifteen hundred residential and non-residential programs and over 250 private agencies throughout the United States. Over the past twenty five years, ICCA has provided information, training, and other services to improve the quality of care for offenders and to promote effective management practices.

ICCA's comments focus on federal drug control activities critical to improving community corrections and intermediate sanctions. ICCA urges strengthening ONDCP's resources for assuring that all appropriate offenders receive drug treatment in every community.

Until recently, community corrections options have been a neglected part of the National Drug Control Strategy. Community corrections options include: pre-trial supervision, probation and parole, intensive supervision, fines and day fines, restitution, forfeiture, impoundment, ignition interlock, community services, victim-of-

fender reconciliation, home confinement, electronic monitoring, day reporting, halfway house residential treatment, and other services for offenders. It is estimated that at least sixty percent or more of all offenders are in need of substance abuse services. Approximately twenty percent receive services. At least two thirds of all offenders who need treatment do not receive it. Recent research, cost analysis, and longitudinal studies show that offenders who receive such transition programs as education, substance abuse intervention, and job training are much less likely to return to prison.

Many programs with components that improve community corrections, such as the National Institute of Corrections and the Federal Bureau of Prisons community corrections centers, are worthy of sustained support. However, these programs have only a small impact on the thousands of lives that are ravaged by substance abuse. The National Drug Control Budget and the Office of National Drug Control Policy's Office of Demand Reduction should receive increased funding to actively address drug treatment for those under correctional supervision in the community.

#### *National Drug Control Budget*

We support the ONDCP's priorities in the National Drug Control Strategy. A range of community corrections programs such as Treatment Accountability for Safer Communities (TASC), drug courts, the Federal Bureau of Prisons Drug Treatment Program, Break-the-Cycle, and the need for partnership between corrections and treatment professionals are mentioned. However, an inadequate amount of funding is dedicated for these programs and for ONDCP's efforts to coordinate this fragmented field. The ONDCP budget should reflect greater emphasis on developing treatment throughout the entire correctional system. At least a ten to twenty percent increase in funding and oversight is necessary to impact addicted offenders.

With respect to the President's budget, ICCA supports the request for criminal justice treatment through the Break-the-Cycle programs. The Break-the-Cycle programs should be expanded to many more jurisdictions and there should be funding for graduated sanctions, relapse prevention, and structured transitions back into the community.

At the present time, the Federal Bureau of Prisons (FBOP) supports halfway houses where inmates serve the last few months of their sentences, preparing for release into the community. During this time, many offenders who are substance abusers receive treatment, seek employment, and re-establish family and community ties. Over the past several years the FBOP has increasingly supported improved drug treatment in prison and quality treatment in halfway house beds in federal community corrections centers. ONDCP should be encouraged to seek similar improvements at the state correctional level and for the District of Columbia.

#### *Office of Justice Programs*

In recent years, Congress has excluded community corrections from many categorical and block grant programs in favor of other initiatives. We support the administration's proposed Drug Intervention Program for fiscal year 2000. However, A review of the Office of Justice Programs budget request for fiscal year 2000 reveals that with the exception of Break-the-Cycle and drug treatment and testing for offenders, there is insufficient funding for drug treatment for offenders in drug courts or other programs.

ICCA urges this Committee to encourage ONDCP to expand the proportion of demand reduction to interdiction programs and to place a higher priority on the expansion of intermediate sanctions. The federal appropriation should provide resources and oversight to address the critical shortage of treatment slots in community corrections.

In closing, we must emphasize that community corrections are most often a public and private partnership. To provide adequate leadership, ONDCP must include local, federal, and state governments as well as private agencies in its efforts. Federal, state, and local governments should be encouraged through the appropriations process to enter into partnerships to plan, implement, and deliver effective community corrections programs which include substance abuse treatment. The ONDCP is well-positioned to provide the valuable assistance needed to carry on this work.

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#### PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF RETIRED PERSONS

AARP appreciates the opportunity to comment on appropriations next year for the Tax Counseling for the Elderly (TCE) program. Over the last two decades, TCE has helped millions of middle and low income older persons accurately prepare their Federal, State or local tax returns. The AARP Foundation—a separate 501(c)(3) cor-

poration—operates the largest nationwide TCE program under a cooperative agreement with the Internal Revenue Service (IRS).

In authorizing TCE, Congress found that elderly taxpayers are often confronted with confusing tax provisions, resulting in overpayments or reliance upon expensive professional tax services. It also concluded that the particular needs of the elderly population were not being adequately addressed by the Internal Revenue Service. Under TCE, volunteer tax counselors are specially trained regarding those tax provisions which affect older Americans. IRS reports that many people with incomes below a specific level needlessly file returns. This results in unnecessary costs for all concerned. TCE helps to prevent such occurrences.

Electronic filing and other alternative methods are now utilized under TCE, all of which increase the accuracy of tax returns while being cost effective to the IRS. Electronic tax filings—both business and personal—have proliferated during this decade. IRS states that one of its goals is to have 80 percent of all personal income taxes filed electronically by 2007. The growing complexity of taxes makes this type of filing desirable for TCE “customers”. The program managed by AARP has expanded its use of alternative filing methods. In 1997, they accounted for roughly 28,000 of returns. One year later, they accounted for 59,290 returns—an increase of 111 percent.

Funding for TCE has remained at the current \$3,700,000 level since fiscal year 1994. In light of continued program growth and expanded use of electronic filing, AARP recommends a slight increase next year—from \$3,700,000 to \$3,950,000. This modest amount will help address the growing demand for assistance while meeting increased costs.

Tax Counseling for the Elderly enables the IRS to assist minorities more effectively as well as disabled and hard-to-reach taxpayers. This includes the rural elderly and shut-ins, especially those residing in nursing homes or senior housing. Last year, assistance was offered in 25 languages including American sign language.

Approximately 31,000 volunteers are involved in providing TCE services at more than 10,000 sites across the country. When the program first began, it helped 846,000 taxpayers. Currently, over 1,600,000 people receive tax counseling annually. While we do not have complete data for the current tax season, we expect TCE to continue to grow in the future. There are several reasons why this is likely to happen.

First, the elderly population is increasing.

Second, the complexities of our tax code cause many aged taxpayers particular difficulty in computing their tax obligations. Moreover, many aged citizens are not aware of the changes made in our tax laws over the past few years.

Third, the Internal Revenue Service has increasingly turned to TCE programs for assistance, in large part because budgetary constraints have stretched the ability of the agency to respond directly to numerous public inquiries. Volunteers are contributing millions of hours annually in direct public service to older taxpayers.

Older taxpayers with dependent children or grandchildren are also counseled regarding their eligibility for the earned income tax credit (EITC). Many older low income wage earners find themselves responsible for providing care for their dependent children or grandchildren. EITC is an important benefit for these individuals.

The TCE program will continue to participate in successful campaigns such as the Reduce Unnecessary Filing initiative. Three-fourths of the taxpayers notified by IRS regarding this effort last year were 61 years of age or older. Many of these individuals subsequently turned to the TCE program for clarification and advice.

Thank you again for this opportunity to comment on appropriations next year for the Tax Counseling for the Elderly program.

## LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

	Page
American Association of Retired Persons, prepared statement .....	300
Basham, W. Ralph, Director, Federal Law Enforcement Training Center, Department of the Treasury .....	253
Prepared statement .....	255
Bye, Raymond E., Interim Vice President, Research, Florida State University, prepared statement .....	295
Campbell, Hon. Ben Nighthorse, U.S. Senator from Colorado .....	159
Questions submitted by ..... 26, 91, 139, 180, 207, 230, 264, 279, 283,	286
Council for Citizens Against Government Waste, prepared statement .....	298
Dalrymple, John, Chief Operations Officer, Internal Revenue Service, Depart- ment of the Treasury .....	1
Dorgan, Hon. Byron L., U.S. Senator from North Dakota:	
Prepared statements .....	5, 71, 113
Questions submitted by ..... 34, 97, 145, 153, 155, 178, 231, 251, 266,	280
Statement of .....	2
Eldreich, Ben L., Chairman, Merit Systems Protection Board .....	291
International Community Corrections Association, prepared statement .....	299
Johnson, James E., Under Secretary of the Treasury (Enforcement), Depart- ment of the Treasury .....	159
Prepared statement .....	166
Kelly, Raymond W., Commissioner, U.S. Customs Service, Department of the Treasury .....	183
Prepared statement .....	186
Killefer, Nancy, Assistant Secretary, Office of the Secretary, Department of the Treasury .....	111
Kyl, Hon. Jon, U.S. Senator from Arizona, questions submitted by .....	32
Lachance, Janice R., Director, Office of Personnel Management, prepared statement .....	284
LaFaver, John, Deputy Commissioner, Modernization, Internal Revenue Serv- ice, Department of the Treasury .....	1
Magaw, John W., Director, Bureau of Alcohol, Tobacco and Firearms, Depart- ment of the Treasury .....	213
Prepared statement .....	214
McCaffrey, General, Barry R., Director, Office of National Drug Control Pol- icy, Executive Office of the President .....	53
Prepared statement .....	59
Mikulski, Hon. Barbara A., U.S. Senator from Maryland, questions submitted by .....	47
Rossotti, Charles O., Commissioner, Internal Revenue Service, Department of the Treasury .....	1
Prepared statement .....	9
Statement of .....	6

	Page
Rubin, Robert, Secretary, Office of the Secretary, Department of the Treasury .....	111
Prepared statement .....	117
Shelby, Hon. Richard C., U.S. Senator from Alabama, questions submitted by.....	96, 288
Sloan, James F., Director, Financial Crimes Enforcement Network, Department of the Treasury .....	269
Prepared statement .....	272
Stafford, Brian L., Director, U.S. Secret Service, Department of the Treasury .....	239
Prepared statement .....	241
Tobias, Robert M., President, National Treasury Employees, Union, prepared statement .....	296
Wenzel, Bob, Deputy Commissioner Operations, Internal Revenue Service, Department of the Treasury .....	1

# SUBJECT INDEX

## DEPARTMENT OF THE TREASURY

	Page
Counter-terrorism .....	177
Counterfeiting .....	178
Custom budget request .....	178
Firearms violence .....	175
Law enforcement bureau missions, highlights of .....	164
Office of Enforcement .....	163
Mission .....	162
Policy guidelines .....	163
Strategic plan .....	162
Support .....	163
Office of Professional Responsibility .....	163
Passenger inspections .....	177
Review of the integrity issues .....	174
Submitted questions .....	178
Treasury/Justice funding .....	176

## BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

ATF:	
Accomplishments .....	214
Goals .....	213
Brady law background checks .....	229
Cigarettes and alcohol, bootlegging of .....	228
Cease fire .....	227
Federal firearms licensee records, policy on .....	227
Facility, proposed new headquarters .....	230
GREAT .....	226
Indian law enforcement, participation from .....	228
Integrated violence reduction strategy .....	225
Proposed initiatives .....	213
Submitted questions .....	230

## FEDERAL LAW ENFORCEMENT TRAINING CENTER

Artesia construction .....	262
Counterterrorism training .....	263
Export site criteria .....	264
Five-year plan .....	263
Master plan and construction .....	254
Strategic plan .....	254
Students, projected number of .....	263
Submitted questions .....	264
Training workload increase .....	253

## FINANCIAL CRIMES ENFORCEMENT NETWORK

Direct support .....	269
Gateway .....	278
System .....	270
Improved analysis and technology .....	270
International .....	277, 278
Efforts .....	271
Money laundering, magnitude of .....	271

	Page
Platform .....	270
Regulatory .....	276
Efforts: non-banks .....	271
Submitted questions .....	279

## INTERNAL REVENUE SERVICE

Fiscal year 2000 budget request .....	7
IRS reorganization .....	16
Modernized organization .....	6
Prime systems contract .....	7
Organization modernization, costs of .....	14
Rural taxpayer assistance .....	17
Service and compliance .....	19
Tax-exempt:	
Organizations, audits of .....	20
Sector .....	21
Taxpayer advocate .....	14
Telephone assistance .....	20
Training .....	8, 13, 15
Transfer:	
Prices .....	24
Pricing .....	3, 25
Year 2000 .....	14

## OFFICE OF THE SECRETARY

Automation issues .....	116
Callable capital .....	123
Availability, deferral of .....	133
Rescission, financial market reaction to .....	123
CDFI fund native American lending study, progress report on the .....	136
Customs:	
Agents, cost of 500 new .....	132
Alternate approaches to funding sufficiency for .....	128
Automation and fee funding .....	122
Budget request .....	116
Funding increase, purpose of .....	130
Technology, trade facilitation, and fee-funding .....	127
Departmental offices:	
Budget .....	116
Justification for adding positions to .....	135
Effect of higher pay raise on personnel retention .....	136
Emergency funding, fiscal year 2000 implications of fiscal year 1999 .....	121
Funding caps, government-wide competition among meritorious proposals within .....	131
Gun violence .....	120
International—offsets and outlays .....	132
IRS modernization.....	115, 125
No tax return filing system .....	124
Offset options to be explored, other .....	134
Policy choices, law enforcement .....	129
Secret Service and ATF .....	116
Spending caps, funding priorities within .....	137
Submitted questions .....	139
Trade:	
Deficit .....	125
Facilitation and contraband interdiction, competing interests of.....	114, 127
Treasury:	
Budget request .....	114
Responsibility for border enforcement issues .....	130
Tax administration, inspector general for .....	120
U.S. Mint: Additional committee questions .....	155

## U.S. CUSTOMS SERVICE

Action plan .....	184
Automated commercial:	
Environment.....	186, 204

	Page
Automated commercial—Continued	
System .....	202
Canine program .....	204
Forced child labor .....	206
Integrity .....	184
International corporations .....	206
Money laundering technology .....	203
Operation:	
Brass Ring .....	183
Casablanca .....	184, 206
Cheshire Cat .....	184
Outbound technology .....	184
Passenger processing:	
Fee .....	202
Procedures .....	203
Personal search .....	185, 201
Seizure data .....	183, 201
Submitted questions .....	207
Trade and passenger processing .....	183
Training .....	185
Violent crime reduction trust fund .....	203

## U.S. SECRET SERVICE

Anti-counterfeit .....	249
Armored limousines .....	248, 250
National special security events .....	248
Presidential candidate/nominee protection .....	247
Protective threats .....	249
Submitted questions .....	251

## EXECUTIVE OFFICE OF THE PRESIDENT

## OFFICE OF NATIONAL DRUG CONTROL POLICY

Border issues .....	85
Budget choices .....	84
Certification .....	88
Conceptual organization .....	55
Corporate involvement .....	76
Drug:	
Abuse .....	57
Addiction treatment .....	79
Reduction programs .....	58
Treatment and parity .....	81
HIDTA .....	71, 82
International responsibilities .....	74
Juvenile drug courts .....	71
Logistical issues .....	87
Media campaign .....	78
ONDCP:	
Budget .....	56
Staffing .....	87
Prison, treatment in .....	90
Submitted questions .....	90