

**TREASURY AND GENERAL GOVERNMENT  
APPROPRIATIONS FOR FISCAL YEAR 2002**

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

ON

**H.R. 2590/S. 1398**

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, 2002, AND FOR OTHER PUR-  
POSES

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

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Printed for the use of the Committee on Appropriations



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U.S. GOVERNMENT PRINTING OFFICE

70-870 PS

WASHINGTON : 2001

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# **TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2002**

**THURSDAY, APRIL 26, 2001**

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

The subcommittee met at 10 a.m., in room SR-485, Russell Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, DeWine, and Dorgan.

**DEPARTMENT OF THE TREASURY**

**OFFICE OF THE SECRETARY**

**STATEMENT OF HON. PAUL H. O'NEILL, SECRETARY**

**ACCOMPANIED BY JAMES J. FLYZIK, ACTING ASSISTANT SECRETARY  
FOR MANAGEMENT AND CHIEF INFORMATION OFFICER**

**OPENING REMARKS**

Senator CAMPBELL. Good morning. The committee will come to order. I would like to welcome everyone to the first hearing on the fiscal year 2002 budget request. This morning, I am pleased to welcome the Secretary of the Treasury, the Honorable Paul O'Neill, as well as Brad Buckles, the Director of the ATF, and James Sloan, the Acting Under Secretary for Enforcement. Welcome. We are looking forward to your comments.

I would also like to acknowledge the two new members of our subcommittee, Senator DeWine, who is on my right, and Senator Landrieu, who hopefully will be arriving shortly. Senator Dorgan, the ranking member of the committee, will also be just a little bit late.

We look forward to learning about the new leadership at the Treasury Department as well as the resources necessary to carry out the Department's responsibilities. The Department of the Treasury has four main missions, as articulated by their strategic plan: To promote prosperous and stable American and world economies; to manage the government's finances; to safeguard our financial systems, protect our nation's leaders, and secure a safe drug-free America; and fourth, to continue to build a strong institution. These are obviously very broad areas of jurisdiction, some of which are carried out by various bureaus within the Department. However, the policy and the oversight responsibilities still rest within the Departmental offices.

The Under Secretary for Domestic Finance is responsible for the development of domestic economic finance and fiscal policy, making sure that Social Security and Medicare are solvent, that consumers are protected from financial deception, and a number of other things.

The Under Secretary for International Affairs is responsible for international financial policy, as well as trade and investment policy, such as monitoring the global economy, facilitating legitimate trade, and promoting stable international financial systems, to mention a few.

The Department's Federal law enforcement responsibilities are overseen by the Office of the Under Secretary for Enforcement. Reducing counterfeiting and money laundering are probably the most important issues they deal with, but also stopping drug smuggling, denying criminals access to firearms, and the anti-terrorism efforts, to name just a few.

Mr. Secretary, I want to take a minute to express my appreciation to you for your continued support for something that is very important to me and that is the GREAT program. I have a very strong feeling about our youngsters and I think GREAT has been a program that they have benefitted from a great deal, if I can use that term. I have also been a strong supporter of a number of other programs that deal with youngsters, but that one is of particular interest to me.

Everyone knows that the Internal Revenue Service implements and enforces tax laws, but the developments of the policies underlying those laws takes place at the Departmental level and the Secretary of the Treasury is ultimately responsible for everything. The buck stops on your desk, Mr. Secretary. I look forward to hearing how you plan to lead the Department into the 21st century.

We have been joined by our ranking member, Senator Dorgan. I would like to now recognize him.

#### STATEMENT OF SENATOR BYRON L. DORGAN

Senator DORGAN. Mr. Chairman, thank you very much. Mr. Secretary, welcome today. I have been at an Energy Committee hearing and I was delayed arriving, but thank you very much for being here today.

#### PREPARED STATEMENT

I think what I will do is put my statement in the record and I will be here to ask a number of questions of Secretary O'Neill. I am anxious to hear his testimony.

Senator CAMPBELL. Without objection, the complete comments of all members will be put into the record.

[The statement follows:]

#### PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Thank you Mr. Chairman: Mr. Secretary, I also want to welcome you for your first appearance before this Subcommittee. I commend you for your willingness to re-enter public service at a time in your life when others might be looking forward to a much more hassle-free existence. As you well know, you can do a great deal of good in your new position, but there is also a great deal of heartburn which comes with the job.

You have only been in your current position for just over three months and you have many things to learn and see. For instance, you probably have not yet been to the Northern Border. I hope you will go—North Dakota has a great border with Canada and we'd love to host you. Your Department plays a major role in border issues. The Customs Service both facilitates trade while at the same time attempts to interdict drugs and terrorists. For instance, you may not know that at dozens of ports of entry along the Northern Border orange cones such as this are the only nighttime protection from drug runners and terrorists.

I use this to illustrate that while trade under NAFTA and other trade agreements has risen 75 percent since the mid-90s, and while drugs continue to stream across our borders—north as well as south—in many cases we are not making the necessary investments to meet the fast-growing needs; either in infrastructure at our 192 border ports of entry, nor in the manpower to adequately staff those ports.

For instance, your second important area of focus in your prepared statement is “continuing efforts to fight drugs and crime.” Yet, this budget requests no funds for hiring additional Customs agents and inspectors who are this nation's front line in protecting our borders. This budget does not request a dime to alleviate the overworked men and women on the border despite the growing threat of transnational crime. Nor does it adequately address the burgeoning trade expected to double over the next five years.

This budget is a straight-line, no-frills, “maintain current levels” budget, designed—I imagine—not to meet the needs of the agencies under your jurisdiction, but instead, adjusted to meet the trade-offs required by a too-large tax cut.

I say this not so much as a criticism but as more of a cautionary note for future consideration and debate. And drugs and trade are just a portion of this larger debate.

The 800 pound gorilla for your Department and this Subcommittee is the Internal Revenue Service. It consumes nearly 65 percent of your Department's budget. The President's budget calls for an increase for the IRS of between 3.4 percent and 6.6 percent depending on how you count the numbers. We both want to see the IRS succeed—to see Commissioner Rossotti and his team turn the IRS around and really return “Service” to the IRS.

Yet the independent, congressionally mandated IRS Oversight Board recently submitted a budget request which is over \$800 MILLION above President Bush's budget. A great deal of thought went into the Oversight Board's budget submission and the bulk of their suggested additional resources would go to increase technology enhancements. While we all may have a different opinion about what the “right” number for the IRS should be, the Board notes further deficiencies or, at a minimum, issues which warrant further discussion.

I look forward to your testimony and your responses to our questions. More importantly, I look forward to exploring these and many other issues during the months and years ahead.

Senator CAMPBELL. Senator DeWine, do you have a statement?

Senator DEWINE. Mr. Chairman, thank you very much. Mr. Secretary, thank you very much for being with us here today. Mr. Chairman, I am delighted to join the committee today.

As one of the newest members of the committee, let me welcome you, Mr. Secretary, to this hearing and thank you for your hard work on the Department's budget proposal for fiscal year 2002. There are a number of programs of particular interest to me in this budget, mainly law enforcement and counterdrug activities. Let me commend you and commend President Bush for addressing these very important law enforcement related issues and I look forward to working with you and my colleagues to ensure that programs in these areas are adequately funded.

I also commend our chairman, Senator Campbell, for scheduling a separate law enforcement hearing next month. I look forward to that hearing. This recognizes the importance of law enforcement activities and the need to provide appropriate resources.

Today, though, for a moment, I would like to discuss a specific matter of importance to my home State of Ohio and to this entire nation, and that is the implementation of the Continued Dumping

and Subsidy Offset Act. As you know, I wrote this Act, and thanks to the help of my good friend and the ranking member on the full committee, Senator Byrd, that measure is now the law of the land.

We need this law, Mr. Secretary and Mr. Chairman, because some of our trading partners are simply not playing by the rules. What I mean is that there are many foreign producers who, in hopes of securing a greater share of the U.S. market or eliminating their U.S. competitors altogether or selling their products in the United States at or below production costs. This practice, as we all know, is commonly referred to as dumping.

Alone or coupled with other unfair and illegal practices like subsidization, dumping hurts a number of our nation's vital industries, such as agriculture, textiles, and steel. Despite the imposition of duty orders in a number of cases, these practices continue. In certain cases, these unfair trade practices have been going on for more than 25 years.

Dumping has been particularly hard on America's steel industry, an industry that has long been vital to our nation's economic well-being and our national security. Because of the worldwide overproduction of steel, our domestic industry has been forced to withstand an onslaught of cheap foreign steel imports. Our steel producers here at home are suffering as a result and we must come to their aid.

The Tariff Act of 1930 gives the President the authority to impose duties on imports being dumped in U.S. markets or subsidized by foreign governments. Our new continued dumping and subsidy offset law takes that 1930 Act one step further by imposing a heavier price for dumping and subsidization. As you know, revenues raised through import duties currently go directly to the U.S. Treasury. But under our new law, the duties collected would be re-directed to eligible injured U.S. businesses, mills, farms, and ranches with qualified expenditures, such as modernizing manufacturing facilities, providing worker training and health care, and purchasing of safety and environmental equipment. The funds cannot be used to cover any legal fees associated with the anti-dumping or countervailing case.

Mr. Secretary, free and fair trade cannot flourish unless we use our trade laws to encourage all competitors to play by the rules. We must do all that we can to make this a reality. The Continued Dumping and Subsidy Act is a critical first step. Currently, Customs is writing the implementation regulations, which were expected to be forwarded to the Treasury Department several months ago. It is my hope that your Department will take the necessary action to ensure that the proposed implementation regulations are published in the very near future. It is also my hope that the Department, once the regulations are in place, will meet all the statutory deadlines for distribution of duties and full implementation of the Act in a timely manner.

In conclusion, Mr. Chairman, when the Department reaches that point, Mr. Secretary, I would like to sit down with you and personally discuss this matter and the state of our nation's steel industry. Again, thank you for joining us today. I have enjoyed talking with you in the past about the steel problems. I have appreciated those



conversations very much and look forward to working with you. Thank you very much, Mr. Chairman.

Senator CAMPBELL. I hope our colleagues and people in the audience heard you, Senator DeWine. I understand your microphone is not working and they need to switch it off.

Senator DEWINE. I think the Secretary did.

Senator CAMPBELL. The Secretary, I am sure, did hear you.

Secretary O'NEILL. I did. Thank you.

Senator CAMPBELL. While we are doing that, I might mention, Mr. Secretary, while Senator DeWine was making his statement, I was reviewing your biographical sketch, which is a lifetime of accomplishments and awards and I certainly commend you for the many accomplishments you have made. I noted with interest that even now, as busy as you are, you have time to work with some of the students at your old alma mater, the University of Maryland, and still teach on a part-time basis. I think that is wonderful, because rarely do kids in school get a chance to interact with government officials and I think that is a terrific thing that you are doing.

I think we are hooked up now, Mr. Secretary, if you would like to proceed. By the way, your complete written testimony will be included. If you want to stray from that and make comments or abbreviate, you are welcome to do so.

#### STATEMENT OF PAUL H. O'NEILL

Secretary O'NEILL. Mr. Chairman, it is a pleasure to be here. Senator DeWine and Senator Dorgan, I am glad to have the opportunity to meet with you today. I will take advantage of the opportunity to simply put my prepared statement into the record and perhaps summarize a few key points.

The Treasury Department request, I think, is clearly consistent with the principles that President Bush has suggested to the Congress, that we should be very prudent in the amounts of money that we claim and ask for from the American people to discharge our responsibilities, and I think this budget bears witness to those principles in a good way.

Mr. Chairman, you have summarized very clearly what the responsibilities are of the Treasury, and in the few months that I have been here, I have been on a part-time quest. I must say, there are an awful lot of things to do in this position, but I have been on a part-time quest to better understand the details of what the Department management activities are and how well we work to discharge in the most responsible and fiscally cautious way the things that the Congress has entrusted to the Treasury as responsibilities, including making some field trips to look at our manufacturing operations last week or the week before in Philadelphia at the Mint.

I am particularly interested in knowing more about the specific aspects of the Treasury Department's activities and operations that the members of this Congress are interested in so that I can become as knowledgeable as you are about these activities and, hopefully, bring greater satisfaction to your expectations for how the Treasury will do its work.

As I have indicated at the end of my statement, I do take seriously the leadership and management and administrative responsibilities of this job and I bring with me some fairly deep knowledge of how these leadership, management, and administrative things are done in the very best organizations outside of the Federal Government. It does seem to me that it is appropriate to work toward the same levels of achievement in the prosecution of Federal work activity as one could find in the private sector. I must say, I think we have some ways to go in rising to that level, but you have my commitment that I will bring every day to the questions that I ask and to the expectations that I create within the Treasury Department the very highest standards and expectations.

I have to say that this budget as proposed to you does not yet reflect my own deep involvement in creating measurements of what we should expect and follow through on what we should expect. But when I come before you in the fall, or when we put together our proposals in the fall for next year's budget, you can be assured that I will have spent my own time in becoming an expert about these things so that I can answer any questions you may have in detail and be prepared to say to the American people, it cannot be done better than we are doing it, with fewer resources than we are doing it.

And I might say, I have some expectation that it may be useful to suggest levels of resources for some of our activities that have not been proposed in the past because, as an example, it does seem to me, as one would find in the private sector, for example, an expectation that when a private citizen, for example, calls the Internal Revenue Service, that the service expectations would not be different from what one would expect in calling an airline to make a reservation, which is to say calls must be answered in a reasonable period of time and the answers received ought to always be correct. From the reports that we have all seen from both the internal auditors and from the GAO, our response times are not adequate, and so I think there is truly an important question to ask about how we square ourselves with the standards that one should expect from government performance of duties.

And I want to hasten to add, as I did in my prepared statement, that I think Federal employees are every bit as good, if not better, than what one could find on average in the private sector. And so none of what I would suggest to you has anything to do with finding fault with Federal employees to the degree our organizations do not perform at levels one would expect to find in the private sector.

I guess, rather than characterize the administrations of the past, I would say to you I will propose the resources I think are necessary to meet what the law says we should do and work to bring innovation and ideas to bear on responsibilities we are supposed to discharge and make it possible for Federal employees to hold their head high, that they are associated with the very best organization, public or private, and that they have the resources and ideas that are necessary to be a singularly impressive organization.

## PREPARED STATEMENT

With that, Mr. Chairman and members of the committee, I would be very happy to respond to whatever questions you may have.  
[The statement follows:]

## PREPARED STATEMENT OF PAUL H. O'NEILL

Chairman Campbell, Senator Dorgan, and Members of this Subcommittee, I appreciate this opportunity to discuss Treasury's fiscal year 2002 budget request. With me today is Jim Flyzik, the Acting Assistant Secretary for Management.

This is my first time before this Subcommittee. I look forward to continuing the tradition of cooperation between the Treasury and Members of this Subcommittee and to working with Senators DeWine and Landrieu, the new Members of the Subcommittee.

The Treasury Department's fiscal year 2002 budget supports the Administration's major goals: providing tax relief, moderating recent rapid growth in spending, while funding national priorities, paying down the debt, and protecting Social Security surpluses. Our budget request for fiscal year 2002 totals \$14.631 billion and balances fiscal accountability with the need for the resources required to maintain Treasury's operations and implement the President's priorities.

We have provided the Committee with a detailed breakdown of Treasury's entire fiscal year 2002 budget request. Let me highlight three important areas of focus.

—First, improving service to taxpayers and ensuring compliance with the tax laws.

—Second, continuing our efforts to fight drugs and crime.

—And third, improving management and performance.

I will address each of these items in turn.

*First, Improving Service to Taxpayers and Ensuring Compliance with the Tax Laws*

In its mission statement, the IRS has pledged to focus on two core priorities: "Provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities, and apply the tax law with integrity and fairness to all."

Like President Bush, I believe strongly that the IRS should enforce the tax code fairly and evenly with the least imposition on the taxpayer. And consistent with that goal, the President has requested adequate resources to fund necessary IRS improvements. This budget represents a 6.7 percent increase over the 2001 budget, and recognizes the investments needed to modernize the IRS.

Commissioner Rossotti and the IRS have made progress implementing the 1998 reforms mandated by Congress, and the IRS has a plan to improve service and enforcement, while protecting taxpayer rights. But clearly there is much more to accomplish.

The Administration's budget request includes close to \$400 million in investments to modernize the IRS' outdated computer systems. This multi-year project will help provide the IRS with better tools to improve both customer service to America's taxpayers and compliance programs designed to administer the tax code in a fair manner. The Committee has shown its support for this program in past years by making available needed funds, and we ask you to continue to support this critical program.

The President's budget also includes follow-on funding for the STABLE initiative to complete the hiring of almost 4,000 staff to address these same issues. This investment is important for the integrity of the tax system, which depends heavily on maintaining voluntary compliance, and to provide the service the American taxpayers deserve.

The amount in the President's budget will allow the IRS to provide America's taxpayers better quality service and help to enforce the tax laws with integrity and fairness.

*Second, Continuing Our Efforts to Fight Drugs and Crime*

Treasury's law enforcement bureaus perform critical roles in implementing the Administration's anti-drug and anti-crime policies. Treasury's budget request continues to support our responsibilities in law enforcement and oversight, including efforts: (1) to reduce the smuggling and trafficking of drugs while facilitating lawful trade; (2) to deter firearms violence; (3) to combat financial crimes and money laundering; (4) to protect our nation's leaders; and (5) to provide quality law enforcement training. Although the range of involvement in law enforcement issues across the Department is broad, I want to highlight some specific examples of Treasury efforts that support the President's priorities of combating crime and drug abuse and that emphasize improved public safety and enhanced security for our citizens.

In recognition of the President's promise to increase spending to implement the Western Hemisphere Drug Elimination Act, the Customs Service, in coordination with the United States Coast Guard, requests \$35 million for acquisition of selected air and water craft and surveillance and safety equipment to improve interdiction efforts against illegal drugs.

The budget recognizes the need for Customs to modernize its automated systems. Continued rapid growth in trade transactions has magnified both the urgency of proceeding with the overall modernization effort and the critical need to maintain viability of the existing Automated Commercial System, which, until recently, had been subject to an increasing number of system outages.

Therefore, the budget seeks (1) additional investments in the Customs automation modernization program to facilitate and manage its trade operations (\$130 million) through the Automated Commercial Environment and to provide for a government-wide trade data interface through the International Trade Data System (\$5.4 million); and (2) sufficient funding to maintain the existing Automated Commercial System while the modernization effort is underway.

This budget provides for the Bureau of Alcohol, Tobacco and Firearms to continue its ongoing efforts in the following programs: the Integrated Violence Reduction Strategy, the Youth Crime Gun Interdiction Initiative, nationwide crime gun tracing, and the National Integrated Ballistics Information Network.

Enforcement of money laundering laws also contributes to stemming the flow of drugs, weapons and other contraband. This budget request maintains support for the Financial Crimes Enforcement Network to strengthen anti-money laundering efforts and enforce regulatory compliance of the Money Services Business industry, as required under the Money Laundering Suppression Act.

The threat of global terrorism, whether conventional or cyber, has intensified the demands on Treasury's enforcement bureaus to formulate innovative protective strategies that seek to integrate cyber security with traditional physical security. The budget request maintains support for the Secret Service to continue to address their complex workload and multiple mission requirements. This includes protecting our nation's leaders and our financial payment infrastructures, protecting the integrity of our currency in light of global dollarization, and safeguarding the public against terrorist acts, both conventional and cyber in nature.

Ensuring the physical protection of our nation's leaders and visiting world leaders in an environment of increased threats to political leaders remains one of Treasury's top priorities. We are requesting funding for pay reform for the U.S. Secret Service Uniformed Division (authorized in December 2000) to provide adequate incentive to attract highly qualified recruits and retain skilled and seasoned personnel.

The Department will ensure that specialized funding sources to support unique programmatic requirements are spent wisely. The Department will continue the practice of supplementing selected Treasury law enforcement bureaus' non-recurring operations and investments through the Treasury Forfeiture Fund. Another fund, the Counterterrorism Fund, supports emergency efforts across the Department. Treasury will rely on this fund to assist in covering of costs associated with, among other priorities, Treasury's role in the upcoming Salt Lake City Winter Olympics.

### *Third, Improving Management and Performance*

This budget request also provides resources to sustain the programmatic oversight and technical support provided by Treasury Departmental Offices. This oversight and support is essential to our overall leadership role in law enforcement, tax administration, international and domestic economic and tax policy, and financial management. The request includes funding required to sustain previously approved staffing levels, with no increase in staffing levels being proposed in this request.

Throughout the Department, I am taking a keen interest in performance and the budget, viewing them as integral to our efforts to establish goals and measure results. Part of this process will require us to improve our performance measures to make them more useful in and relevant to the decision-making process, as well as the improving the timeliness and accuracy of the information systems that capture and report performance data. This is an opportunity to fundamentally review what we do and why we do it. Therefore, the fiscal year 2001 and fiscal year 2002 Performance Plans presented in the budget may be revised pending completion of this review. Treasury will notify Congress of any such revisions in a timely manner.

Good stewardship of taxpayer resources is a responsibility I take seriously. We must provide the taxpayers with real value for the hard-earned tax dollars they entrust to the Treasury.

Treasury has a rich reputation for leadership and quality and I want to be a part of continuing that tradition. My notion of leadership centers on excellence.

I am thoroughly convinced that if your organization is not striving to be the best in the world at everything you do, then you are unlikely to be truly excellent as an organization. Let me take this down from the lofty to the concrete. In the organization that I left in December, it took us 2½ days to close our financial books at more than 300 locations in 36 countries. It takes the Federal Government five months to close our books; and then the auditors give us a qualified opinion. This is not the stuff of excellence.

Let me hasten to add, this is not the fault of the workforce. They can deliver what the leadership asks for. I proved in my previous work life that it is possible to build an organization that is known for excellence, based on a foundation of dignity and respect for every individual. Caring about the health and safety of the 150,000 people in Treasury who depend on me for leadership is important, and it will continue to be important as I lead a Department with such a rich heritage

#### CONCLUSION

In summary, Mr. Chairman, I believe that Treasury's \$14.6 billion request for Fiscal 2002 will enable us to continue the important initiatives underway throughout the Department, as well as advance those key priorities set out by the President. I ask for your support of our fiscal year 2002 budget request so that the Treasury Department can fulfill its wide range of responsibilities in serving the American people.

Thank you very much.

Senator CAMPBELL. Thank you. I will tell you that in the years I have been with this committee, I have enjoyed working with Treasury and you have inherited some very, very fine people on the staff, as you probably know. I might tell you, they sure know how to put a positive influence on this committee, particularly Art Cameron. He knows that the chairman is a licorice freak, and look what I found next to my microphone when I showed up.

#### WESTERN HEMISPHERE DRUG ELIMINATION ACT

Do not blush, Art.

Let me start by asking a couple of questions, because it has recently been in the headlines a lot, and you may or may not know the answer, but at least you can give us your perspective on it. The only major initiative for the Department is to provide funding for the enhanced implementation of the Western Hemisphere Drug Elimination Act by the Customs Service. That includes funding for interception boats, maritime patrol, upgrade to the P-3 airplane program, and so on, as you probably know.

I was wondering, will the recent shooting-down incident in Peru and the President's decision to suspend U.S. surveillance flights have any impact for the need for your budget requests?

Secretary O'NEILL. No, I do not see this incident having an effect on our budget request at all.

Senator CAMPBELL. Do you see that as a temporary decision by the President or do you have any information on that?

Secretary O'NEILL. There is an ongoing investigation. I think we need to be careful not to get in the way of that investigation. But it does seem very clear in reviewing the history of the work with countries in Latin America that there has been a very beneficial effect in the surveillance and interdiction process that has been put in place by the Congress, or put in legislative intent by the Congress and put in place by the operational organizations in the Federal Government.

This incident is certainly an unfortunate incident, but I think from the Treasury Department's point of view and particularly from the Customs Department point of view, the idea of helping

other countries to reduce the production and transportation of illegal and harmful drugs into our own society is a useful and beneficial thing to do and I think the record clearly shows that.

Senator CAMPBELL. I do not want you to say anything in the committee that would jeopardize any kind of investigation, so that is an adequate answer. Thank you. I appreciate that.

#### IRS COMPUTER MODERNIZATION PROGRAM

Mr. Secretary, your budget is pretty lean this year. Its increase over the current fiscal year is only about 5 percent, which is enough to maintain current levels and pay for the automatic employee pay raises, which are certainly important. Yet, there are a few big-ticket items. One of them is \$397 million for the next phase of the IRS computer modernization program, and as you know, we put a ton of money into the IRS the last few years to have them upgrade their systems.

How is the Treasury Department keeping tabs on the progress of that project, to make sure that we do not make the same mistakes we made in the past in funding big-ticket items for IRS that were not compatible with the ongoing systems?

Secretary O'NEILL. Mr. Chairman, as you know, there is a process in place with an independent outside review group headed by Larry Levitan, and the Secretary of the Treasury by statute is a member of this group. I have had an opportunity now to attend two of their oversight meetings and to personally ask questions about the milestone for implementation of systems improvements that Charles Rossotti has designed in concert with the people in the IRS.

So I personally had an opportunity to look at this on an ongoing basis. As recently as Monday of this week, I spent an hour and a half with Charles Rossotti to talk with him about the progress and, in fact, to push hard on the question of whether there is not a way that we can move even more quickly than what has been in the plan and what has been discussed to achieve higher levels of performance in executing IRS responsibilities, and in addition to that, there is an ongoing administrative process and review process inside the IRS and inside the Treasury to keep track of this.

I am aware that large amounts of money were provided over the last ten years, apparently not to good effect, supposedly for achieving some of these same purposes. And so I would say to you there is a great sensitivity in the Treasury and in the IRS and personally in Charles Rossotti to using the taxpayers' money wisely and to actually producing the foundation systems capability to discharge these duties, which involve, in one way or another, every American citizen.

So I feel good about the review process and as I have sat for several hours and listened to the technical experts talk about what they are doing, I guess I find some comfort in the news not always being good, because when the news is always good, sometimes you are very disappointed when you get to the end of the process and find out you have got interim reports that are too good to be true. I am not finding that in the work that we are doing with this review committee.

There are acknowledgements of delays of a month or 6 weeks in the pieces coming together, which means that there is pursuit of inadequate performance and working with the contractors as the pieces are coming along. And at least for me, with some expertise in matters of systems and computer programming, this is developing in a way that I think will provide satisfaction to the Congress that the funds are being used wisely and in an intelligent way.

And again, I would say to you my intervention and involvement with Charles and the people at the IRS so far has been to question whether there is not a way that we can advance the state of activity so that we can more quickly get to a point that we can say, we have a perfect administration of the Internal Revenue Service laws and the code and that we are collecting every penny that people are supposed to owe, but we are doing it respectfully. But nevertheless, we are doing it and we are operating at a service delivery level that would be agreed is the highest service delivery one could find in public or private service. I think we are not there yet, and frankly, we are not moving fast enough for my taste. It is an ongoing conversation with Chairman Rossotti.

I must say one other thing. I think the country is very lucky to have a person of Charles Rossotti's stature and intelligence doing this work, a person such as Charles who has a profound understanding of U.S. Government processes from the days when he was a whiz kid at the Defense Department in the late 1960s and then to become the organizer and the creator of American Management Systems, a corporation of over \$1 billion worth of annual revenue, and doing exactly the kind of work he is doing as a Commissioner of IRS is a wonderful testimony to the good spiritedness of American systems, particularly in this case Charles Rossotti, and to his personal commitment to make a difference for the country.

Senator CAMPBELL. That question was prompted by a press report I read the other day, saying how much money the IRS will not be able to collect this year because of inadequate funding for the manpower. I view Mr. Rossotti as you do. I think they have had a major transformation since he has taken over and I am very proud of the work he is doing. I think he is doing a fine job, considering he would be somewhere else making a lot more money in the private sector. To give up that time to do public service, I think was just terrific and we are lucky to have him in government service.

What I want to do is try and limit maybe each of us to 5 minutes and go back and forth so everybody has a chance before we have to run off. Senator Dorgan, did you have some questions?

Senator DORGAN. I do.

Senator CAMPBELL. Go ahead. We will just switch off every few minutes.

Senator DORGAN. Mr. Secretary, again, I indicated to you previously, thanks for offering yourself to serve this country. You have a very distinguished background and we appreciate your service.

I want to ask a series of questions, and this is an opportunity for us to talk not just about money but about policy and so I will ask about both.

First, let me say I share your feelings about Commissioner Rossotti. I think he is a very talented fellow. We are lucky to have him. Having said that, of course, the term IRS modernization is almost an oxymoron, almost a contradiction. We have been talking about IRS modernization forever and it just never seems to happen. It is nowhere close to being able to do what a credit card company can do when you call up and they go into the file and tell you what the answer is. The IRS does not seem to have that capability.

But recent stories, Washington Post article dated April 4, 2001, says that Treasury investigators posing as taxpayers—you are familiar with this, I am sure—over a 4-day period made 368 random test calls of the IRS toll-free number and gained access only 37 percent of the time and received incorrect answers 47 percent of the time. Clearly, that is unacceptable, to you, to me, to Congress, I assume to Commissioner Rossotti. What is being done to respond to that?

Secretary O'NEILL. Well, as you know, I believe, from the Treasury Department budget request this year, we are asking for the next block of money to continue with what has been an agreed and, I think, program worked out with the Congress, in fact, to tend to the continuing modernization of the IRS, and I think that is all well and good. At the moment, I do not have personally a better idea about specifically what we should do with modernization in the sense that Charles Rossotti has developed it now over the last few years. But I do have continuing engagement and conversation with Charles and with other people in the Treasury and with some of you, which I would like to do more of, around this proposition.

I believe, as I have been saying frequently, that every word in the 9,500 pages of the tax code has some justification and sponsor behind it. Otherwise, it would not be there. Ninety-five hundred pages of very fine print. But having said that, I believe when you take the whole 9,500 pages and put it together, it is an abomination. It is the equivalent of asking people in the IRS to execute this 9,500 pages, it is the equivalent to giving people a glass wall that is 40 feet high and telling them, whatever their human limitations are, they should climb up it every day, maybe 10 or 15 times, just for the exercise.

It is an awful thing, I believe, to ask human beings to do an impossible thing, and I think, in fact, administering the 9,500 pages in the IRS code on a failsafe basis, which you would do in a private sector activity so that you never, ever make a mistake, I would submit to you is impossible. I do not care how much money we spend in educating IRS people on the other end of a telephone. If you can imagine being the subject of a random telephone call from any one of more than 200 million adult Americans with that person being able to ask the most complicated question out of a tax return that is maybe 700 pages long and expecting an IRS person on the other end to be able to immediately zero in on your answer, I think is clearly an impossibility. It screams out for rationalization.

I am sure you have the same experience I do. If I go out to any audience in the country and talk about tax code simplification, you are guaranteed that people will stand up and applaud long and loud about the idea that we are finally going to give the American people back a tax code that most of them can understand and do



not need expert financial assistance to help them respond to the most consistent interaction they have as citizens with the Federal Government.

Now, I have started a conversation inside the Treasury about what it is that we could recommend to the Congress to change the administrative tasks that exist in the IRS so that it is more likely that we can always answer the phone on time and we can always provide the correct response. Simplification is part of the answer. Training of people is also part of the answer. And it may very well be that in order to rise to the level of 100 percent performance, that more people are required.

And I have said to Charles Rossotti, I would like to know, if we set a standard of 100 percent performance, how many more people do we need in the IRS to meet that outside standard, and frankly, he has been a little shocked that I would even ask the question, because it seems that we have had a tradition in this process of accepting the notion that the performance levels that you report to me are okay.

I must say to you, I would like for—once I am satisfied myself that there is not something else we can do, I would like to put the burden on the Congress to say, we are not prepared to provide the resources that are necessary to discharge the laws of the United States as they have been written, rather than be engaged in a process that, it seems to me, is demeaning to the people who have been asked to do the work because it is impossible for them to do the work. I would like to very clearly center this question so that we are not just going along as though this is government work and whatever we do is good enough for government work.

I, frankly, do not want to be part of that. I suspect most of you do not want to be part of that. And so I am going to see if I cannot, over the next several months, get these issues centered up so that, once and for all, we can be clear about what it is we are doing and what it is we expect of one another in discharging the laws of the United States.

Senator DORGAN. Mr. Secretary, I appreciate that, but I frankly would think, and I do not know this to be a fact, but I would think it to be the case, that your investigators would not have gone to a telephone to phone the IRS to create a complicated question for them. I mean, you are not going to call the IRS and say, all right, I am doing a test here and I want to have your evaluation of how passive loss relates to foreign tax credits in a tax haven for a company that is doing the following. That is not exactly what you present to somebody on the telephone.

You construct a series of questions that they should easily be able to answer and then evaluate whether you get different answers or the correct answers from different respondents. Apparently, the test showed about two-thirds of the time, they could not get through on the phone, and half the time, they got the wrong answer.

So I do not want you to just lay it off on 9,500 pages, because that is not what your investigators would be testing telephone IRS service for. People with more complicated systems are going to accountants and others to have their taxes prepared.

But I think what we should do is have a benchmark goal here. Put somebody in charge and say, look, you tell us what we need to do to get to 80 percent response when you are calling, so that you are getting through at least 80 percent of the time, and you ought to be able to expect 80 to 90 percent accuracy if you are calling the people that are administering the law. So we ought to find a benchmark that we want to meet and then put the resources and people in place to meet it, and if they do not do it, say we will find some new people that will, and—

Secretary O'NEILL. Senator, I would stipulate that except for one thing. I do not know why we want anything less than 100 percent.

Senator DORGAN. Well, I am for 100 percent, but if we are only half right and we only get there a third of the time, we are so far away from our goal, we need to at least start somewhere. I guess I would just encourage Treasury and the IRS to report to us on what are the objectives in the next few years. This is not a problem that has arisen under your watch. This is a problem that has occurred for 10 and 20 years and we need to fix it and I think you are the kind of person that comes from a background that can fix this.

Let me ask you briefly about, first, the Olympics. I have four or five questions to ask and I will not spend a great deal of time. I know that my colleague has questions, as well.

#### 2002 WINTER OLYMPICS

A recent compilation of appropriations for Federal support, U.S. Federal support for the Olympics, says that we are going to spend somewhere around \$360 million in support of the Olympics, including, for example, \$1.2 million for the National Weather Service for improved predictions. I am going to ask the Weather Service about that. They need a million dollars to improve predictions during the 2 weeks these athletes are meeting in Utah? I want to understand what that million dollars is going for and how they can improve them during those two weeks but cannot seem to do it the rest of the year, or is there an enhanced service that they are going to make available for athletic events and it only costs a million dollars for 2 weeks? That is strange.

But in your agency, we have, I believe, \$45 million for a counterterrorism fund, and I would be the first to admit that when we have Olympic games on our soil, we want to make certain—and that would be the case anywhere in the world, but we want to make certain that we are not going to have a terrorist act that is going to threaten the lives of people and so we need to be prepared for that.

On the other hand, the counterterrorism fund was created to respond to unanticipated events and we have put money in that fund. The Olympics are not unanticipated, and so it appears to me that we are spending money out of a fund that was to be set up primarily for unanticipated events for something that we well know is going to happen and probably ought to be funded in the regular course. Can you give me your thoughts about the amount of money we are spending in public support of the Olympics through the Federal Treasury and especially that particular issue?

Secretary O'NEILL. Senator, I understand that this designation of the Secret Service as the lead agency for the Winter Olympics was done, I do not know, a couple of years ago. Frankly, I am mystified why, at the time it was done, that the funds were not provided to take care of this responsibility.

What we have done in this budget is say that there are funds in the fund that you have indicated that we believe under a reasonable interpretation of the law could be used for this purpose, and rather than be hog-tied, because a good part of this money is necessary for preparation and we are running up to those Winter Olympics already, we have suggested to the committee and more broadly to the Congress that we should use these funds and we should do what is necessary through the Secret Service and the allied activities in the Treasury Department to ensure that we do not have an incident in the United States that is a blemish on these Olympic games. How we got here, why the Congress did what it did a few years ago when we saw these Winter Olympics coming, I frankly do not understand.

Senator DORGAN. Why do you not go ahead, Mr. Chairman.

Senator CAMPBELL. Along that line, I have a particular interest in it, since I am the only Member of the Senate that was on an Olympic team. Under the provisions of the Directive 62, it was called, the Presidential Directive 62, the Secret Service is the lead agency and a number of other agencies also have some responsibilities. It is my understanding that the 2002 Olympics costs, the Department estimated would be in the range of a little over \$51 million, but the budget request for the Secret Service, the Customs Bureau, ATF, and so on, do not include any additional funding. So perhaps you could give us an idea of how the Department plans to handle those costs.

And clearly, we know that since Munich, in which the members of the Jewish wrestling team were murdered by terrorists, that the Olympic games have become a focal point for terrorism because they get international publicity from acts of terrorism. So we have to be involved. I think most of us know that. But how are we going to cover that?

Secretary O'NEILL. It is our intent to use the counterterrorism fund and it was my impression that there has been some conversation with committee staff about using this approach to make sure that we do have the funds and they are available in that fund.

Senator CAMPBELL. You may have the funds in some other part of the budget that is going to be transferred, but as I understand the request, there was not a request for that \$51 million.

Secretary O'NEILL. There is not a line item, but my understanding is there is enough flexibility in the appropriating language of the counterterrorism fund that we can use those funds for this purpose.

Senator CAMPBELL. All right.

Senator DORGAN. But I think that is the point I was making, that that counterterrorism fund is for unanticipated needs—

Senator CAMPBELL. This is not.

Senator DORGAN [continuing]. And incidentally, my staff advises me that particular approach was not established by Congress but by the National Security Council when they met and decided how

they wanted to do this. It seems like an odd way to do it to me. It seems to me it would be more appropriate and straightforward simply to say, here is what we propose to contribute to meet our responsibilities with respect to the Olympics.

Secretary O'NEILL. Excuse me, Senator. This is an action by the past administration—

Senator DORGAN. Right.

Secretary O'NEILL [continuing]. And frankly, I do not understand why they did it this way.

#### USE OF GOVERNMENT VEHICLES

Senator CAMPBELL. Let me just switch to something else, and that is the use of government vehicles. In the past, the subcommittee has been concerned for some time about the increasing number of vehicles that we are asked to provide or money to provide for the vehicles. We have been somewhat successful in getting the Department to take the initial step to establish a centralized motor pool, as you probably know, Mr. Secretary. I suppose that is working pretty well, but I noticed that additional funding is being requested to enhance that system. Have you had a chance to review that system and can you tell the committee what you intend to do, how those vehicles will be handled?

Secretary O'NEILL. You know, it is an area that I kind of stumbled into inadvertently because I had a request—

Senator CAMPBELL. So did we.

Secretary O'NEILL. I had a request come to me to—as I understand it, I have the sole authorizing capability for people, for example, to use government vehicles for home-to-work transportation, and I had a request saying, will you please give us this kind of an authorization, and it tumbled me into this whole area of how many cars and vehicles do we have and what are their character and what are their appropriate uses and what are their special characteristics.

I was amazed to find how much of this there is, and it caused me to write a note on a memo that I had saying, as I establish my residence here, I am providing my own home-to-work transportation, and it seems to me that is not a bad model for everyone. I understand that there are so-called call-out requirements when law enforcement people really do have a need to have a specially equipped government vehicle to go directly from their home to the scene of an emergency, and it seems to me those are very appropriate circumstances.

But it also seems to me that the prejudice ought to be that government vehicles are used for directly and clearly identified work activities and not home-to-work activities related to hierarchical status in an organization or tradition or anything else, and so I am pressing on these issues, frankly, with a prejudice that says less is more from a taxpayer's point of view, and that prestige and the rest of those things should not play in the question of how we use vehicles that are provided for official government business.

I am not prepared to tell you yet that we should have less, but I suspect I will be able to do that in a while.

Senator CAMPBELL. I might tell you, I drive a 1980 Plymouth with a cracked windshield and a dented fender to work and I have

always had some concern about the amount we spend on some of the vehicles.

Senator DORGAN. Mr. Chairman, you might want to confess, however, that you have a brand new motorcycle.

Senator CAMPBELL. I am not talking about the motorcycle. I knew you would bring that up.

Senator DORGAN. And I see it parked in front of the Capitol with the red, white, and blue——

Senator CAMPBELL. I should have kept quiet.

Senator DORGAN [continuing]. And it is not inexpensive.

Senator CAMPBELL. I know. The bank and I like it very well.

Senator DORGAN. That is a gorgeous piece of equipment.

Senator CAMPBELL. Let me say, there are different kinds of vehicles, obviously, in the Federal inventory, and I think that the automobile, the use of automobiles is one thing, and I know you are on top of that, but there are other kinds, emergency vehicles. I remember a couple of years ago that we even had a request from one of the Federal agencies for a kind of a private war wagon, you know, one of the armored, bulletproof kind of vehicle for his personal use. Some of those vehicles, you do not just park them on the street. I mean, they have to have a supporting staff, they have to have a secure garage, they have to have a whole bunch of other things that go with that type of vehicle. So I would hope you would be particularly careful and interested in how those vehicles are used.

Your turn or my turn? You got me distracted on the motorcycle.

Senator DORGAN. Mr. Chairman, let me apologize for disclosing that you had purchased a new motorcycle, but——

Senator CAMPBELL. It was for a good cause.

Senator DORGAN [continuing]. It actually was for the inaugural parade, was it not?

Senator CAMPBELL. Yes, and it was for a good cause, my personal happiness.

#### TRADE POLICY AND SANCTIONS

Senator DORGAN. Mr. Secretary, let me ask you about a trade policy issue. You have a responsibility to publish regulations to implement legislation that I authored last year on the issue of sanctions. As you know, I feel very strongly that I want to lift sanctions with respect to food and medicine applying to every country in the world. I think it is immoral for this country to use food and medicine as part of any sanctions anywhere. You take aim at dictators and hit poor people, hungry people, and sick people. It is a thoughtless thing to do and we ought to remove the sanctions.

So I am trying very hard, and have met with some success. We passed an empty shell of a bill last year dealing especially with Cuba. It has grip and will eliminate the use of food and medicine as part of sanctions with respect to most other countries, and that is progress. But with respect to Cuba, it is kind of an empty shell because of the restrictions on financing and so on.

I want to ask you a policy question on that, because I am going to try again this year in the Appropriations Committee to remove the restrictions with respect to Cuba so that it is treated like all other countries, able to purchase from us or receive from us ship-

ments of food. Can I ask how you feel about the issue of using food and medicine as part of sanctions?

Secretary O'NEILL. I think, philosophically, it should not be the intent of the United States to punish innocent people. And at the same time, I think it is true that the Congress of the United States has passed some laws that identify certain nations as, in effect, outlaw nations, and in that context has decided that we should have, in effect, no regular interaction with some of those designated places. I, frankly, do not understand what created that context, and so I guess I would not judge those who put those things in place. But it does seem to me philosophically that innocent people should not be hurt as a consequence of arguments or disputes or dislikes that exist between sovereign nations.

Senator DORGAN. Well, I support the use of sanctions. I just believe we ought not ever include food and medicine as a part of the sanctions, and I think the wide majority of the American people believe the same. We are struggling to change that here. I would hope that as you think through that, you might give us your support. It just makes sense and we ought to decide we will never use food as a weapon.

#### IRS INCOME TAX FILING SIMPLIFICATION

I want to talk about the issue of the cost of the Internal Revenue Service and propose to you a way to save money and hope that you might engage with me to do so. Previous secretaries have not seemed very interested in this.

About 30 other countries that have income taxes allow return-free filing. We do not, by and large. And they do that by having an employee, whose sole income is the salary at that workplace file a W-4 form that has maybe a couple of extra boxes on it and the W-4 then determines what the withholding is and the withholding becomes the actual tax liability. No return needs to be filed on April 15, no long line at the post office, no extra paper for the Internal Revenue Service to have to file and process. It is a remarkably effective way to allow a choice for probably 70 million people in this country to not have to file an income tax return and still meet their tax obligation by having their withholding adjusted by a W-4 adjustment so that it becomes the actual tax liability.

In order to do that, you have to have a threshold of de minimis interest and capital gains. I would propose in the neighborhood of \$2,500 single, \$5,000 married. It provides an incentive for savings and investment at that level. And you can, up to about \$100,000 married, filing jointly, have a plan, an optional plan by which taxpayers, up to 70 million of them, can use what I call a fast and simple tax plan using a single rate up to that level, \$50,000 single, \$100,000 married, filing jointly, and save a great deal of money for the Internal Revenue Service, a great deal of headache for the American taxpayer, and dramatically simplify the income tax compliance for a lot of Americans.

I have a plan that I have introduced here in Congress with Senator Judd Gregg and Senator Dick Durbin. We have not been able to get much interest from Treasury because Treasury is, with all due respect to all the great people that work there, kind of institutionally muscle bound on these things. There is a way of doing

things, and by God, that is the way we have always done them and that is the way we always want to do them.

Would you, because you have, I think, a kind of fresh perspective about a lot of these things, would you take a close look at this plan with us and see if you would not agree that it makes a lot of sense to save time and effort by the American people and save money by the Treasury and IRS and simplify this system at least for perhaps 50 to 70 million Americans? Would you be interested in that?

Secretary O'NEILL. Senator, in getting ready for this hearing, I had an opportunity to look through lots of background material and I saw this idea. I guess I should tell you parenthetically about experience that I have over the last 40 years or so where it seemed to me there is such a clear need for the kind of change that you are proposing, and I am a maverick kind of person, so I have lots of these kind of ideas and I have too frequently experienced people saying, that is a really brilliant idea, but here are the 40 reasons why we cannot do it.

So I will commit to you that I will find out, what are the reasons why we should not do this, because on the face of it, it seems at least directionally correct and consistent with what I said to you myself earlier about the need to press on simplification so the tax code, in fact, can be administered. We will have to find out, what are the fiscal consequences that we might suffer as a consequence of going in this simplification.

When I hear bypassing \$2,500 or \$5,000 worth of income and we are not going to tax that, it, frankly, makes me worry a little bit because I want to make sure that we have enough money to pay for all the things that members of Congress would like to have as program activities.

But, you bet, I will commit to you I will get deeply into what this idea is about and with a prejudice of saying, I would like to do this. Tell me why it is not a brilliant idea that we should pursue.

Senator DORGAN. I hope that we could meet on it at some point. I would like to call and meet with you. I will just say that when you talk about a de minimis on interest and capital gains in order to allow this to happen, that is simply part of a tax cut. You decide how you want to cut taxes. This is another way to do it.

And when you talk about making room for other expenditure needs, that is something we have been debating here for the last month or two and will until we finish the budget and decide what kind of a tax cut we are going to have. This ought to be part of that discussion, because it is the only idea here on Capitol Hill that really addresses simplification. Everyone wants it. Everybody talks about it. No one does anything about it.

I want to ask you about trade in just a moment, one additional point, but I want to certainly have the chairman continue his questioning.

#### TRADE POLICY AND SANCTIONS

Senator CAMPBELL. Let me say that I agree with Senator Dorgan about the use of the sanctions. They are okay when they work. Unfortunately, we do not have a way of monitoring many of our sanctions or enforcing them. If we try to do something good for children or sick people in the countries that we have sanctions against, we

do not have a way of distributing the things that we want to give them, and so we end up sending medicine to the children of Iraq and they end up being used for the Red Guard or something and I think that is the weakness.

In the meantime, it sometimes hurts our manufacturers and farmers more than it hurts the people we are putting the sanctions on, so they have proven to not work very well unless you have some international compliance, and what happens is we put sanctions on them and the country with the sanctions, they simply buy Canadian wheat and they buy manufactured goods from somebody else and it collapses. It does not work well.

#### TREASURY INCIDENT REPORTING SYSTEM

But let me get back to a couple more questions. In your budget, there has been \$400,000 requested to develop an information system that will track and maintain records of occupational injuries and illnesses. I guess there has been some action taken to resolve them, but do you now have in place some kind of procedure to track conditions that are associated with an unsafe environment? I can believe ATF and some agencies have an unsafe environment out in the field, but would you expand a little bit on that?

Secretary O'NEILL. Yes. Thank you, Mr. Chairman. Indeed, we do have a process that has been put in place. In fact, there is now a computerized capability to keep track of incidents that occur to Treasury employees around the world and it was instituted for the first time, I think, on the 26th or 27th of February.

Frankly, it comes from my experience where I was before that if leadership pays attention to the health and the well-being of the employees and puts in place a data capturing and monitoring system and information sharing process with all the employees, that it is possible to, over time, achieve a workplace where people do not get hurt at work.

And to give you some contrast from real life facts, last year, the place that I was before, where there were 140,000 employees, nearly the same amount as the Treasury but in 36 countries and 350 locations, there were 207 individuals out of a population of 140,000 who had a safety incident at work that caused them not to be able to come to work the next day. The Treasury Department last year, with nearly the same number of employees, had something over 2,700 people, more than ten times more people, hurt at work, in spite of the fact that in the benchmark place, there is metal at 2,000 degrees and huge moving machinery. While we do have some manufacturing exposure at the Treasury, it is nothing like that, and this is not a record in the private sector that everyone has. In fact, it took 13 years to get from where that previous organization was to where it is today.

But I have no doubt that we at the Treasury can accomplish the same thing, and an important part of being able to accomplish an effective safety—an incident-free workplace is the necessity of information on a real-time basis that is shared with every employee so that we can learn from each other.

And I would further say to you, it is my hope and expectation that we can do this for less than \$400,000. Four-hundred-thousand



is what I hope to be an outer limit on what is required to produce this result.

Senator CAMPBELL. I laud the efforts. I guess I was just a little bit puzzled, because the range in your Department of potential workplace injuries is so darn broad that I do not know how you get a handle on that. It is one thing to get an injury from operating a computer at the IRS. It is a whole lot different than being an ATF agent trying to arrest some subversive drug dealer or something. I did not know if that all comes under one heading when you are trying to compile statistics and make a safer environment or not, but I will move on to something else, also dealing with your budget.

I might mention, I was just reminded by staff and I want to interject this, that today is "Bring Your Daughter to Work Day" and my daughter is clear out in Colorado, but I note with interest that Senator Dorgan's daughter is here to witness our proceedings, so let us not disappoint her.

Senator DORGAN. Thank you.

#### LABOR INFRASTRUCTURE

Senator CAMPBELL. Let me ask you, you have requested \$5.659 million for labor infrastructure. What does that mean?

Secretary O'NEILL. What that means is that, again, this is part of, conceptually, the same thing I was saying to you about IRS. The Department has had authorized positions and it has not requested the amount of money that is required to fill the authorized positions. I would say to you, for me, this is a placeholder.

Senator CAMPBELL. It is a placeholder?

Secretary O'NEILL. It is a placeholder, because I want to, frankly, satisfy myself that every one of the existing filled positions is necessary and has a good rationale, and I am told that these resources are required to fulfill our statutory responsibilities. I will make sure that, in fact, that is my judgment, as well, one by one. But it does seem to me consistent for us to say, we are going to ask for the amounts of money and positions that we believe are necessary to completely fulfill the statutory responsibilities and this money would permit us to do that.

Senator CAMPBELL. I see. Every year, we are going to have to look at every single dollar we spend and we will probably need a real strong definition of what placeholder means when we have to start lopping some things off that we do not necessarily want to lop off.

#### NATIONAL THREAT ASSESSMENT CENTER

In fiscal year 2001 Congress provided \$6.4 million for the establishment of the National Terrorist Asset Tracking Center, which will be housed in the Office of Foreign Assets Control. Can you tell us what progress has been made on that effort?

Secretary O'NEILL. As I understand it, the pieces are being put in place and we are operating against a plan that would incrementally bring this up to a full state of operation. But again, if you do not mind, I would say I have been struck as I have worked my way through the budget to find what I would consider to be a relatively low expectation level for implementing things or for responding to

requests for reports from the Congress or implementing regulations for laws that you all have authored and expected, I think in good faith, to be implemented fairly quickly.

I was astounded, for example, to read that we agreed to do a report 6 years ago and we are now saying that we are rounding the corner on finally being able to provide a report that we agreed to do 6 years ago. I just do not understand that.

Senator CAMPBELL. Welcome to Washington.

Secretary O'NEILL. I would like to change the idea that that is the way we do business here. And so even in this particular area that you have asked about, I would like to see us have an expectation that if there is serious public work that needs to be done, we do it against a standard that says we do not know why we did not get it all done yesterday and not forgive ourselves with slow implementations. If there is an important public purpose to be served, we ought to provide the money and get at it.

#### ATF NATIONAL LAB CENTER AND FIRE RESEARCH CENTER

Senator CAMPBELL. One last question and I will submit the rest of my questions in writing to you, and that is, Congress has provided a total of \$83.9 million for the construction of the ATF National Lab Center and Fire Research Center, as you probably know. But there is going to be apparently a significant funding shortfall. How do you plan to deal with that?

Secretary O'NEILL. I think there is three-part financing for that and it is going to come out of flexible funds. I think there is a \$6 million request in this year's budget and there is some money coming out of the counterterrorism fund so that it is going to be taken care of.

But again, the thing that is striking to me about this is, in my previous incarnation, if I had a \$60 million project and it turned out to have a \$25 million overrun, I would shoot somebody, and so—

Senator CAMPBELL. You cannot do that around here.

Secretary O'NEILL. Well, I think maybe we ought to institute a tradition that says we expect to get what we bargained for, almost without fail, and I, frankly, do not understand how we could be that far off unless there were major changes in the specifications of what it was agreed we were going to try to do. I, frankly, do not understand that level of performance.

And again, I will commit to you, for things that we have undertaken, that we say we are going to build a major building or training facility or something, we will bring it in on budget, and we will tell you at the outset how much it costs in fact, not some starry-eyed estimate, knowing full well that we are going to have to come back to you for more, because I would like for our word to be our bond, and when we tell you we can do something for an amount of money, we should do it.

#### NEW BUFFALO NICKEL COINS

Senator CAMPBELL. We should. That is the last question I will ask. I might just tell you that, not allied directly with your job, but certainly since the Mint is part of it, we are going to be stamping the new buffalo nickels next week in Denver, Colorado, as you

probably know, which was a 5-year effort to raise money for the Museum of the American Indian and they estimate it might raise between a half and three-quarters of a million dollars for the construction of that building. The new buffalo nickel, as you might guess, is not the size of a nickel, but I guess it will still be worth a nickel.

I had no idea that it could be so doggone complicated just to restamp some old coins, but boy, did we go through a bunch of hassles with that because the law has changed. Now, for instance, it has to have "In God We Trust" on all the coins. The original one did not. To make matters worse, the Mint lost the dyes of the original one, and so they did not have the original pattern to go by and it was a five-year job.

I know your schedule is such that you will not be able to come out to it, but we will be thinking of you, and thanks to all the Treasury people that helped us put that together and get it through Congress.

Senator Dorgan, did you have a few wrap-up questions?

Senator DORGAN. I do, just a couple of additional areas.

#### SACAJAWEA DOLLAR

Mr. Secretary, have you ever been shopping and been given in change a Sacajawea dollar?

Secretary O'NEILL. No. I had to ask for one.

Senator DORGAN. I have the same experience. I wonder if the chairman has received in change a Sacajawea dollar.

Senator CAMPBELL. The only ones I have are the ones I pressed the button to stamp in Denver as the chairman of the subcommittee. I have not seen any since in the marketplace at all.

Senator DORGAN. I was not going to ask you about that, but because the chairman mentioned the buffalo nickel, I am kind of distressed about that. We spent a lot of time on that. We created the so-called Golden Dollar, produced a lot of them, and they are nowhere to be seen. Frankly, I think vending machine operators, consumers, and others would like to have them in circulation.

Some say that they are being hoarded in one place or another, but could you take a look at that with the Mint and report to us what is happening and what can we do to see if we cannot put finally a dollar coin in circulation that works. This coin is the one to make work. It is one that people find appealing, but you cannot find it anywhere. Since we spent the money to produce it, why don't we find a way to see if we cannot make it usable and make them available in this country.

Senator CAMPBELL. Are there any regulations or anything dealing with how many you can buy or how many you can have? I mean, I think a lot of these are picked up by collectors. You can call them whatever name you want, but I think they are bought up in bundles and then resold at a later date for a profit, but there is nothing that prevents people from doing that, I guess, is there?

Secretary O'NEILL. No.

Senator DORGAN. But the more we make, the less valuable they will be to those who collected them. My point is, at some point, you make enough so that they will be widely available in circulation, but I have never seen them.

Secretary O'NEILL. I will push on this issue. In fact, there really is a strange phenomenon, I think, because on the one hand, just as you say, the coins that have gone out there in the first round of circulation, people apparently loved having the uniqueness of that coin and so they take it home and put it on the shelf or they carry it in their pocket as a good luck piece or something. And so all the coins that have been shipped out there have disappeared into the hands of people who loved having the coin.

At the same time, I am told, much to my surprise, in the background briefing material I was reading last night that there is a substantial inventory of these coins at the Federal Reserve distribution centers. I do not understand why it is that the Federal Reserve distribution centers are not pushing these out into the commercial bank distribution process, but I will find out and we will give the committee an answer.

Senator DORGAN. While I am on the subject, just in one sentence, almost everyone has a huge jar of coins at home and we take them—

Secretary O'NEILL. I do.

Senator DORGAN. You do and I do, and do you?

Senator CAMPBELL. I do not have one yet, but—

Senator DORGAN. I hope you have got one.

Senator CAMPBELL. I am going to start one.

Senator DORGAN. Would you? And you take them to a bank and they will not accept them, they will not wrap them—

Senator CAMPBELL. Do you not count them into rolls?

Senator DORGAN. Why do you not find a way to get the banks to be required to accept coins and collect them and wrap them like they used to. If you will do that, I would certainly appreciate it.

Senator CAMPBELL. Have you had a chance to visit—

Secretary O'NEILL. Maybe it is a project we could enlist the Boy Scouts and the Girl Scouts of America in wrapping the coins and we give them something for helping to be an intermediary. We need some innovation here.

Senator CAMPBELL. It sure beats selling cookies.

#### INTERNATIONAL TERRORISM AND OUR NATION'S BORDERS

Senator DORGAN. Let me just mention two additional areas. We talked about terrorism and counterterrorism this morning. We, as you know, leading up to Y2K and all the great concerns about that, we arrested at a northern border, I believe in the State of Washington, some suspected terrorists, who I believe are still awaiting trial. With Mr. Bin Laden and others who would like to wreak havoc on the world, we need to be very concerned and careful about terrorism.

We have all of this apparatus at our border concerned about terrorism and I want to show you the barrier that exists at most of my border ports. We have a lot of border crossings in North Dakota, and here is the barrier that exists in Noonan, North Dakota, for example, or Dunseith, North Dakota. At 9 or 10 o'clock at night when they close, someone puts this cone in the middle of the road, they turn off the lights, and they go home.

Senator CAMPBELL. Very secure.

Senator DORGAN. And that is our barrier at most of the northern ports. We have people who are polite enough when they come through and break the barrier to actually get out of their car, remove the cone, drive into the country, and then they stop and put the cone back, and good for them, except they are entering illegally. We have port after port after port after port at the northern border that is protected by an orange cone, and we are all concerned about terrorists and drug smuggling and all that sort.

I would just ask you, as I have asked the Customs Service, to think through with us how we respond to this growing international terrorism threat and this problem, a fully inadequate barrier system made up of rubber cones. I will not ask for a response to that, but if you would just be aware of it, I would appreciate that.

Senator CAMPBELL. If you would yield for a moment, even if we did have some secure methods in the normal roads that come in, my gosh, that is such a long border, what would prevent them from just not using the road, coming in on sleds or snowmobiles or something else right through the woods?

Senator DORGAN. Well, I am asking the questions at the moment.

Senator CAMPBELL. Oh, okay, I am sorry.

Senator CAMPBELL. I did not mean to distract you there.

Senator DORGAN. That is a tough one to answer, Mr. Chairman.

Senator CAMPBELL. One thing at a time, right.

Senator DORGAN. You are absolutely right about that, but because it is tougher in other areas ought not persuade us not to have appropriate surveillance and barriers in the ports where you do have authorized entry. The point you raise is another issue, as well, that we need to deal with.

#### TRADE DEFICIT

Let me just mention one final issue, and that is the issue of trade. As Treasury Secretary, you have to be very concerned about the strength of the dollar, what is happening in our current accounts deficit, and so on. There are only a few of us in Congress who routinely go to the floor of the Senate and talk about trade deficits. We have a serious, growing, mushrooming trade deficit. The merchandise trade deficit is around \$450 billion a year. Our current accounts deficit is swelling.

I am sure you read "The Lexis and the Olive Tree" by Tom Friedman in which he describes the electronic herd. If I had your job, I would sit on pins and needles worrying that, one day, someone will make a judgment in the electronic herd that the current account deficit in this country is a serious problem and start moving investment away and weakening the dollar and causing all kinds of chaos in this country's economic system.

No one seems to care much. We muscled our way through this issue on the fiscal policy budget deficit, spent a lot of time, gnashed our teeth and had a lot of anguish about it, and finally got through it, and now we have this mushrooming trade deficit and nobody seems to give a damn.

Do you worry about it? Do you worry about its consequences, because it is getting worse, not better? I know last month it was marginally better, but I am telling you, it is historically getting worse,

worse, and worse, not better. Can you give me some description of that? That is not a money issue—

Secretary O'NEILL. It is a very complicated question. Let me tell you how I think about it. First of all, I think we should be very glad that our economy is so admired by people around the world that this is where people want to send their investment capital because we treat it better than anyplace else in the world, which means on a risk-adjusted basis, investors around the world believe that they can get a better return on their capital at the same risk level than any other place in the world. This is a much to be desired condition for the United States.

Now, how do we get there? The answer is, we are very good at what we do in this country in terms of producing value, and over the last 15 years, I would say especially over the last 15 years, we have opened up an appreciable gap between ourselves and the other nations of the world in terms of our ability to produce high productivity, high value creation as compared to other places around the world.

And so, frankly, I am not concerned about the current account deficit so long as it is based on the United States' relative competitive economic position. But it does make a singularly important point, which is this. We must keep racing ahead quickly with productivity improvement in this country at a rate faster than what one can find in other places in the world in order for those holders of capital not to decide to go somewhere else.

Senator DORGAN. But is this not like a bank perception is reality? If people perceive a bank is in trouble, they run on the bank, and the electronic herd description is one that applies the same approach, it seems to me, to economies. I agree with everything you have said except that I think we need to be very concerned about the growing trade deficit.

Secretary O'NEILL. I will tell you another question that I have, and it is a question about the way that we think about these issues and problems. If you look for the parentage of the idea of the current account deficit, you will find it in work that was done in the late 1930s and early 1940s by an economist named Simon Kuznets and his associates, which was the creation of the whole set of ideas of national income accounts and gross domestic product and the national product and current account deficits and national income accounts, the subsets of the national income accounts.

In the days when the United States was an, if I can say it this way, an isolated, nationalistic, kind of self-contained economy, I think these ideas or ways of keeping score were appropriate. But I would submit to you, in the world that we live in now, I am not so sure that the devices and measures that we use to think about these things are any longer appropriate, and let me deconstruct the current account deficit idea in this way.

If you took those same set of ideas and applied them on an internal basis to the United States and looked at where the current account deficits are among and between the 50 States, you would be horrified to find that there are enormous current account deficits between and among the 50 States and we do not worry about that.

Now, there is an article which you may have seen 2 weeks or so ago by Bob Solow, the noted Nobel economist, and Franco

Modigliani, another noted Nobel economist, raising concern about the current account deficit and about the implication of the proposed tax changes and fiscal policy on the current account deficit. Since Bob is an old friend of mine, I called him up and said, Bob, I care a lot about what you think and I am calling to find out if this is political economics that you wrote in the New York Times or if you really think I should be more concerned than I am about the current account deficit. And at the end of the day, he chuckled a little bit and said, "Well, maybe a little bit more concerned than you are."

But there is a school of thought out there that thinks we do not pay enough attention to the current account deficit. I think we are paying an appropriate amount. But I would say if we need an emphasis, we need an emphasis on sustained real growth of economic activity in this country at the 3 or maybe even 4 percent real level and we need productivity improvement at the 3 or 4 percent level on an ongoing, sustained basis, which I think we can do.

And then the current account deficit will sort itself out, and frankly, maybe we can get our friends like Bob Solow and Franco Modigliani and the other noted economists in the country to reinvent the way we keep score and think about these things in a way that is consistent with economic ownership and movement of assets around the world, and then I think maybe we would not be quite as fearful as some are about this issue.

Senator DORGAN. I will tax the chairman's patience if I go further. Let me just say that I have studied and taught economics, but I certainly have not won a Nobel prize. I, however, think that we are headed towards very serious trouble. I think our trade policies are disastrous, just disastrous, and I think the growing, mushrooming trade deficit will come to haunt this country unless we decide to do something about it.

You and I need to have longer discussions. I want to talk to you about Canada, Mexico, Japan, China, and the European Union, and it will take a lot longer time than this to do it.

Let me make one final comment. I recognize this budget is really not yours. You have not in just several months been able to put all of your fingerprints on what you want your agency to be, and I recognize that and I look forward to working with you. We want the same thing for our country. We want this country to do well and succeed. I want your agencies to do well and succeed and I look forward to working with you.

Secretary O'NEILL. Thank you very much.

Senator CAMPBELL. Senator, you are closer to getting a Nobel prize in economics than I am. I majored in P.E.

#### ENERGY PROBLEMS

But let me also make a comment. This is off the subject a little bit, but we are talking about the deficit, and I agree with Senator Dorgan. I think we are heading for some deep trouble because it keeps going up. But I also note with great interest some of the numbers we are getting in the Energy Committee, that we are spending \$300 million a day on foreign oil and that one-third of our deficit is related to oil imports. I will tell you, unless we get more energy independent, I do not know how you turn that deficit

around. You simply cannot use more and more energy, as California is, and not have more production of energy. I mean, it is bound to collapse. Sooner or later, it is going to collapse.

We were down in the production of oil last year by 14 percent and our use went up by 17 percent. That simply is not sustainable. It is not sustainable. And so what happens is we get more and more dependent on foreign oil, which tends to drive that trade deficit worse and worse every year.

I do not know how to turn that around. There has to be somebody smarter than me, and perhaps smarter than you, and certainly it is not in your purview to fix the whole thing, either, but clearly, productivity is related to energy and if we do not find some way to increase the energy, we are not going to increase productivity.

I mean, you see blackouts and brownouts in California. We have energy-related companies, they just simply have to shut them down. They cannot operate them. They say that the computer industry alone is in deep trouble in California because of that. We have been able to buoy that up a little bit because they have been able to purchase, with emergency appropriations through the legislature, they have been able to purchase some power from the rest of the States that are in the same grid, including Colorado and Washington, Oregon, and so on, but that will not last forever, either. The day will come when they simply have to produce more energy and not just simply be reliant more and more on foreign energy if we want to turn that deficit around.

Mr. Secretary, we thank you very much for appearing.  
Secretary O'NEILL. Thank you.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator CAMPBELL. We will be looking forward to working with you. I might say that we will submit some questions. Other members have some and I have some. If you could promptly answer them, we would appreciate it.

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

#### QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

YEAR 2000

*Question.* You were recently quoted as saying that this Administration will focus on changes to the Social Security System as soon as tax relief is enacted. I am also told that you indicated the Administration will push for voluntary personal accounts. Would you care to expand upon that proposal?

*Answer.* I share President Bush's goal of making Social Security stronger and more secure for this generation and for future generations. We must take action now to enhance personal retirement security by putting Social Security on a firm financial footing so we can keep our commitment to current seniors and also meet the needs of our children and grandchildren. Ownership, access to wealth and independence should not be the privilege of the few. They are the hope of every American, and we must make them the foundation of Social Security. Modernizing Social Security with voluntary personal retirement accounts will enable individuals to build financial wealth and retirement security in a way that the current Social Security system does not. Personal accounts invested in safe private financial markets will earn higher rates of return than the traditional system and help workers enhance their personal savings and their freedom to retire. Individual ownership of a real financial asset will protect against political risk over retirement investment



decisions, providing more security for working Americans. Since at least 1926, the real return on a portfolio of equities held for 40 years has always exceeded the real return on a portfolio of government bonds held for 40 years. It's time to put the miracle of compound interest to work for all Americans.

#### TREASURY SECURE DATA NETWORK (TSDN)

*Question.* Every establishment today is looking for a technology-driven process to transfer information through a secure data network. You have requested \$3 million to enhance security of critical information systems. Will these funds be used for equipment?

*Answer.* The \$3 million provides the recurring costs under the SEAT management contract for operating and maintaining the system for 400 users at a cost of \$7,500 per user including the desktop equipment and much of the standard network components.

*Question.* Will this upgrade be done in-house or will it be out-sourced?

*Answer.* The management, design and security functions will be supported in-house. The majority of the standard equipment will be installed and maintained by contractors.

*Question.* What are the out-year costs to maintain this system?

*Answer.* The out-year costs are \$3 million each year to support 400 users. Under the SEAT management contract, the costs of operating and maintaining the system is approximately \$7,500 per year per user including the desktop equipment and much of the standard network components. The SEAT operations and maintenance cost also pays for ongoing system maintenance, training, software upgrades, security, etc.

#### OUTSOURCING INFORMATION TECHNOLOGY

*Question.* The cost for outsourcing information technology (IT) services has continued to soar over the years. Do you expect that this reliance on outsourcing will continue?

*Answer.* Outsourcing is an effective and necessary response to address the relatively rapid growth and evolution of IT. Acquiring and retaining skilled information technology workers in the current labor market is a challenge that extends across all sectors of the economy. The shortage of skilled IT workers will likely increase, particularly with strong global and national economies and the relatively low unemployment rate. All of these challenges contribute to both the reliance and cost of outsourcing IT services.

To meet these challenges, the Department recognizes that workforce-planning issues, particularly for IT, must be addressed. For example, the Department's CIO organization has undertaken initiatives to build a compelling retention program for its existing IT labor force. Some of these initiatives include a commitment to professional development through the CIO's Executive Potential Program, training opportunities, flexible work schedules, and telecommuting. The CIO organization has also conducted focus group interviews with IT staff members to identify factors that motivate retention. Additionally, through the CIO's Information Technology Workforce Improvement Program (ITWIP), the Department continually strives to develop comprehensive strategies for the recruitment, retention and development of Treasury's IT workforce.

*Question.* Is it more cost effective to out-source rather than hire qualified "IT" staff?

*Answer.* Outsourcing is expanding in both private and public sectors and is recognized as a necessity to keep pace with the constantly evolving IT environment. In many cases, outsourcing is beneficial in augmenting experienced in-house IT staff who have extensive knowledge of the organization and its processes. Outsourcing provides the Department with IT professionals and fosters a collaborative work environment with existing staff. The monetary benefits of outsourcing typically include reduced workload in the areas of human resources since the contractor hires, trains, and provides benefits for the employee. However, outsourcing should not be viewed as an alternative to hiring qualified IT staff but instead viewed as a necessary tool in providing access to a variety of technical candidates to address project workflow demands or procure specific technical skills.

I noted that the request for the Bureau of Alcohol, Tobacco and Firearms contains sufficient funding to continue the operations of the 50 Youth Crime Gun Interdiction Initiative cities. As you are aware, there have been concerns expressed about the management of these programs. Because they will not be working to expand into additional locations, ATF and the Department should have time to really concentrate on making the existing programs as effective as possible.

*Question.* What steps is the Department taking to make sure that this \$85 million effort is managed effectively?

*Answer:* The Youth Crime Gun Interdiction Initiative (YCGII) is a focused component of ATF's firearms enforcement effort. In 1996, ATF created YCGII to develop better information about how youthful offenders obtain firearms and to use that information to arrest illegal gun traffickers and reduce youth gun violence. The initiative, which consists of partnerships with State and local law enforcement agencies in 50 metropolitan areas, involves the tracing of every crime gun recovered in those localities.

To ensure effective investment of the program dollars associated with YCGII, we will continue the innovative use of technology to utilize the information cornerstone of crime gun data and to advance a collaborative enforcement effort. ATF will expand our collection of crime gun data gathered from YCGII cities. ATF will share these crime gun data with State and local law enforcement partners to assist them in their fight against firearms-related crime. ATF will use the crime gun information to focus investigative and enforcement activity on trafficking channels identified through analysis of the data obtained from YCGII cities. ATF will focus annual regulatory inspections of Federal firearms licensees tailored to subvert illegal channels of firearms trade.

Finally, ATF will monitor and evaluate the results of firearms trafficking investigations to determine the magnitude of our impact on firearms-related violence. Such monitoring will be accomplished with assistance from the academic community. With several years of data collection now under our belts for many cities, and our increasing quality of information collected, we feel that trends and changes in these fields can be an indicator of our impact in this unique area of law enforcement. These include, but will not be limited to:

- Reduction in the "time to crime" of firearms possessed by these violators, as this can tell us if we are forcing the illegal market buyers further away from legal commerce.
- Reduction in the average number of guns trafficked per investigation, as this is indicative of ATF's ability to interdict trafficking schemes early on in their development, mainly through our advances in information technology.
- Reduction in the percentage of persons under the age of 24 illegally possessing guns of the total persons illegally possessing guns in a YCGII city.

#### FUNDING FOR CUSTOMS AUTOMATED COMMERCIAL ENVIRONMENT

*Question.* The previous Administration consistently proposed funding for the Customs automation modernization project by establishing a user fee. That proposal was consistently rejected by Congress. This budget instead proposes direct appropriations for this effort. Thank you.

Is a second installment of \$130 million enough to keep this project moving forward?

*Answer.* With the fiscal year 2002 President's Budget of \$130 million, the project will move forward. Customs will be able to finish increment one. Because the \$130 million requested is less than planned, the modernization initiative cost will increase and the schedule will be extended. The cost increases are caused by several sources:

- Increased development costs for prolonged software development activities resulting from software integration, testing, configuration management, and revisions to address operating system changes.
- Hardware and software license and maintenance costs are covered as development costs until development is complete. Delaying development increases these costs.
- Inflation costs.
- Extended operation of Modernization office.
- Extended operation of Prime integration contractor's management office.

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#### QUESTIONS SUBMITTED BY SENATOR MIKE DEWINE

##### CONTINUED DUMPING AND SUBSIDY OFFSET ACT

*Question.* Promulgation of the implementing regulations is a major concern for those seeking the speedy and full implementation of the Continued Dumping and Subsidy Offset Act.

Can the Secretary identify whether the proposed regulations have been forward from Customs to Treasury?

Answer. The draft Notice of Proposed Rulemaking (NPRM) just arrived at the Treasury and we are expediting internal review.

*Question.* If yes, when such forwarding occurred and if not, when the draft will be forwarded?

Answer. The forwarding of the draft proposed regulations from Customs to Treasury occurred on May 21, 2001.

*Question.* What steps Customs taking to expedite forwarding to Treasury?

Answer. Not applicable.

*Question.* Which offices within Treasury will be reviewing the draft regulations?

Answer. The draft regulations will be reviewed within Treasury at least by the Offices of General Counsel and Enforcement at Treasury. The Office of Enforcement will be responsible for coordination of the review of the regulations by other offices within Treasury. Customs review was coordinated by the Chief Counsel.

*Question.* What steps have been taken to see that the review and clearance of the draft regulations for publication receives priority attention?

Answer. The Offices of General Counsel and Enforcement are aware of the importance of promptly implementing this legislation.

*Question.* Can the Secretary confirm that the regulations will be published for comment by July 6, 2001? If this cannot be confirmed, the Secretary is asked to establish a Treasury taskforce to expedite completion of the proposed regulations as quickly as possible and to provide a monthly report to this Subcommittee, and to be available for monthly meetings to identify problems with completing the process in a timely manner.

Answer. Treasury will expeditiously review the regulations. If problems are found which could delay publication, the Subcommittee will be advised.

*Question.* How long will the public be provided to comment on the proposed regulations?

Answer. At least 30 days.

*Question.* What is the target date for publishing the final regulations?

Answer. The target date for publishing the final regulations is September 1, 2001.

*Question.* If it is later than August 31, 2001, can the Secretary indicate how Customs will be able to comply with the statutory mandate of distributing all funds by a date "not later than 60 days after the first day of a fiscal year from duties assessed during the preceding fiscal year"—i.e., not later than November 30, 2001?

Answer. We believe that Customs will comply with all the statutory requirements of the bill.

*Question.* What steps if any has Treasury or Customs taken to see that between the U.S. International Trade Commission and Customs, domestic producers are able to get clarification of what companies qualify and do not qualify as "affected domestic producers" ahead of the Commissioner of Customs publishing in the Federal Register the "list" referenced in 754(d)(2) of the Tariff Act of 1930, as amended.

Answer. We have been in regular contact with the International Trade Commission (ITC) regarding their list of domestic producers. We have posted their original list on the Customs web site and will publish future additions to or clarifications of the list by the ITC on the web site.

*Question.* If the answer is none, will Treasury include within its regulations pre-publication process to permit clarification of the list where parties believe statutory criteria are not satisfied?

Answer. Under the legislation, we believe it the ITC's responsibility to compile the list and transmit it to Customs.

*Question.* If not, what steps are envisioned to permit an early resolution of this type of this issue?

Answer. I am sure that, if necessary, we would alert the International Trade Commission or the Department of Commerce, as appropriate. The decision would be that of the other agencies, not Customs, which normally has no responsibility for antidumping or countervailing duty substantive matters. Customs performs a ministerial act by providing information to the responsible agencies, obtaining security, requiring deposits and collecting the AD/CVD duties that are assessed. As written, the Continued Dumping and Subsidy Offset Act (CDO) envisions that "affected domestic producers" with "qualifying expenditures" will submit evidence of such expenditures and that Customs will make "pro rata" distributions based on "new and remaining qualifying expenditures." Since it is anticipated that generally there will be much larger qualifying expenditures than there are monies assessed, the term "pro rata" was included to provide guidance on how Customs would distribute amongst competing requests.

As written, the CDO Act envisions that "affected domestic producers" with "qualifying expenditures" will submit evidence of such expenditures and that Customs will make "pro rata" distributions based on "new and remaining qualifying expenditures."

Since it is anticipated that generally there will be much larger qualifying expenditures that there are moneys assessed, the term "pro rata" was included to provide guidance on how Customs would distribute amongst competing requests.

*Question.* Can the Secretary confirm that the proposed regulations will identify how Customs would intend for this language to work both with regard to situations where there are more qualifying expenditures than monies assessed and in the converse situation?

*Answer.* The Notice of Proposed Rulemaking (NPRM) will address these issues.

*Question.* Will the Secretary provide this Subcommittee with a letter by the end of May outlining how the Treasury sees challenges to decisions of the Customs Service being handled (e.g., statutory basis, court of jurisdiction, etc.)? Can the Secretary confirm that Treasury and Customs will take steps to minimize the need for litigation in the regulatory drafting process? If not, why not?

*Answer.* Customs advises it has taken appropriate steps in an effort to minimize the need for litigation in the drafting of the Notice of Proposed Rulemaking (NPRM). It would be inappropriate for Treasury to comment on the question of court jurisdiction, as this is an issue for the Department of Justice, Civil Division. As issues surface, or are raised by public comment, we anticipate discussing them in a timely manner with the appropriate Congressional committees.

#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### NEW CURRENCY GUARDS AGAINST COUNTERFEITING

*Question.* The time line currently laid out for redoing the U.S. currency sets 2003 for the new rollout. Do you think that this time line and the suggested changes will keep us ahead of the game of counterfeiters or are there additional resources that need to be devoted to this effort?

*Answer.* The time line currently in place and changes being evaluated for the next generation (NexGen) of currency should keep us ahead of the counterfeiters. The goal of staying ahead of the technological threat requires the U.S. government to plan ahead and have a new series in development several years before the threat is projected to materialize. Accordingly, research and development in this area is an ongoing process. Planning and development work for the next generation of notes began long before all denominations of the 1996 redesigned series were introduced to the public. Treasury continues to devote the necessary resources needed in developing the technological expertise necessary to ensure the security and integrity of our Nation's money supply. Treasury coordinates counterfeit deterrence strategy with the Federal Reserve through the Advanced Counterfeit Deterrence Steering Committee (ACD) that includes representatives from the Bureau of Engraving and Printing and the United States Secret Service. We are also involved in a 24 country international effort to implement a system, which would deter counterfeiting using personal computers. In addition, the Bureau of Engraving and Printing established the Securities Technology Institute (STI), which has engaged the Johns Hopkins Applied Physics Laboratory to conduct long-range research and development of new and effective counterfeit deterrent techniques.

##### IDENTITY THEFT

*Question.* Identify theft is an enormous concern to the average person and most people aren't aware just how easy it is to accomplish. Given the expertise of the Secret Service in this area, where do you think our State and local law enforcement agencies are on countering these crimes?

*Answer.* Numerous metropolitan police departments are taking a proactive approach to the problem of identity theft. One example is the Los Angeles County Sheriff's Department, which initiated a multi-agency identity theft task force to combat identity theft in the Los Angeles metropolitan area. Additionally, the Los Angeles County Sheriff's Department was exclusively responsible for designing, producing and distributing a pocket guide on identity theft to all of its deputies. This guide ensures that deputies deal appropriately and uniformly with victims, and provide them with information on resources they will need in their efforts to restore their credit history, and rectify any damage done to their existing accounts.

However, not all police departments and sheriff's offices are this aggressive concerning these types of crimes. Many do not have sufficient resources to thoroughly investigate identity theft crimes, and jurisdictional issues often hamper the efforts of those that do. In order for law enforcement to properly combat identity theft, steps must be taken to ensure that local, State and Federal agencies are addressing victim concerns in a consistent manner. All levels of law enforcement need to be fa-

miliar with the resources available to combat identity theft and to assist victims in rectifying damage done to their credit. It is essential that law enforcement recognize that identity theft must be combated on all fronts, from the officer who receives a victim's complaint, to the detective or special agent investigating an organized identity theft ring. The Secret Service has already undertaken a number of initiatives aimed at increasing awareness and providing the training necessary to address these issues, but other similar steps could be taken to try to reach a still larger audience.

*Question.* What resources are being devoted to training and providing support to them?

Answer. The Secret Service has tried to increase awareness and provide training on the relevant issues to state and local law enforcement agencies through a variety of partnerships and initiatives:

Criminals increasingly employ technology as a means of communication, a tool for theft and extortion, and a repository for incriminating information. As a result, the investigation of all types of criminal activity, including identity theft, now routinely involve the seizure and analysis of electronic evidence. In response to this trend, the Secret Service developed, in conjunction with the International Association of Chiefs of Police (IACP), the "Best Practices for Seizing Electronic Evidence Manual", to assist law enforcement officers in recognizing, protecting, seizing and searching electronic devices in accordance with applicable statutes and policies.

As a follow-up to the "Best Practices" guide, the Secret Service and the IACP developed "Forward Edge", a computer-based training application (CBT) designed to allow officers to seize in a virtual environment different types of evidence, including electronic evidence, at various crime scenes.

In December of 2000, the Secret Service coordinated an Identity Theft Workshop in Washington, DC. This workshop was designed for the criminal investigator and was attended by investigators from agencies throughout the nation. The workshop provided investigators with a detailed explanation of how identity theft can occur, as well as an explanation of what tools are available to investigators.

In May of 2001, the Secret Service made an identity theft presentation to the International Chiefs of Police, Advisory Committee for Police Investigation Operations. During this presentation, the Secret Service proposed the production of an identity theft video geared toward police officers throughout the nation. The purpose of this video will be to emphasize the need for police to document a citizen's complaint of identity theft, regardless of the location of the suspects (if any). In addition, the video and its companion reference card will provide officers with phone numbers that will assist victims with remediation efforts. The Advisory Committee is supportive of this effort, and is considering providing funding for it, and pursuing it jointly with the Secret Service, as was done with the "Best Practices" initiative.

Also in May of 2001, the Secret Service detailed a Special Agent to the Federal Trade Commission (FTC) to assist them in funneling information developed through their database of victim complaints to the appropriate law enforcement entities. This agent is also involved in supporting ongoing FTC initiatives aimed at educating state and local law enforcement agencies concerning identity theft issues.

The Secret Service is also actively involved with a number of government-sponsored initiatives. At the request of the Attorney General, the Secret Service joined an inter-agency identity theft subcommittee that was established by the Department of Justice. This group which is made up of Federal, State, and local law enforcement agencies, regulatory agencies, and professional agencies meets regularly to discuss and coordinate strategies for investigation and prosecution, as well as consumer education programs.

*Question.* What additional Federal resources may be needed to move these agencies along with the ever increasing technology available for these types of crimes?

Answer. It is the responsibility of government regulators, law enforcement agencies, financial institutions, and other private sector entities to work together to identify, investigate, and prosecute those individuals responsible for perpetrating identity theft schemes. It is the belief of the Secret Service that the successful investigation of identity theft and identity fraud, including the compromise of consumers' identities through electronic means, can best be accomplished through a task force approach. Accordingly, the Secret Service would like to implement five Financial Crimes Task Forces, and five Electronic Crimes Cooperatives, in major cities to decrease the incidence of identity theft and other financial and electronic crimes. Through the strategic placement of these specialized task forces, the Secret Service, working in conjunction with other Federal, State and local law enforcement entities, would decrease the incidence of identity theft and other financial and electronic crimes in the targeted cities through the arrest and prosecution of individuals and organized criminal enterprises involved in the commission of financial crimes.

*Question.* What can we do to further educate American citizens to protect themselves against these crimes?

*Answer.* The Identity Theft and Assumption Deterrence Act established the Federal Trade Commission (FTC) as the central point of contact for identity theft victims to report all instances of identity theft. The FTC has done an excellent job of providing people with the information and assistance they need in order to take the steps necessary to correct their credit records, as well as undertaking a variety of “consumer awareness” initiatives regarding identity theft. As mentioned previously, the Secret Service has detailed a special agent to the FTC on a permanent basis to support their public education and liaison initiatives.

The Secret Service also continues to be involved in a variety of public education efforts:

—The Secret Service, in conjunction with the U.S. Postal Inspection Service, and the Federal Reserve Bank System, produced an identity theft awareness video. The video, which explains how easily one can become a victim and what steps should be taken to minimize damage, has been made available to Secret Service offices for use in public education efforts.

In April of 2001, the Secret Service designed an identity theft brochure, containing information to assist victims on how to restore their “good name”, as well as how to prevent becoming a victim. Upon its completion, the brochure will be shipped to Secret Service offices for distribution in public education efforts.

However, it is important to recognize that public education efforts can only go so far in combating the problem of identity theft. Because Social Security numbers, in conjunction with other personal identifiers, are used for such a wide variety of record keeping and credit-related applications, even a consumer who takes appropriate precautions to safeguard such information is not immune from becoming a victim.

#### TAX REBATES

*Question.* The Senate-passed budget resolution assumes a tax rebate. The Financial Management Service will be responsible for processing the estimated 130 million individual check payments and would cost FMS an additional \$49 million which is not included in the fiscal year 2002 budget. How is the department planning on absorbing these costs if and when a tax rebate package is passed?

*Answer.* The Financial Management Service would be unable to absorb within the fiscal year 2002 President’s Budget the costs of a tax rebate program. The \$49 million estimate is composed primarily of postage costs related to the mailing of the estimated 130 million refund checks. If the tax rebate is enacted into law, the Department would seek a supplemental to cover the costs associated with implementing the program.

#### OFFICE OF FOREIGN ASSETS CONTROL (OFAC)

*Question.* The Office of Foreign Assets Control is under your management. While the office provides a valuable program to protect U.S. security interests, it has a problematic customer service record. Are there any plans under consideration to streamline and clarify the process for U.S. exporters looking for clearance from OFAC?

*Answer.* Treasury’s OFAC is acutely conscious of the legitimate expectations of U.S. exporters for an expeditious and simple process to obtain export licenses. In most instances, exports are authorized by specific licenses, and are subject to an interagency review process of which OFAC is only one of the agencies, and it is a process which OFAC is without an option to follow.

OFAC has received over 20,000 applications for specific licenses over the past year and responded to over 18,500 applications. This is handled by a licensing staff of 18 individuals. In addition, OFAC’s licensing staff has responded to approximately 44,000 telephone inquiries in a year’s time. We are looking for more resources so we have what is needed to meet our goal of 2-week response time for most applications.

OFAC administers some twenty-one separate sanctions programs. Many have been added in the past few years, dramatically increasing the Office’s workload and the demand for information and services from OFAC. For its own part, OFAC has done much to streamline its procedures and to become a part of the solution, rather than an impediment, to the legitimate needs of the exporting community.

Improved customer service is an OFAC program goal and we have undertaken measures or identified several areas addressing this issue. These include:

—A commitment to process licenses within two weeks absent the need for inter-agency consultation

- Hiring additional personnel to respond to phone inquiries to increase the timeliness and quality of information provided to the public
- Promoting transparency of agency action by publishing interpretive rulings on OFAC's website
- Issuing implementing regulations within sixty days of the issuance of an Executive order or enactment of legislation with an opportunity for public comment
- Promulgating regulations to reflect internal policies regarding civil penalties
- Adding a section of frequently asked questions (FAQ's) to the website.

## ATF STAFF HIRING SUSTAINMENT

*Question.* The fiscal year 2001 appropriations bill provided for the hiring of 300 ATF special agents and 200 inspectors to enforce existing firearms laws. Does the fiscal year 2002 request provide the resources necessary to sustain this increase in personnel, or will erosion occur, making it difficult for ATF to meet the enforcement expectation set by Congress? The Secret Service and Customs Service face the same issue.

*Answer.* The fiscal year 2002 request allows ATF to sustain the increase in personnel as provided for in the fiscal year 2001 appropriations bill.

## U.S. CUSTOMS STAFFING

*Question.* We understand from the hearing held yesterday by this subcommittee's counterpart, that Customs originally requested 1,000 new agents and inspectors to better manage their dual responsibility of protecting our nation's borders from transnational crime, while at the same time facilitating trade and trade compliance. However, this increase was denied. Concurrently, however the Administration chose to request funds for the Department of Justice bureaus, (specifically the Border Patrol and INS) to hire 1,140 additional agents over the next two years, so as to bring them to the authorized level of 5,000 new agents. If indeed there is a critical need for staffing in the Customs Service—and I believe there is—why was their request denied while others granted?

*Answer.* Under the current Administration, there was no fiscal year 2002 budget request process from bureau to Department, or from Department to OMB. The current Administration has not validated the previous Administration's estimate.

## PROGRAM ABSORPTIONS

*Question.* During the budget briefings provided by your agencies in the two weeks since the budget request was released, we received information that they will have to find significant savings via programmatic absorptions (reductions). These absorptions would offset projected inflation for non-pay expenditures, as well as a variety of other mandated costs increases. For instance, Customs must find approximately \$35 million in savings and the Secret Service approximately \$14 million. The agencies suggested that they will realize these absorptions through improved resource management and exploration of potential efficiencies.

What if the required absorptions cannot be realized through these methods?

*Answer.* These management efficiencies will not compromise the security of the United States.

*Question.* Can you guarantee that the critical missions performed by these agencies for the country's security will not be denigrated?

*Answer.* These management efficiencies will not compromise the security of the United States.

## BORDER PORTS OF ENTRY INFRASTRUCTURE

*Question.* Customs, GSA, and INS severally own 192 Ports of Entry (POEs) on the Northern and Southern Borders. A recent joint infrastructure study identified 822 projects with an estimated gross cost of \$784 million. The budget request for design or construction is only \$11 million for six projects. While this is not directly a Treasury Department funding issue, there is a growing backlog that needs to be addressed. We were only able to provide funds for two border projects in fiscal year 2001. Although NAFTA has enabled trade to grow by 75 percent between the U.S., Canada, and Mexico, the capacities and capabilities of our Nation's POEs have not kept pace.

How can we call for more trade agreements and Fast Track when our infrastructure can't support it?

*Answer.* The joint study was a preliminary one in determining the border's infrastructure needs. Therefore, as noted in the study, GSA is performing a more detailed analysis of the situation based upon the preliminary information found in the

study. This follow-up information then will be presented to the Border Station Partnership Council (BSPC) for review. The Council is comprised of FIS Agencies. The BSPC will make recommendations to the Administration and based upon these recommendations the Administration will determine the best course of action. Until the BSPC recommendations are complete, the GSA is proceeding with its priority list of Border Station projects. There is currently \$17.3 million for six border stations requested in the fiscal year 2002 President's Budget.

U.S. CUSTOMS AIR AND MARINE INTERDICTION (AMID)

*Question.* Customs AMID has continually expressed a need for equipment, training and infrastructure to meet the growing narcotics threat and mission requirement at U.S. borders and at sea. Recent budget allocations have been insufficient to do all but maintain the existing, inadequate and aging fleet of aircraft and vessels. Based on a recent report provided to the Appropriations Committees, Customs has identified requirements totaling \$187 million in fiscal year 2002 alone to upgrade their fleets. Yet the budget only seeks \$35 million for counterdrug efforts in Latin America—which only scratches the surface of the growing needs. Similarly, there appears to be an effort by the Air Force to transfer to Customs operation of the aerostats (anti-drug radar balloons) along the Southern border, which currently track potential drug-smuggling aircraft. This fits the Customs counter-drug mission, but there is no guarantee the resources would transfer with the mission from DOD.

If we are serious about interdicting drugs, we need adequate resources to do so. Why were not more funds requested for these interdiction activities?

*Answer.* Customs planning is guided by the AMID Modernization Plan. The \$35 million Western Hemisphere initiative starts Customs down the path to fund its most critical and highest priority needs as detailed in the AMID Modernization Plan: safety, maintenance enhancements, a new maritime patrol aircraft (MPA), vessel replacements and communications. Options for transfer of the aerostat program, which originally surfaced as an issue during the final months of the previous Administration, is under thorough review for consistency with the current Administration's drug control policy direction.

SUBCOMMITTEE RECESS

Senator CAMPBELL. This subcommittee hearing is recessed.

[Whereupon, at 11:19 a.m., Thursday, April 26, the subcommittee was recessed, to reconvene subject to the call of the Chair.]



**TREASURY AND GENERAL GOVERNMENT  
APPROPRIATIONS FOR FISCAL YEAR 2002**

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**THURSDAY, MAY 3, 2001**

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

The subcommittee met at 9:30 a.m., in room SR-485, Russell Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell and Dorgan.

**EXECUTIVE OFFICE OF THE PRESIDENT**

**OFFICE OF NATIONAL DRUG CONTROL POLICY**

**STATEMENT OF EDWARD H. JURITH, ACTING DIRECTOR**

Senator CAMPBELL. The Subcommittee on Treasury and General Government will be in session. Good morning.

This is the second of a series of budget hearings before the Subcommittee on Treasury and General Government. The Office of the National Drug Control Policy, called the ONDCP, advises the President on the national drug enforcement strategy. However, the purpose of this hearing is to discuss the fiscal year 2002 request for the ONDCP. This includes the Counter-drug Technology Assessment Center, called the CTAC, the High Intensity Drug Trafficking Areas, called HIDTA, the anti-drug media campaign and grants authorized by the Drug Free Communities Act.

This morning we welcome Edward H. Jurith, the acting director, of the ONDCP. The national youth anti-drug media campaign initiative was described in 1997 as a 5-year project to reduce drug use by the young people of our country. Congress has provided a total of \$750 million for this effort so far, and another \$185 million is being requested for the fiscal year 2002. That is getting pretty close to \$1 billion, and I am looking forward to learning whether this ad campaign has had an effect on the use of drugs by America's youth.

I am particularly impressed by the technology transfer program administered by CTAC. I might tell you, Mr. Jurith, that I have gone to several of the forums where these wonderful Buck Rogers apparatus has been shown to local law enforcement agencies, and they are thrilled with the opportunity to be able to access some of those materials.

Hopefully we will learn more about plans for the increased funding that has been requested. And finally we will talk about the HIDTA program and how additional funding provided last year has

been allocated. Along that line, I constantly talk to local law enforcement officials, county sheriffs, State police and so on, who believe the HIDTA is a very good program. It is in fact helping them do some of their coordinating.

It should be an interesting morning and I look forward to your testimony.

Senator Dorgan, did you have an opening statement?

Senator DORGAN. Mr. Chairman, I will put the opening statement in the record. But I do want to say that I agree with you, as we prepare to spend additional money on the national media campaign I think it is critically important to understand the effectiveness of that campaign. What are we doing with it, is this money well spent, and exactly how do we evaluate the effectiveness? I think those are some questions that we ought to deal with.

I have two other hearings, one is a markup going on concurrently, so I am going to be in and out of this discussion. But there are a lot of important issues. I know this is not the area where we do primary work on drug treatment, but one of my major concerns for a long while has been that we spend a great deal on the issue of interdiction, and now we are doing some work on education. We need to be as committed to providing drug treatment opportunities for those that want to shed themselves of their drug addiction. We have not been nearly as attentive to that as we should be. So I want to talk a little about that today as well.

There are a number of issues that I think we should evaluate with respect to how we spend money in ONDCP, and I want to raise some questions about that. President Bush has requested a new initiative, parents for a drug-free future, and they have requested \$5 million for that program. But we have been able to get very little information about how that money would be spent. While it sounds like a good idea, I am not interested in just having an idea without a framework of understanding how this money would be committed, and giving me the opportunity to evaluate whether I think it is worthy given the other needs that we have.

#### PREPARED STATEMENT

So Mr. Chairman, thank you, and I look forward to hearing from Mr. Jurith.

[The statement follows:]

#### PREPARED STATEMENT OF SENATOR BRYON L. DORGAN

Thank you Mr. Chairman. Mr. Jurith, thank you for taking the time to testify before the subcommittee and for your valuable service with the Office of National Drug Control Policy. I look forward to continuing our working relationship and creating one with the Director once he is appointed. You have an enormous responsibility in overseeing our entire drug control policy and I want to work with you to ensure that we are targeting and affecting the appropriate people.

First I would like to mention the issue of drug treatment. I have been focused on this for quite some time and it is one I believe which does not get the resources and attention it so desperately deserves. Drug treatment is a necessary and vital component of our drug control strategy yet in recent years, the lack of facilities and options have left 57 percent of people who needed treatment out in the cold.<sup>1</sup> We need to make sure that there is a proper balance of resources for interdiction, pre-

<sup>1</sup>Provided by 1998 Data from Substance Abuse and Mental Health Services Administration.

vention, and treatment when formulating the overall drug control policy. Since that is the direct jurisdiction of ONDCP, that responsibility falls on you.

There will always be demand for drugs when you are not countering both the supply and its patrons equally and efficiently. It is clear to me that the United States drug policy is not adequately addressing this correlation. In my role as the Ranking Democrat on this subcommittee, I will make it a priority to see that these limited resources are adjusted to reflect the increasing need for treatment.

Another area on which I plan to focus my attention and scrutiny is the National Media Campaign. To date, over \$700 million has been spent on this campaign, but is it working? The only supportive data to its effect comes from government funded research. I have yet to see qualitative data that reflects the fruits of this program from an independent source.

The statistics you have provided on this program detail how many kids have seen the advertisements and messages. But when you dig a little deeper, the data also shows that these advertisements are helping increase the anti-drug sentiment in non-drug users. I agree that this is a crucial group of people which needs reinforcement and support through their tough decisions and ongoing peer pressure, but it is the marginal kids that I believe are not affected by these messages. Are we really doing everything we can with our scarce resources to reach these borderline kids?

The July 2000 GAO report entitled "ANTI-DRUG MEDIA CAMPAIGN ONDCP Met Most Mandates, but Evaluations of Impact are Inconclusive" pointed out a number of concerns and made recommendations to ONDCP on how to improve upon them. The most alarming of its findings is on the review of the media campaigns' effect. "First, ONDCP stated that indications from the NCADI (National Clearinghouse for Alcohol and Drug Information) and focus groups 'support that the Campaign has positive effects on changing you attitudes toward drug use.' As discussed in this chapter we found that information from NCADI and focus groups provided indications that the Campaign may have had some positive effects on anti-drug awareness. We did not find, however, that these sources provided indications of the Campaign having positive effects specifically on youth attitudes toward drug use." We are being asked to appropriate \$1 billion for a media campaign that we don't know is having any effect in changing attitudes.

I would also like to take a moment to focus on the chosen mediums for delivering these communications and how these messages are tailored and chosen. The purpose of this campaign is to target our youth and the parents; however, I don't know many kids, let alone parents, who read Education World, Atlantic Monthly, and literature handed out in malls. I know this campaign is hitting the mainstream literature like Time, Newsweek, and People, but you are expending limited resources on other sources that deserve some scrutiny.

One final point about the media campaign concerns the designated drug targets. Since its inception, the targets have been mostly the mainstream drugs, such as marijuana. Data that you are presenting to us today in your testimony show that there is a notable increase in MDMA/Ecstasy use among 8th, 10th, and 12th graders, yet your budget eliminates the \$5 million Ecstasy initiative in the media campaign.

My final area of interest is President Bush' new initiative—Parents for a Drug Free Future. You request \$5 million for this program, but you have provided my staff with little information on how you plan to spend the money. It appears to be an attitude of "Give us the money, then we'll get back to you on how we plan to spend it." Now the idea behind this program may have merit, but I am concerned when the Administration is requesting funding for a program that they will figure out the details without Congressional directive.

Before you get too far along in this initiative, I want to take this opportunity to prevail upon you to investigate the opportunities a program like this might have being directed at young children and their parents. There is an increasing number of statistics correlating time children spend with their parents at the dinner table with how well they do in school, youth violence, etc . . . This isn't the kind of activity parents can start when their kids are 13 and 15. I have young children myself and we already designate times during the week devoted to family activities, which is something that would be increasingly difficult to start when they are 15 years old. They need the guidance and support to know that it is never too early to talk to their kids about drugs and to initiate an open dialogue.

Your job goes beyond changing drug use on the streets and attempts to venture into the American home. It is a daunting task to reach out and try to alter the behavior of our younger generations. I look forward to your testimony and your responses to our questions. More importantly, I look forward to exploring these and many other issues during the months and years ahead.

Thank you Mr. Chairman.

Senator CAMPBELL. By the way, Mr. Jurith, how long have you been with the agency?

Mr. JURITH. I have been with the agency since August of 1993.

Senator CAMPBELL. So you were with the agency when we did a couple of oversight hearings about how the money was being spent on the media campaign?

Mr. JURITH. Correct. Yes, sir.

Senator CAMPBELL. And you knew that we were not totally thrilled because we were out of the loop on some of the negotiated deals that were made on how that money was spent.

Mr. JURITH. Yes, sir. That is correct.

Senator CAMPBELL. Thank you. Why don't you go ahead and proceed. And your complete written testimony will be included in the record if you would like to depart from that.

#### STATEMENT OF EDWARD H. JURITH

Mr. JURITH. Thank you. Chairman Campbell, Ranking Member Dorgan, my name is Edward Jurith. I have the honor of coming before the subcommittee today as the acting director of the Office of National Drug Control Policy. My official capacity in the office is that of general counsel, but I am serving in an acting capacity pending the designation by President Bush and confirmation by the Senate of a director of the office.

Prior to coming to ONDCP I served on the staff of the old House Select Committee on Narcotics Abuse and Control for about 12 years, so I bring to my position as acting director about 20 years of drug policy experience in Washington. It is indeed an honor to be able to head up the agency for this interim period.

I want to thank the subcommittee for the opportunity to testify before you on ONDCP's fiscal year 2002 budget request. All of us at ONDCP greatly appreciate the bipartisan efforts of this subcommittee to support not only ONDCP but our overall national counter-drug efforts. I would also like to thank your subcommittee staff, Pat Raymond, Chip Walgren, Lula Edwards, and Nicole Rutberg for the excellent assistance they have given my staff in preparation for this hearing. I realize my time is limited so I will keep my remarks brief and directed at ONDCP's 2002 budget request. As the Chairman indicated, I request that my full statement be entered into the record.

#### OVERVIEW

In fiscal year 2002, ONDCP is requesting \$519.1 million in budget authority, and that is an increase of \$19.24 million, or 3.8 percent over the 2001 enacted level. As the chart details, the budget request reflects four program accounts: Salary and Expenses, CTAC, the Special Forfeiture Fund, out of which the Media Campaign and other programs are funded, and the High Intensity Drug Trafficking Area program, HIDTA.

#### SALARIES AND EXPENSES

In terms of salaries and expenses our request provides \$25.1 million to support 116 FTEs and 30 non-reimbursable detailees. The S&E account also supports ONDCP conferences, the drug policy in-

formation clearinghouse, policy research, and support for the National Alliance for Model State Drug Laws. As you know, the Administration is preparing a budget amendment that will propose consolidating all S&E accounts in the Executive Office of the President into a single appropriation.

#### SPECIAL FORFEITURE FUND

Our Special Forfeiture Request is for \$247.6 million. This request supports a diverse group of ongoing programs, the media campaign, the Drug-Free Communities program, the counter-drug intelligence executive secretariat, CDX, the National Drug Court Institute, and our support of U.S. Olympic anti-doping efforts.

Furthermore, the Special Forfeiture Fund supports the President's request for a Parents for a Drug-Free Future Program to create a Parent Drug Corps. Of course, we understand the subcommittee's longstanding interest in this program.

We are, again, requesting \$185 million in fiscal year 2002 for the Media Campaign, to use paid media and messages to change youth attitudes about drug use and its consequences. Strategic targeted, high impact, paid media messages are the most cost-effective, quickest means of altering drug use behavior through changes in adolescent perceptions of the dangers and social disapproval of drugs.

During past years the Campaign has reached 90 percent of America's youth four times a week through our targeted advertising. The Campaign is the largest multicultural advertising and communication effort ever undertaken by the Federal Government with messages and delivery tailored to target audiences in nine languages.

Overall, the Campaign has generated a 108 percent pro bono match in advertising dollars. As you know, when Congress established the program it required ONDCP to obtain a dollar for dollar match of public funds that we expended on the Campaign. We have gone beyond that 100 percent match. The Campaign has also generated more than \$544 million in private sector matches, buttressing and leveraging the public contribution.

The non-advertising portion of the Campaign delivers anti-drug messages from public affairs coverage in radio and television broadcasts as well the print media, the Internet, as well as working with community organizations and coalitions. For example, we recently published with the American Bar Association a pamphlet on how the legal community can not only discourage drug use within their profession, but also work within their communities in effective drug prevention efforts.

The Campaign's Internet activities include two web sites, Freevibe.com and The AntiDrug.com that appeal to our target audiences of youth, parents, and other adult influences. Highlights include nearly 24 million page views on our Media Campaign web sites and more than 287 million pro bono Internet match impressions. In addition, we have web-based programming for parents in Spanish and four Asian languages.

The Campaign's presence has served as a catalyst for an increased demand for anti-drug information. For example, inquiries

received by the National Clearinghouse for Drug and Alcohol Information, NCADI, have increased dramatically.

The branding component of the Campaign was launched in September 1999 to unite the Campaign message themes. For young people the brand, My Anti-Drug, is a call to action for every youth to help them think about and consider what is important in their lives and serves as their motivation for rejecting drug use. In response to that national outreach, the Campaign has received from young people more than 75,000 submissions about what their personal anti-drug is.

We take great pride in the fact that our Campaign is the subject of a multifaceted evaluation effort that is coordinated and contracted out to the National Institute on Drug Abuse, the Nation and the world's leading drug abuse research center. The phase three evaluation managed by NIDA is a comprehensive system developed to gauge the extent to which drug use, knowledge, attitudes, beliefs, and behavior can be attributed to the Campaign.

Findings from the second phase three evaluation report were shared with the subcommittee last week and they indicate high levels of awareness of anti-drug ads among our target audiences of youth and parents. Subsequent reports will continue to track changes in anti-drug attitudes and behavior and provide more conclusive evidence of whether these changes in attitude can be directly attributed to the Media Campaign.

With the subcommittee's permission, I would like to show a brief video with examples of new research-based parent ads, followed by two ads that are based upon the anti-drug branding.

Senator CAMPBELL. Go ahead. I saw that ad on television last night.

Mr. JURITH. With regard to the Drug-Free Communities Program, the President is requesting an increase to \$50.6 million to expand the program. This program provides matching Federal grants to local community anti-drug coalitions to improve and expand their ongoing efforts. We are proud that the program currently supports 307 communities in 49 States, Puerto Rico, the Virgin Islands, and the District of Columbia. Furthermore, 25 grants have been awarded to communities with predominantly Native American and Native Alaska populations.

As you know, ONDCP and the Office of Juvenile Justice and Delinquency Prevention in Justice, our grants management agency for this program, have conducted a comprehensive study of the administrative costs connected with the program and produced a report on the findings which we submitted back to the subcommittee in January.

The report concluded that amending the administrative cost limitation in the program's authorization from not more than 3 percent to not more than 8 percent per fiscal year is necessary for ONDCP and OJJDP to continuing managing the program effectively, to include program oversight, training and technical assistance, and program evaluation.

However, notwithstanding the requested increase in the administrative cap, of the \$50.6 million ONDCP is requesting for this program in 2002, \$46.6 million will be granted directly to coalitions. We anticipate awarding 145 new coalitions in fiscal year 2001, and

an additional 150 in fiscal year 2002, bringing the total coalitions under the initial five-year authorization of this program to over 600.

Under the proposed 8 percent cap, only \$4 million is for purposes other than providing grants directly to communities. ONDCP will allocate these funds as follows: for grant administration by OJJDP, \$2.35 million; technical assistance to the coalitions, \$750,000; evaluation of the program, \$750,000; and for program administration at ONDCP, not only to support the program but the Drug-Free Communities Advisory commission that meets approximately three times a year, \$200,000.

So we believe the 8 percent cap represents a modest increase in administrative funding for this program to enable both ONDCP and OJJDP to better manage this effort.

In response to your concern, as you know the President has proposed a new initiative, Parents for a Drug-Free Future. The Administration is requesting \$5 million to create a parent drug corps to support and encourage parents to help children stay drug-free. This new program will provide matching grants to national parent organizations for the following purposes: assisting training of parents to help anti-drug efforts among young people, promote cooperation among the various national anti-drug parent efforts, as well as local community coalitions to increase their overall impact, and to provide science-based prevention strategies, information, and materials to parents and parent organizations.

I believe Senator Dorgan is correct, OMB requested ONDCP to prepare authorizing language for this program and provide it to OMB by March 1. We have done that. The Administration has made the determination to await the nomination and confirmation of an ONDCP director before submitting that language to the subcommittee. I will certainly report back to them the legitimate concern of the subcommittee that you see the authorizing language for this effort as soon as possible as you go about developing ONDCP's appropriation.

ONDCP is requesting \$1 million for the National Drug Court Institute. These funds will enable the Institute to expand their training programs for drug court practitioners, convene special advisory groups on practices, and develop a national community probation initiative.

We are very proud of what the drug courts have done around this country. There are almost 1,000 drug courts in operation or in planning around the Nation. They serve a critical catalyst, Senator Dorgan, to steer more drug-addicted defendants into treatment. That is the whole aim of a drug court, to get non-violent drug offenders out of the criminal justice system and into treatment diversionary programs.

ONDCP is requesting \$3 million for the counter-drug intelligence executive secretariat, or CDX. Since its inception in July 2000, CDX has worked to implement many of the 73 priority action items in the General Counter-Drug Intelligence Plan, as well as additional taskings on new agency counter-drug issues. CDX continues to improve our Nation's counter-drug intelligence architecture by enhancing information sharing, operational coordination, and tech-

nical connectivity between Federal, State, and local anti-drug efforts.

The U.S. Olympic Committee has done yeoman's work in bringing attention to the problem of doping in sports. ONDCP is requesting \$3 million to support the U.S. Olympic Committee's anti-doping efforts. These funds will assist the USADA, the U.S. Anti-Doping Agency, to administer an independent, transparent, and effective anti-doping effort for the Olympics as well as out-of-competition testing within the United States. These funds will support research, administrative initiatives, and education programs among the athletes.

#### HIGH INTENSITY DRUG TRAFFICKING AREAS

ONDCP is requesting \$206.35 million for HIDTA program. This will enable the current 28 HIDTA's to coordinate efforts to reduce the production, manufacture, distribution, and transportation of illegal drugs as well as anti-money laundering efforts.

Intelligence sharing will continue to improve as we expect all 28 HIDTAs to be connected via the regional information sharing systems network, the RISS.net, by the end of the calendar year. This will allow the HIDTAs to instantaneously share criminal intelligence information in a responsible manner. Maintaining regional flexibility while demanding accountability is an essential part of our HIDTA oversight efforts.

The budget request includes \$2.1 million to continue conducting internal reviews and external financial audits of individual HIDTA's effectiveness and their budgetary compliance. Internally, ONDCP has begun its own review process that includes on-site visits to the HIDTA by an interagency review team. These reviews strengthen the management at the individual HIDTAs as well as at ONDCP. To date we have completed six reviews of the 28 HIDTAs and we will continue that effort.

HIDTA recently contracted with a leading accounting firm, KPMG, to perform external financial audits. While we are pleased that these reviews have not discovered any major fiscal problems, the audits and program reviews have resulted in ONDCP providing some HIDTAs with conditional grant language to bring outstanding financial efforts into compliance.

#### COUNTERDRUG TECHNOLOGY ASSESSMENT CENTER

Lastly, the CTAC program. ONDCP is requesting \$40 million for CTAC; \$18 millions for the research and development program, and \$22 million for the Technology Transfer Program. The counter-drug R&D program addresses scientific and technological needs of the drug control agencies related to both demand and supply efforts.

Demand reduction components support projects in brain imaging technology, therapeutic medications, and the assessment of treatment programs. Supply reduction projects including cargo inspection, counter-drug smuggling, drug crime information, handling communication and surveillance capabilities.

CTAC will also support the U.S. Anti-Doping Agency by investigating innovative drug-testing protocols to further enhance their anti-doping efforts for the Salt Lake City Winter Olympics and developing test protocols for the blood endurance boosting hormone,



Epo. Finally, CTAC will complete a communications interoperability testbed statewide in Colorado by May 2002.

The Technology Transfer Program provides technologies developed with Federal funding directly to State and local law enforcement agencies. We are quite proud of this program because since its inception in fiscal year 1998, the Technology Transfer Program has delivered over 1,800 pieces of equipment, new technology, to over 1,300 State and local law enforcement agencies. CTAC provided hands-on training and maintenance support to all of these recipients.

During fiscal year 2002, the request will allow CTAC to transfer technology to more than 1,500 State and local enforcement agencies around the country. It is an important program and one that we need to expand and keep going.

#### PREPARED STATEMENT

In conclusion, Mr. Chairman, Senator Dorgan, I want to thank the subcommittee for its continued support of ONDCP, for its bipartisan leadership on counter-drug efforts, and I would be pleased to answer any questions that you have. Thank you so much.

[The statement follows:]

#### PREPARED STATEMENT OF EDWARD H. JURITH

##### INTRODUCTION

On behalf of the Office of National Drug Control Policy (ONDCP), I want to thank the Subcommittee for the opportunity to testify before you on ONDCP's fiscal year 2002 budget request. Chairman Campbell, Ranking Member Dorgan, distinguished members of the Subcommittee, we greatly appreciate your continuing bipartisan commitment to, and support of, our counter-drug efforts. The funding this Subcommittee provides enables ONDCP to ensure continuity and consistency in our efforts to provide a comprehensive response to our nation's drug use problem. This comprehensive response is essential to our success, as we know that no single solution can effectively address this multifaceted challenge. Drug prevention, treatment, research, law enforcement, protection of our borders, drug supply reduction, and international cooperation remain necessary components of our efforts. In addition to setting forth in detail ONDCP's fiscal year 2002 Budget Request, this statement provides a brief update on the consolidated Federal drug control budget request and current drug use trends which will underscore the need for continued policy coordination and programmatic focus on this devastating threat facing our nation.

Although ONDCP's \$519.1 million budget request comprises only a small percentage of the \$19.2 billion consolidated national drug control budget, these funds are critical to our nation's efforts to reduce drug use and its consequences in America. Your support of ONDCP's budget request will enable us to continue fulfilling our unique dual mission of serving as the President's primary Executive Branch support for counter-drug policy and program oversight while effectively managing our own diverse programmatic responsibilities. ONDCP's policy role consists primarily of developing national drug control policy, coordinating and overseeing the implementation of that policy, and evaluating drug control programs to ensure that Federal departments and agencies remain focused and coordinated for maximum efficiency and effectiveness. Equally important to ONDCP's policy role is our responsibility to manage and evaluate our four key existing programs: the National Youth Anti-Drug Media Campaign, the Drug-Free Communities Program, the High Intensity Drug Trafficking Areas Program (HIDTA), and the Counterdrug Technology Assessment Center (CTAC). Furthermore, ONDCP is committed to developing and implementing the President's "Parents for a Drug-Free Future" initiative, which is proposed in this request.

ONDCP is proud of the complementary efforts of the Legislative and Executive branches to achieve our shared goal of reducing drug use and its consequences in our nation, especially as it impacts our youth, and looks forward to achieving even greater success in the future. To maximize the potential for greater success, we look forward to supporting the new ONDCP Director in his or her review of the existing

National Drug Control Strategy and promulgating a new Strategy to implement the President's counter-drug policies and programs.

#### CURRENT DRUG USE TRENDS

##### *Long-Term Overall Trend is Going In the Right Direction*

Overall illicit drug use rates, according to data compiled annually from the National Household Survey on Drug Abuse (NHSDA), have gone down substantially over the past 20 years. Since 1979, the rate of current users of any illicit drug has dropped from 14.1 percent to 7.0 percent in 1999.

Drug use in the U.S. reached peak levels in 1979 and then declined significantly through 1991, from 14.1 percent to 6.6 percent. Since 1991, the percentage of the household population twelve and older who are current users of any illicit drug has remained relatively steady, with no statistically significant changes.

However, it is clear that our nation still faces a serious problem with illicit drug use, especially among our youth and among chronic, hardcore drug users. There are currently more than 3.3 million chronic cocaine users and almost 1 million chronic heroin users in the United States. These users consume the bulk of the cocaine and heroin; and are responsible for a disproportionate amount of the crime, health, and social consequences attributed to drug use.

##### *Youth Drug Use is Declining*

The 1999 NHSDA (the most recent available), provides some good news about youth drug use. After a five-year period of rising drug use, the rate of current use of any illicit drug among 12–17 year olds declined for the second straight year, dropping from 11.4 percent in 1997 to 9.0 percent in 1999 (returning to the 1996 level). This may indicate that the increases that began in 1993 finally have been reversed.

However, not all of the news is positive. For those aged 18–25 years, the current rate of use of any illicit drug has risen—up from 13.1 percent in 1992 to 18.8 percent in 1999. Without appropriate treatment, this 18–25 age cohort, which includes many of those who started using drugs in the early 1990s, is expected to continue to relatively higher rates of drug use as they age.

A second key source of data on youth drug use comes from the Monitoring the Future Study (MTF), a yearly survey of 8th, 10th, and 12th graders. The latest MTF data, for 2000, provides additional support for the good news in youth drug use—2000 is the fourth year in a row that drug use rates have leveled or declined since their rapid rise in the early 1990s. Use of most illicit drugs in all three grades remained unchanged from 1998 and 1999. As reported by the NHSDA, marijuana use dominates youth drug use and the situation is serious, with more than one in twenty high school seniors reporting daily use of marijuana.

The data from the Monitoring the Future Survey (MTF), as with the NHSDA, clearly shows that not all the news is good. All three grades showed notable increases in MDMA/Ecstasy use. Specifically, MTF data shows past year use for 8th graders increased from 1.7 percent in 1999 to 3.1 percent in 2000; past month use for 10th graders increased from 1.8 percent in 1999 to 2.6 percent in 2000; and past year use for 12th graders increased from 5.6 percent in 1999 to 8.2 percent in 2000. Furthermore, among 12th graders, the perceived availability of MDMA rose from 40.1 percent in 1999 to 51.4 percent in 2000 (not measured for 8th or 10th graders). The movement of MDMA from the club or rave scene into schools, neighborhoods, and other venues is especially troublesome. Special emphasis on prevention and enforcement efforts must be developed and implemented immediately to reverse this trend.

##### *Social Costs Associated With Drug Use Remain Unacceptably High*

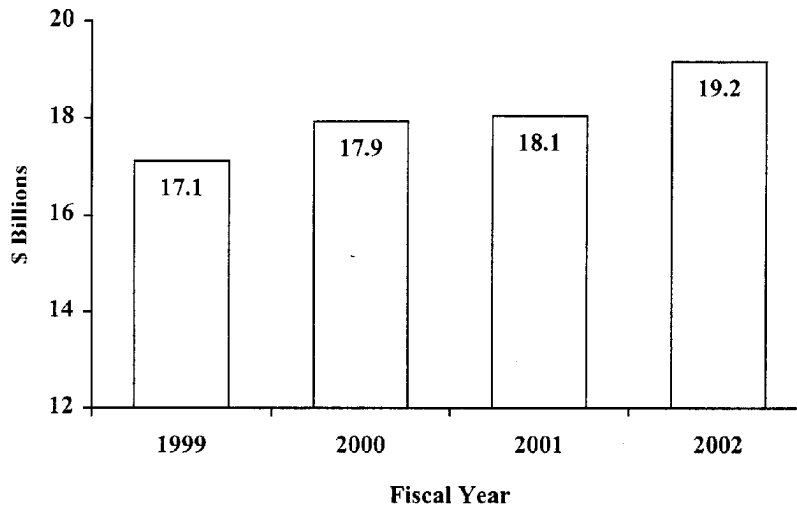
To fully comprehend the size and scope of the domestic drug situation, one must understand the consequences of drug use and its impact on society. The following consequences are particularly worth noting:

- The social costs of illicit drug abuse total \$110 billion each year. Major contributing costs include those associated with crime and incarceration (\$59 billion) and health care (approximately \$20 billion).
- U.S. drug users spend more than \$62 billion annually to purchase drugs.
- The number of emergency department drug episodes has been increasing over the 1990s. According to 1999 Drug-Abuse Warning Network data, there were an estimated 554,932 drug-related emergency department episodes in the United States in 1999, compared to 371,208 in 1990.
- Drug users are often carriers of infectious diseases including HIV/AIDS, hepatitis, tuberculosis, and sexually transmitted diseases.
- There were more than 1.5 million drug arrests in 1999.

- Approximately half of all adult male arrestees covered by the Arrestee Drug Abuse Monitoring (ADAM) program test positive for illicit drug use.
- There is a high correlation between frequency of marijuana use, especially among youth, and aggressive and antisocial behavior. An increasing number of state and Federal prisoners are incarcerated for drug crimes. An estimated 33 percent of state prison inmates and 22 percent of Federal prison inmates reported they were under the influence of illicit drugs when they committed the offense that led to their incarceration.
- According to NHSDA data, drug dependence as an adult is clearly related to the age at which a person starts using marijuana; the younger the age at first use, the higher the rate of adult drug dependency.

THE CONSOLIDATED FISCAL YEAR 2002 FEDERAL DRUG CONTROL BUDGET

As reflected in the table below, total drug control funding recommended for fiscal year 2002 is an estimated \$19.2 billion, an increase of \$1.1 billion (+6.2 percent) over the fiscal year 2001 enacted level of \$18.1 billion.



The President's request focuses on reducing drug use by young people, making treatment more available to chronic users, targeting sources of illegal drugs and crime associated with criminal enterprises, and interdicting the flow of drugs at our borders. The President's Budget includes \$2.2 billion for programs that educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco, including close to \$52 million in additional prevention research funding through the National Institutes of Health. In addition, for reducing the health and social costs of illegal drug use, including activities targeting drug treatment programs, the President's fiscal year 2002 Budget includes an estimated \$3.3 billion, an increase of 6.5 percent over fiscal year 2001.

Projected resources devoted to breaking foreign and domestic drug sources of supply will reach \$2.6 billion in fiscal year 2002, an increase of 28.1 percent. This increase includes proposed funding of \$731 million in fiscal year 2002 to support drug control activities in the Andean region. Further, multi-agency efforts, which target ports-of-entry, the Southwest Border, and implementation of the Western Hemisphere Drug Elimination Act, will expand funding for shielding America's air, land, and sea frontiers from the drug threat to an estimated \$2.8 billion in fiscal year 2002, an increase of 8.5 percent. Finally, funding requested for increasing the safety of America's citizens by substantially reducing drug-related crime and violence is \$8.3 billion in fiscal year 2002, an increase of 2.5 percent.

## ONDCP'S COORDINATING ROLE

The Office of National Drug Control Policy's legal responsibilities are established in the following laws and executive orders:

*The Anti-Drug Abuse Act of 1988.*—Requires ONDCP to set priorities, implement a national strategy, and certify Federal drug control budgets.

*The Violent Crime Control and Law Enforcement Act of 1994.*—Extends ONDCP's mission to assessing budgets and resources related to the National Drug Control Strategy.

*Executive Order No. 12880 (1993) and Executive Order Nos. 12992 and 13023 (1996).*—Assigns ONDCP responsibility within the executive branch of government for leading drug control policy and developing an outcome-measurement system.

*The Office of National Drug Control Policy Reauthorization Act of 1998.*—Expands ONDCP's mandate and authority and sets forth additional reporting requirements and expectations, including: Development of a long-term national drug strategy; Implementation of a robust performance-measurement system; Commitment to a five-year national drug control program budget; Permanent authority granted to the High Intensity Drug Trafficking Areas (HIDTA) program along with improvements in HIDTA management; Greater demand-reduction responsibilities given to the Counter-Drug Technology Assessment Center (CTAC); Statutory authority for the President's Council on Counter-Narcotics; Increased reporting to Congress on drug control activities; Reorganization of ONDCP to allow more effective national leadership; Improved coordination among national drug control program agencies; and Establishment of a Parents Advisory Council on Drug Abuse.

*Executive Order No. 13165 (2000).*—Creates the White House Task Force on Drug Use in Sports and authorizes the ONDCP Director to serve as the United States Government's representative on the Board of the World Anti-Doping Agency.

## ONDCP'S FISCAL YEAR 2002 BUDGET REQUEST

ONDCP's fiscal year 2002 request for \$519.1 million in budget authority represents an increase of \$19.24 million (+3.8 percent) over the fiscal year 2001 enacted level. Although this request represents less than three percent of the consolidated national drug control budget, these critical funds enable ONDCP to leverage all dollars appropriated to Federal departments and agencies in a coordinated fashion to achieve desired policy and programmatic outcomes. The budget request reflects four program accounts: Salaries and Expenses; the Counterdrug Technology Assessment Center (CTAC); the Special Forfeiture Fund; and the High Intensity Drug Trafficking Areas (HIDTA) program. The Subcommittee's investment in this agency will continue to serve the American people through achieving our mission of reducing drug use and its consequences.

*Salaries and Expenses: \$25.1 million.*—ONDCP's budget request provides \$25.1 million for salaries and expenses to support ONDCP's requested 116 Full Time Equivalents (FTEs), which includes one reimbursable FTE, and 30 non-reimbursable detailees—an increase of \$395 thousand over the fiscal year 2001 enacted level. This reflects a reduction in personnel positions by 10 FTEs, but a realistic dollar value to fund fully our authorized strength. The amount of funds requested aligns with the revised FTE level and is essential to carry out our policy and programmatic responsibilities to the degree that Congress and the American people demand. Major expenses include:

- \$11.889 million to provide compensation for 115 FTEs. The 10 FTE reduction is based on several factors: first, this realistically reflects the staffing level—115 FTE—at which ONDCP has operated in recent years; second, this request aligns the FTE with the amount of personnel compensation provided by Congress over the past few years.
- \$5.342 million for professional service contracts, maintenance services, guard services, and related costs. Included in this amount is funding to support conferences (including HIDTA, CTAC, and demand reduction) and to operate the Drug Policy Information Clearinghouse.
- \$2.432 million for rental payments to the General Services Administration (GSA).
- \$776,000 for travel and transportation costs.
- \$701,000 for communications, utilities, and miscellaneous costs. This amount will fund telephone and telecommunications costs, postage, and translation equipment.
- \$860,000 for equipment. This amount provides for the purchase of required office equipment (including replacement equipment), such as personal computer systems, automated data processing equipment and secure communications equipment.

- \$1.35 million for 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 data sources.
- \$1.0 million for the National Alliance for Model State Drug Laws (NAMSDL) to encourage states to adopt and implement laws, policies, and regulations to reduce drug use and its adverse consequences. In the past, ONDCP has utilized an Interagency Agreement with the Department of Justice's Bureau of Justice Assistance (BJA) for BJA to provide program and grant management oversight for the NAMSDL program. As ONDCP has developed the requisite expertise to guide this program, ONDCP will assume direct program management, leaving BJA with responsibility only for grant management.

As you know, the Administration is preparing a budget amendment that will propose consolidating all S&E accounts in the Executive Office of the President (EOP) into a single appropriation. This consolidation would give the President greater flexibility to allocate resources among the EOP Offices, create economies of scale and efficiencies in purchasing, and permit the newly-established position of EOP Chief Financial Officer (CFO) greater oversight of financial transactions and closer monitoring of expenditures. The ONDCP S&E request I have just described will be incorporated, without change, into the budget amendment that is expected to be transmitted next week.

*Special Forfeiture Fund: \$247.6 million.*—ONDCP's budget request provides \$247.6 million for the Special Forfeiture Fund, an increase of \$14.5 million over the fiscal year 2001 enacted level. This request funds a diverse group of critical, ongoing programs: the National Youth Anti-Drug Media Campaign, the Drug-Free Communities Program, the Counterdrug Intelligence Executive Secretariat, the National Drug Court Institute, and the U.S. Olympic Anti-doping Program. Furthermore, this request will support fully the development and implementation of the Parents for a Drug-Free Future Program, a new presidential initiative.

#### *The National Youth Anti-Drug Media Campaign*

In fiscal year 2002, ONDCP is requesting \$185 million for the National Youth Anti-Drug Media Campaign, the same amount enacted for fiscal year 2001. ONDCP will continue this initiative that began in fiscal year 1998, and was expanded in fiscal year 1999, to use paid media messages to change youth attitudes about drug use and its consequences. Strategically targeted, high impact, paid media messages—at both the national and local levels—are the most cost effective, quickest means of altering drug use behavior through changes in adolescent perceptions of the danger and social disapproval of drugs.

Although public service messages (PSAs) are part of this campaign, they alone cannot reach the specific audiences at the times and with the frequencies that are required to move youth drug use attitudes in the right direction.

The non-advertising component of Campaign delivers anti-drug messages through news and public affairs coverage in radio and television broadcasts, as well as print media, the Internet, faith communities, health professionals, community organizations and coalitions, schools, parents, coaches, and organized sports. The drug prevention campaign also includes an entertainment industry component to provide accurate information about drug use and encourage its accurate depiction on television, film, and in music and to engage celebrities to communicate positive anti-drug messages to youth.

The Campaign utilizes strategic partnerships to increase the number of organizations and businesses through which accurate anti-drug messages reach their target audiences. These alliances are extending and enhancing Campaign messages to reach youth and parents in the communities where they live and in places where they spend most of their time—including schools, on-line, at work and at play—helping to build long-term substance abuse prevention activities. Media and advertising partnerships bring expertise to every aspect of the Campaign. ONDCP is particularly proud that since the inception of the Campaign all major television networks have donated airtime, special programming, and production of celebrity PSAs.

ONDCP especially is proud of our long-standing relationship with the Partnership for a Drug-Free America. Additional significant partners playing critical roles in the Campaign include The Ad Council and the American Advertising Federation. Other Campaign partners include organizations that have focused historically on young people, parents and substance abuse issues, education, and other fields with broad reach into target audiences. These include the Campaign's newest entertainment industry partner, the Hollywood Reporter, youth development partners such as YMCA of the USA, National FFA Organization (formerly the Future Farmers of America), and the Girl Scouts of the USA. Education partners helping to communicate anti-

drug messages include the National Middle School Association, the National Association of Student Assistance Professionals, and the National Education Association. Media partners include Oxygen Media, USA Today, Channel One, Cable in the Classroom and the New York Times Newspapers in Education program.

The Media Campaign is also partnering with interfaith organizations to develop, test, produce and distribute research-based, substance abuse prevention materials to help elevate drug prevention within the faith-based community.

The Campaign's Internet initiatives combine web sites that appeal to our critical audiences of youth, parents, educators and other adult influencers with online banner ads, online sponsorships, promotions and interactive outreach. The Campaign's primary web sites are Freevibe.com and TheAntiDrug.com. Freevibe encourages young people to make positive, well-informed, life-style decisions. TheAntiDrug.com provides parents and other adult caregivers with strategies and tips on raising healthy, drug-free children. Web-based information for parents is also in Spanish, as well as four Asian languages.

In addition, the Campaign developed Internet sites with industry leaders such as America Online (AOL) for parents and youth. These activities, combined with a rich multimedia advertising program, have created an unprecedented social marketing effort on the Web. Highlights include:

- Nearly 24 million page views on Media Campaign websites.

- More than 287 million pro-bono Internet match impressions attained.

Online outreach and partnerships have distributed our Campaign messages throughout the Web. Critical partners in this effort have been a diverse set of media companies—such as Oxygen Media, Lycos.com, About.com, Education World, The Atlantic Monthly, Reprise Records and The Mills Malls—that carry anti-drug content or provide promotion back to Campaign sites.

During the past year, the Campaign reached 90 percent of America's youth at least four times a week in nine languages to various ethnic groups. The Campaign represents the largest multicultural advertising and communications effort ever undertaken by the Federal government, with messages and delivery tailored to ethnic audiences. To ensure the credibility of the messages and to enhance their impact, the Campaign combines culturally appropriate and relevant messages designed by African American, Hispanic, and Asian-owned advertising and communications companies.

The Campaign's pervasive presence has served as a catalyst for an increased demand for anti-drug information. For example, since the national launch of the Campaign in July of 1998, inquiries received by the National Clearinghouse for Alcohol and Drug Information (NCADI) have increased dramatically. Specifically, during the first three months of this year, NCADI saw an increase of 25 percent in inquiries over a year ago. Furthermore, the number of inquiries NCADI received in calendar year 2000 increased by 178 percent over the 12 months before the Campaign. On peak days, which corresponded with specific anti-drug Campaign events (e.g., an article in Parade magazine) requests to NCADI for anti-drug information surged by 367 percent over pre-Campaign levels. Finally, per month Internet requests for substance abuse information to NCADI have more than quadrupled since the inception of the Campaign.

The "branding" component of the Campaign began in September 1999 to unite message themes, create synergy between advertising and non-advertising programs, and maximize Campaign awareness and impact. For youth, the Campaign launched the brand "My anti-drug" in September 2000, to coincide with kids going back to school. The launch of "My anti-drug" represented a call to action to every youth to consider what it is in his or her own life that is their motivation for rejecting drugs, to express themselves, and to be heard. In response to national outreach, more than 75,000 young people submitted their own personal "anti-drugs." A special supplement in USAToday featured selected examples of the kids and their submissions. It is worth noting that individual anti-drug submissions continue to be received and posted through our youth Web site, Freevibe.com.

ONDCP takes great pride in our multi-faceted methods for ascertaining the impact of the Campaign. Through constant evaluation, ONDCP is able to manage the Media Campaign to achieve the desired outcomes and provide progress reports to Congress and the American people.

The Phase III evaluation design is a comprehensive system developed to gauge the effectiveness of the National Youth Anti-Drug Media Campaign. This evaluation, which is managed by the National Institute on Drug Abuse, is designed to determine the extent to which changes in drug abuse-related knowledge, attitudes, beliefs, and behaviors can be attributed to exposure to the Campaign. The evaluation is measuring and assessing:

- Changes in drug-related knowledge, beliefs, attitudes, and behaviors in children and parents of children;
- Relationships between changes in drug-related knowledge, beliefs, attitudes, and behaviors and their associations with self-reported measures of media exposure;
- Associations between parents' drug-related knowledge, beliefs, attitudes and behaviors and those of their children;
- Associations between parents' drug-related knowledge, beliefs, attitudes and behaviors and those of their children that may be related to the media campaign; and
- Changes in community-based drug prevention activities in response to the campaign.

The first Phase III evaluation report, released in November 2000, provides data awareness, key baseline attitudes, beliefs and behavior and indices of exposure to the Campaign messages over the period of November 1999 through May 2000. The second Phase III evaluation report provides initial evidence of the Campaign's impact on average, Wave I respondents (a Wave refers to a six month continuous data collection period) were interviewed 6 months before Wave II respondents, so the time period for change is brief. Key findings include evidence of increased anti-drug sentiment among older non-drug using teens (aged 14 to 18) with regard to trying marijuana between the first and second data collection periods. Six outcomes related to anti-drug attitudes showed significant change in the desired direction. Regarding the Campaign's effects on parents, there was a consistent pattern of association between exposure to the Media Campaign messages and outcomes, such as talking with their children about the dangers of drugs and monitoring their children.

The analysis of change for the Wave II report is not definitive; Wave I was collected during the early months of Phase III, and there was relatively little time for additional change to occur, given only 6 months between Waves I and II. While over the course of the evaluation, change in a desirable direction for outcomes is strongly expected, change between Waves I and II is less definitive. Research indicates that it will take one to two years to affect attitudes and two to three years from the launch of the fully integrated Campaign (i.e., mid-2002) to demonstrate reductions in youth drug use that can be attributed to the Campaign. Subsequent reports, which will be provided every six months, will provide more definitive information on the extent to which changes in attitudes and behavior can be attributed to the Campaign.

Findings from the second Phase III evaluation report indicate high levels of awareness of anti-drug ads among both youth and parents across all media. There is good evidence of increased anti-drug sentiment among older non-drug-using teens (aged 14 to 18) with regard to marijuana trial between Waves 1 and 2, which may signal subsequent declines in marijuana use in future waves of the evaluation—with 87 percent of teens reporting that they did not intend to try marijuana even once or twice in the next year. For youth aged 12 to 13 years of age, all of the questions on regular use of marijuana also appeared to move in an anti-drug use direction, although there was not a consistent pattern of change nor consistent evidence of an association between exposure to anti-drug messages and outcomes. For parents, the NIDA evaluation indicates a consistent pattern of association between exposure to anti-drug messages and three key outcomes (talking with, monitoring, and engaging in fun activities with youth), meaning that parents who reported high levels of exposure to anti-drug messages were more likely to have engaged in the three activities with their children, but no change over time. There was a statistically significant increase in the percentage of parents reporting hearing a lot about anti-drug programs in the community in the past year from 32 percent in Wave 1 to 36 percent in Wave 2. Subsequent waves of data collection will continue to track changes in anti-drug attitudes and behavior and provide more conclusive evidence of whether these changes in attitudes and behavior can be attributed to the Media Campaign.

In addition to the NIDA evaluation, ONDCP utilizes data from other research to manage the Campaign for results. Several other studies have reported the positive impact the Campaign is having on youth awareness and behavior. For example, results from the Campaign's tracking study, which is being conducted by Millward Brown, show that as of mid-February 2001, 52 percent of youth reported seeing "anti-drug" advertising, and 69 percent of those report having considered their own "anti-drug." Visual recognition of the anti-drug logo more than quadrupled from 10 percent to 46 percent in nearly half the time expected in an average new product launch.

The Partnership for a Drug Free America (PDFA) reported in its 2000 Parent Attitude Tracking Survey (PATS) that anti-drug advertising resulted in significant increased teen awareness of anti-drug ads—with more than half of teens now claiming

daily anti-drug ad exposure. The proportion of youth reporting that anti-drug ads made them less likely to try or use drugs increased overall, from 30 percent to 37 percent from 1998 to 2000.

PATS data also shows that the earlier upward trend in teen marijuana use has been reversed since its peak in 1997 and since the Campaign began in 1998. Concurrent with reduced youth marijuana use, PATS findings indicate that youth intent not to use marijuana increased from 1998 levels in 1999, and 2000.

*The Drug-Free Communities Program*

In fiscal year 2002, ONDCP is requesting \$50.6 million to expand the Drug-Free Communities Program, an increase of \$10.7 million over the fiscal year 2001 enacted level. This program utilizes a straightforward mechanism whereby matching Federal grants are provided directly to local community anti-drug coalitions for the purpose of improving or expanding their efforts to prevent substance use and abuse among children and youth (including the underage use of alcohol and tobacco). We are proud that the program currently supports 307 communities located in forty-nine states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. Furthermore, twenty-five of the grants have been awarded to communities with predominantly Native American and Native Alaskan populations. We anticipate awarding approximately 145 additional grants during the fiscal year 2001 grant cycle (September, 2001).

ONDCP and the Office of Juvenile Justice and Delinquency Prevention, Department of Justice (OJJDP) conducted a comprehensive study of the administrative costs associated with the Drug-Free Communities Program and produced a report on the findings. The report concluded that amending the administrative cost limitation from "not more than three percent" to "not more than eight percent" per fiscal year would maintain thorough competitive peer review of all applications, enhance grantee access to valuable technical assistance about science-based prevention practices and training in those practices, improve ONDCP's and OJJDP's ability to maintain an outcome-focused program through a comprehensive evaluation, and allow for greater promotion of the program to coalitions across the United States. This increase will ensure that the grants awarded directly to community anti-drug coalitions will be used in the most effective manner possible. ONDCP remains optimistic that the cap will be increased during fiscal year 2001 to alleviate the grant management difficulties incurred by OJJDP, and respectfully requests the Subcommittee's support on this issue. Pursuant to Senate Appropriations Committee Report 106-500 (accompanying S. 2900), ONDCP submitted this report for the Subcommittee's consideration on January 18, 2001.

Of the total \$50.6 million ONDCP is requesting for this program, \$46.6 million will be granted directly to community anti-drug coalitions (assuming an increase in the administrative cap to not more than eight percent). We anticipate being able to award approximately 150 new grants in fiscal year 2002, bringing the cumulative five-year total of grantees to over 600. The Drug-Free Communities Act of 1997 (the program authorization) ensures that these grant dollars leverage additional funding for community coalitions by requiring all grantees to match their Federal grant funds with other non-Federal sources of support, including both cash and in-kind contributions. ONDCP policy provides that grantees may receive a maximum amount of \$100,000 for years one and two, up to \$75,000 for year three, and no more than \$50,000 for years four and five. However, based on recommendations from the Program Administrator and the statutorily-created Advisory Commission, we approved a one-year waiver of this policy for fiscal year 2001 funding to permit coalitions in their fourth year of funding to receive up to \$75,000.

Of the total \$50.6 million ONDCP is requesting for this program, only \$4 million would be allocated for purposes other than providing grants directly to communities. These funds would be allocated in the following manner:

- Grants Administration—\$2.35 million. This amount is sufficient for OJJDP to ensure continuity in its grants management function through an Interagency Agreement with ONDCP.
- Training and Technical Assistance—\$0.75 million. This amount will permit high-quality, low-cost training and technical assistance via each of the six regional Centers for the Application of Prevention Technology (CAPTs), managed by the Center for Substance Abuse Prevention (CSAP). This is an especially important function, considering the tremendous response ONDCP has received from coalitions in rural or other traditionally under-served areas which do not have experience in successfully applying for Federal grant funds. ONDCP will continue to utilize the resources of The Community Anti-Drug Coalitions of America (CADCA) to provide a wide array of technical support, program ideas, and advocacy to community coalitions.



- Evaluation—\$0.75 million. ONDCP agrees with the strong recommendations of the Congress and the Advisory Commission that an empirically sound evaluation is of paramount importance to maintain the integrity of this program. These funds will permit a modest, but effective evaluation focused on outcome measures of effectiveness.
- Program Administration—\$0.2 million. These funds are used to support the Program Administrator and the statutory Advisory Commission. The Program Administrator serves a critical function by ensuring a high level of responsiveness to the grantees and applicants, as well as enhancing interagency collaboration. This amount remains constant and is unaffected by our request to increase the cap on administrative costs.

#### *Parents For a Drug-Free Future*

In fiscal year 2002, ONDCP is requesting \$5 million to support and encourage parents to help children stay drug-free. This program will provide matching funds to national parents' organizations for the following purposes:

- Assist training thousands of parents in communities nationwide in skills, methods, and information that help prevent drug abuse by young people;
- Promote cooperation among national parent efforts and increase their impact through fostering partnership with the network of parent organization affiliates and chapters, regional and state-level entities that involve parents, and local community anti-drug coalitions; and
- Provide science-based prevention strategies, information, and materials to parents and parent-serving organizations, thereby strengthening their ability to protect their children from the risks of drug use.

#### *National Drug Court Institute*

In fiscal year 2002, ONDCP is requesting \$1.0 million for the National Drug Court Institute (NDCI). The NDCI will use these funds to continue expanding their drug court training program for practitioners, convene special advisory groups to develop curricula in new disciplines, develop a national community probation initiative, and expand and update the Institute's video instruction library.

Drug courts were developed in response to the costly and time consuming approach to dealing with non-violent, substance abusing offenders that were overwhelming the criminal justice system. Traditionally, drug use, criminal behavior, and recidivism are reduced substantially for drug court participants. In contrast to the traditional "revolving door" approach, drug courts provide an effective solution to drug addiction and drug-related crime through the innovative use of and sanctions and incentives, comprehensive supervision, drug testing, and judicial monitoring. Defendants who complete the program either have their charges dismissed (in a diversion or pre-plea model) or have their probation sentences reduced (in a post-plea model). Drug courts provide closer, more comprehensive supervision and much more frequent drug testing and monitoring during the program than other forms of community supervision.

Currently, there are almost 1,000 drug courts in existence or being planned across the nation. These include approximately 175 juvenile courts, 55 Tribal courts and 50 family courts. Since their inception, almost 300,000 people have enrolled in drug court programs and almost 180,000 have graduated or remain active in their programs. The Department of Justice's fiscal year 2002 request for the Drug Court Program maintains the program at the all-time high, fiscal year 2001 enacted level of \$50 million.

#### *Counterdrug Intelligence Architecture*

In fiscal year 2002, ONDCP is requesting \$3 million for the Counterdrug Intelligence Executive Secretariat (CDX). The fiscal year 1998 Treasury and General Government Appropriations Act required ONDCP to improve counterdrug intelligence coordination and eliminate unnecessary duplication. As a result of this congressional directive, an interagency group created the General Counterdrug Intelligence Plan (GCIP). This unclassified plan was signed by eight department and agency principals, approved by the President, and released in February 2000.

The cornerstone action initiative of the GCIP establishes a senior interagency working group (The Counterdrug Intelligence Coordinating Group—CDICG) and its permanent support staff (The Counterdrug Intelligence Executive Secretariat—CDX). Since its inception in July, 2000, the CDX staff has supported the CDICG in implementing many of the 73 priority action items in the GCIP as well as additional taskings on new interagency counterdrug issues. ONDCP is confident that the work of this small but dedicated staff will continue to improve our nation's counterdrug intelligence architecture by enhancing information sharing, operational

coordination, and technical connectivity among Federal counterdrug components and their state and local law enforcement counterparts.

*United States Olympic Committee Anti-Doping Effort*

In fiscal year 2002, ONDCP is requesting \$3 million to support the United States Olympic Committee Anti-Doping Effort, a decrease of \$0.3 million below the fiscal year 2001 enacted level. This request proposes to provide these funds to the United States Anti-Doping Agency (USADA) via a "grant or other appropriate transfer" instead of a "direct payment." This will ensure the Federal government can provide financial oversight and accountability for these funds.

These funds will provide much needed assistance to the USADA (the independent drug testing agency for U.S. Olympic sports) in achieving their mission of administering an independent, transparent, and effective anti-doping program for the Olympic, Pan American, and Paralympic games. Specifically, these funds would support research and administrative initiatives, educational programs, and efforts to inform athletes of the rules governing the use of performance enhancing substances, the ethics of doping, and the adverse health consequences associated with doping. These funds are critical if we are to strive for a drug-free Winter Olympics in Salt Lake City, Utah, and provide continuity of effort for future competition. To achieve that continuity, USADA is developing an out-of-competition testing program that will occur during the off-years of the Olympic and PanAm games.

*High Intensity Drug Trafficking Areas (HIDTA): \$206.35 million*

In fiscal year 2002, ONDCP is requesting \$206.35 million for necessary expenses of the HIDTA program, an increase of more than \$0.3 million above the fiscal year 2001 enacted level. The ONDCP Director, in consultation with the Attorney General, Secretary of Treasury, heads of National Drug-Control Program agencies, and appropriate governors, designates these regions to enhance and coordinate America's drug-control efforts among local, state and Federal law enforcement agencies. Each HIDTA has an Executive Committee (EXCOM) which serves as the governing body for the individual HIDTA. The EXCOM consists of an equal number of representatives from local/state and Federal law enforcement agencies. The EXCOM is responsible for the development and implementation of the HIDTA Strategy and the attendant initiatives and budgets, as well as for the fiscal operations of the HIDTA. The EXCOM hires a HIDTA Director to assist with the day-to-day administration of the HIDTA, implement appropriate oversight controls per the EXCOM, and liaison with ONDCP. Operational control of initiatives is the sole purview of the participating law enforcement agencies.

The HIDTA mission includes coordination efforts to reduce the production, manufacturing, distribution, transportation and chronic use of illegal drugs, as well as the attendant money laundering of drug proceeds. In addition, HIDTAs assess regional drug threats, develop strategies to address the threats, integrate initiatives, and provide Federal resources to implement initiatives. These resources are allocated to link local, state, and Federal drug enforcement efforts and to optimize the investigative return on limited fiscal and personnel resources. Properly targeted, HIDTAs offer greater efficiency in countering illegal drug trade in local areas by facilitating cooperative investigations, intelligence sharing (coordinated at HIDTA Investigative Support Centers), and joint operations against drug-trafficking organizations.

Intelligence sharing will continue to improve, as we expect all 28 HIDTAs will be connected via the Regional Information Sharing System Network (RISS.net) by the end of this calendar year. Connecting the HIDTAs via RISS.net, a Department of Justice program, instead of creating a new HIDTA-specific infrastructure, clearly demonstrates the HIDTA program's dedication to avoiding duplication of effort. Since 1974, when Congress established the RISS.net program, law enforcement and criminal justice agencies in various regions of the country have been able to instantaneously share criminal intelligence information in a responsible manner. HIDTA looks forward to enhancing communication, as well as officer and public safety, through this state-of-the-art Web-based technology for years to come.

HIDTAs are based on a logical, comprehensive methodology for prioritizing needs and working with other initiatives. This prioritization fosters a strategy-driven, systems approach to integrate and synchronize efforts as well as to maintain a focus on achieving measurable outcomes. Each HIDTA reviews annually their strategy and initiatives to improve effectiveness and to respond to changes in the threat. This ensures that participating agencies have a mechanism to quickly adapt to fluctuating drug trafficking patterns. This ability becomes increasingly important as drug traffickers use more and more complicated schemes and methods to bring illicit drugs to consumers in the United States.

The ability to maintain regional flexibility while demanding accountability is essential to the HIDTA Program's success. Of the total amount requested, ONDCP's budget includes \$2.1 million to conduct internal reviews and external financial audits of individual HIDTA program effectiveness and budgetary compliance. Internally, ONDCP has begun a review process that includes on-site visits to HIDTAs by ONDCP staff, as well as members from the Departments of Justice and Treasury. The on-site reviews help strengthen management at the individual HIDTAs and at ONDCP. To date, we have completed six reviews. ONDCP contracted with Klynveld, Peat, Marwick, Goerdeler (KPMG) to perform external financial audits. In order to maximize the impact of these limited audit resources, KPMG is currently conducting audits based on a risk-assessment model. While we are pleased that these reviews/audits have not discovered any major problems, the audits and program/budget reviews have provided the impetus for ONDCP to provide some HIDTAs with conditional grant language to bring minor issues into compliance.

Since January 1990, counties in the following 28 areas have been designated as HIDTAs: Houston; Los Angeles; South Florida; New York; and the Southwest Border, which includes South Texas, West Texas, New Mexico, Arizona and Southern California (in 1990); Baltimore/Washington, DC; and Puerto Rico/U.S. Virgin Islands (in 1994); Atlanta; Chicago; and Philadelphia/Camden (in 1995); Gulf Coast (Alabama, Louisiana, and Mississippi); Lake County (Indiana); the Midwest (Iowa, Kansas, Missouri, Nebraska, North Dakota, and South Dakota); Northwest (Washington); and Rocky Mountains (Colorado, Utah, and Wyoming) (in 1996); Northern California (San Francisco Bay Area); and Southeastern Michigan (in 1997); Appalachia (Kentucky, Tennessee, and West Virginia); Central Florida; Milwaukee; and North Texas (in 1998); Central Valley California; Hawaii; New England (Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, and Vermont); Ohio; and Oregon (in 1999); and Northern Florida; and Nevada (in 2001). Currently, 949 local, 172 state, and 35 Federal law-enforcement agencies and 86 other organizations participate in 452 HIDTA-funded initiatives in 41 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

*Counterdrug Technology Assessment Center (CTAC): \$40 million*

The Counterdrug Technology Assessment Center's fiscal year 2002 budget request of \$40 million represents an increase of \$4 million above the fiscal year 2001 enacted level. It includes requests for: Research and Development (\$18 million) and the Technology Transfer program (\$22 million).

The counterdrug research and development (R&D) program addresses the scientific and technological needs of the National Drug Control Program agencies and supports improvements to counterdrug capabilities that transcend the need of any single Federal agency. It includes a demand reduction request to support projects in brain imaging technology, therapeutic medications, and assessment of treatment programs.

Brain Imaging Technology projects have been particularly successful. New CTAC-sponsored neuroimaging facilities were completed this year at the University of Pennsylvania, Massachusetts General Hospital, and Emory University. Research scientists working on grants from the National Institute on Drug Abuse are using this equipment to further their knowledge of the underlying causes and consequences of substance addiction and abuse. These institutions are processing new images of the human brain to dramatically improve the quality of research they are capable of performing. In fiscal year 2002, positron emission tomography (PET) equipment will be completed at UCLA and NIDA's intramural research program located in Baltimore, Maryland. This equipment will support research using highly resolved images of non-human primates. A high field functional magnetic resonance imaging scanner will also be completed in fiscal year 2002 at McLean Hospital in Boston, Massachusetts, in support of Harvard University research programs. New projects are planned in fiscal year 2002 with the University of Colorado and the Oregon Health Sciences Center to complement existing brain imaging technology with new four-Tesla functional magnetic resonance imaging systems.

In fiscal year 2000, Congress provided ONDCP with funding for a research grant to the U.S. Anti-Doping Agency (USADA) to learn more about anabolic steroids, androgens, human growth hormones, and addiction. USADA held its first Anti-Doping Research Summit in October 2000 to develop an aggressive, comprehensive research agenda. CTAC plans to support their research agenda by investigating innovative testing protocols for the Salt Lake City Winter Olympics and developing test protocols for the endurance-boosting hormone erythropoietin (EPO).

The R&D program supports supply reduction projects to improve cargo inspection, countering drug smuggling, drug crime information handling, communications, and surveillance capabilities. Last year, CTAC conducted R&D projects for non-intrusive

inspection capabilities in the areas of enhanced gamma ray detectors, surface acoustic wave sensors, selective breeding of detector dogs, and portable capabilities to detect drugs and contraband in sea vessels, compartments and containers of all sizes. In fiscal year 2002, research will continue on canine olfaction for detecting drugs and on exploring the phenomenology of illicit crops to improve the detection and identification of marijuana growth areas.

CTAC uses technology testbeds to introduce emerging technologies and prototype systems into the operational environment and to determine user-related limitations and benefits of the systems from those agencies that ultimately use the equipment. In fiscal year 2000, a communications interoperability testbed was established with the Lakewood Police Department (Colorado) to assess off-the-shelf communications interoperability systems in the typical multiple agency drug task force environments. Based on this assessment and demonstration, Congress provided funding in fiscal year 2001 to continue this testbed in two phases: (1) a system configuration for the Denver metropolitan area, and (2) a state-wide configuration encompassing urban and rural populations that optimized the current communications infrastructure. The Denver phase will be completed in August 2001; the statewide phase will run through May 2002.

The Technology Transfer Program (TTP) provides technologies developed with Federal funding "directly to state and local law enforcement agencies that may otherwise be unable to benefit from the developments due to limited budgets or lack of technological expertise." The \$39,052,000 appropriated over the past three years (fiscal year 1998-fiscal year 2000) for the TTP has made possible the delivery of 1,808 pieces of equipment to 1,325 state and local law enforcement agencies. CTAC provided hands-on training and limited maintenance support to all recipients. CTAC submitted to this Subcommittee performance evaluation reports on the program in September 1999 and March 2000. During fiscal year 2002, the requested appropriation will allow transfer of much-needed technology to more than 2,400 state and local law enforcement agencies across the country.

#### CONCLUSION

Developing policy and implementing programs to combat the threat of illicit drugs requires a holistic, long-term, and research-based approach. While we cannot expect to eliminate illegal drugs and the harm they inflict upon our society overnight, we can and will continue to make steady and significant progress on all fronts. We look to this Subcommittee, and indeed the entire Congress, to provide bipartisan leadership in this effort. ONDCP is committed to working within the Executive Branch, as well as with Congress, state and local governments, international actors, and private citizens to reduce drug use and its consequences in our nation. We owe our children nothing less.

Senator CAMPBELL. Thank you. I have some questions dealing with youngsters and use of drug, but Senator Dorgan has a little tighter morning than I do so I am going to yield to him first.

Senator DORGAN. Mr. Chairman, thank you very much. The Commerce Committee is marking up a fairly controversial bill right now downstairs and I must go down. I appreciate your courtesy.

Let me ask about the issue of drug treatment. I know that ONDCP is not the primary source of drug treatment initiatives, and yet ONDCP has been involved in virtually everything dealing with drugs. Your former director was down in Colombia a good number of times and was involved in those initiatives.

If one is going to try to interdict and restrict the supply of drugs, and a country has several million drug addicts, and you have got a fair number of them that would like to shed the addiction but there are not treatment availabilities for that. In other words, the slots available for getting treatment to shed yourself of a drug addiction are not sufficient in order to meet the needs. Does ONDCP talk with other agencies or talk internally about what we need to do to meet certain targets with respect to drug treatment availability?

Mr. JURITH. Senator Dorgan, you are absolutely right. We estimate there are about 5 million chronic addicts in the country, a mixture of cocaine addicts, heroin addicts, and polydrug using addicts. We find it is rare nowadays that you find an addicted person who is only abusing one substance. Many of these combined with alcohol abuse as well.

You are right, we need to do a better job. Because out of that 5 million figure, we estimate we have treatment capacity for a little over 2 million of them. So that leaves a substantial portion of that population that is in need of treatment and cannot access it.

Senator DORGAN. You are saying we have 2 million slots for drug addiction treatment?

Mr. JURITH. That is correct. For about 5 million addicts, that is correct, sir.

Senator DORGAN. That is much, much more than I was told we had. But nonetheless—

Mr. JURITH. We have a significant treatment gap that we need to address. I think efforts over the last few years and efforts in the President's budget attempt to address that. For example, in the President's 2002 budget he proposes an increase in drug treatment funding, including research to \$3.4 billion. That is an increase of \$245 million over the fiscal year 2001 level, and we have been steadily increasing our treatment budget over the last 5 years. I think it is over a 30 percent increase since fiscal year 1996.

Senator DORGAN. Let me follow this because I want to try to understand what you are saying. We have 5 million people who are drug addicts, who are chronic severe drug addicts.

Mr. JURITH. Correct, sir.

Senator DORGAN. A number of those are not interested in getting treatment. A number of them are. A number of them have an addiction that is a desperate problem for them. They go out and they prostitute themselves, they steal, they commit massive amounts of crime in order to buy the drugs to deal with their addiction. We agree on that.

Mr. JURITH. Absolutely.

Senator DORGAN. So that number of addicts who want to shed themselves of their addiction, if they show up at a treatment center in one city or another, the latest data for which I have information, 1998, 57 percent of the drug users in the more severe categories of abuse were unable to receive treatment. So we know that there are people showing up with a severe drug abuse problem and unable to get treatment for it.

Mr. JURITH. That is correct.

Senator DORGAN. Now do we have a goal or an objective, with ONDCP playing a role in that. Do we have an objective by which this country will be able to say at some point, anyone who is addicted to drugs who shows up at a treatment center, we have enough capability in this country in treatment centers to help them shed their addiction?

Mr. JURITH. We need to increase our treatment capacity expansion. There is no question about it. The Center for the Substance Abuse Treatment has developed the National Treatment Plan. I would be happy to share a copy of that with Senator Dorgan and your staff.

We are expanding treatment capacity in the President's budget by \$40 million, including \$8 million for competitive grants to provide residential treatment to young people. There is a real problem out there. Too many young people develop an early addiction and need residential treatment. Outpatient therapies are not going to work for that population because you need to get them out of that environment where they got their addiction to begin with. But many private insurers are reluctant to pay for that type of residential treatment, so we need to expand that capacity.

The Substance Abuse Block Grant—

Senator DORGAN. My question is whether we have targets to do that. Are we just saying we need to, or are we establishing targets? Let me tell you why I am asking the question. I was on an Indian reservation a while back where they have a substance abuse problem particularly dealing with alcoholism, but chronic alcoholism, and they had, I believe, 18 in-resident treatment slots available. Hundreds and hundreds of people who have a chronic alcohol problem and they had just a minuscule amount of in-resident treatment capability to help them.

So I walked away from that thinking, my God, we are really missing the boat here. And you extrapolate that to the issue of chronic drug abuse with hard drugs and then realize there are people walking around who desperately want to shed themselves of this addiction and we do not have enough treatment slots available.

So the question I am asking is, do we have a target in mind? Are we going to try to, in 2 years or 3 years—we know what the target is on advertising. We know how much we are going to spend, we know the target audiences. Do we have a target in mind anywhere, in your agency or others, by which we are deciding that we are going to try to help these people who want to shed themselves of their addiction, to be able to do so?

Mr. JURITH. Senator, I will have to get back to you on the issue of specific targets. But I do know we do have the National Treatment Plan developed by CSAT, and there is increased money in the budget to close the treatment gap. Part of the problem is we need to be more creative in our outreach efforts. As you indicated, many of these folks are in hard to reach communities. It is difficult to draw them out into treatment.

One of the things I think we need to do and one of the things that we have discussed at ONDCP is, how can we be more creative in reaching out to these hardcore using communities who very often are beyond the reach of the criminal justice system. We have expanded drug courts and we are picking up a fair number of chronically-addicted folks that way. But many of these individuals do not come into daily or regular contact with the criminal justice system.

I think one of the efforts that the President's faith-based initiative can do is just that—because the churches are out there in these communities. Not that we want them necessarily on the front line of providing treatment, but I think one of the things that faith-based organizations can do is serve as a lever to draw these people in and get them into treatment. Because it is costing us billions of dollars by having that untreated population out there.

I will get back to you on the target issue and——

Senator DORGAN. I would appreciate it if you would do that. I do not want to ask the chairman for indulgence much further except for one additional point. I am going to submit some questions that I have dealing with the money side of things.

Mr. JURITH. Fine, sir.

Senator DORGAN. But with the killing of the woman and her child in Peru, the shooting of that airplane by the Peruvian military, I must say that I am becoming less and less comfortable with what we are doing in that region of the world, Colombia, Peru and elsewhere.

I know that we are doing that in order to shut down the supply of drugs. But the supply of drugs would largely be irrelevant if the demand did not exist. So that is why I have supported, and the chairman has supported, the media campaign and a range of other things that you have described in your testimony, to try to see if we cannot do something about demand. That is why I care so much about this issue of treatment.

But I did want to say for you, for your benefit and others that I am becoming increasingly concerned about what we are doing with respect to the situation in Colombia, Peru and the region, and wondering if we are not getting deeper than we might want to get in that region in a range of very troublesome circumstances.

That is not to suggest we should not care about supply. We should. It is not to suggest we should not attempt to interdict. We should. But we need a balanced program here, and it includes treatment and a range of other things including the media campaign.

Now some of the questions I am going to submit to you deal with the media campaign. I am also very anxious to get someone outside of Government, that has a vested interest in evaluating the campaign, to tell us what has this done, what are we accomplishing with it? You have a vested interest, and we perhaps do as well because we have authorized the campaign. You have requested the money. So we all have an interest in saying, gosh, haven't we done a great here?

Well, I do not have the foggiest idea whether we have done a great job. We are going to end up spending close to \$1 billion of the taxpayers' money. I hope it proves to be highly effective. But along the way, let us make sure that we are making some progress. I hope we can perhaps find a mechanism by which someone outside of the circumstances of vested interests can give us that evaluation as well.

Mr. Chairman, thank you. I will submit a series of questions for the record. We appreciate your testimony today, and look forward to working with you and others in the agency as you pursue your mission.

Mr. JURITH. Thank you, Senator Dorgan. We will be happy to bring you up to date fully on the evaluation, which is being conducted by an independent contractor under a contract with NIDA. So it is not fully a Government-run evaluation. But we clearly share your concerns about the efficacy of the Campaign.

Senator DORGAN. My only point is, I assume you are paying the contractor.

Mr. JURITH. I understand. Well taken.

Senator DORGAN. I used to teach economics and have been around economists enough to know that whomever pays economists have a lot to do with the reports the economists produce, and the same is true with most contractors. I do not mean to be pejorative about whatever you are doing there—

Mr. JURITH. I understand, sir.

Senator DORGAN [continuing]. But I think it is something that we also want to discuss in more depth at some point.

Mr. JURITH. Yes, sir.

Senator DORGAN. Thank you very much.

Senator CAMPBELL. Mr. Jurith, Senator Dorgan and I have a lot of the same ideas about the tenets of fighting a drug war which is based on incarceration, education, rehabilitation, and interdiction. Of course, this committee deals more with interdiction and education, and to a lesser degree with incarceration. Most of the money goes through CGIS, as you know.

But I have to tell you that I agree with him that I am not sure we are winning the war from the standpoint of incarceration, as I see the numbers of inmates going up in American prisons and something like 70 percent or more are somehow related to drug use, or habituate drug use. A lot of them are repeat offenders.

In some cases, these towns that used to say, you are not going to build one of those prisons in my backyard are now saying, gee, I hope we will get one too because we will ensure jobs literally forever. There does not seem to be any end in sight for the number of people we are putting in prison. We have some towns where over half of the population base is employed somehow in the prison industry. To me, there is something wrong with a country that finds as its only recourse to put more of their fellow countrymen in prison instead of trying to help them recover.

I have always been a big supporter of the campaign too. These ads that you have shown us today are pretty graphic, and frankly I like those.

Mr. JURITH. Thank you, sir.

Senator CAMPBELL. One of the reasons we got cross-ways with your predecessor, General McCaffrey, was that we were out of the loop when the negotiations were done about how to spend those millions and millions of dollars. We found that, after some investigations, that the networks, as you remember, were putting subliminal messages into the text of the programs and that was being considered sufficient for ONDCP to pay them the money, and then that would free up time for the networks to go ahead and resell that space to other advertisers. So the networks really got a windfall.

When we put this program in place 5 years ago, that was one of our big concerns. We created some kind of a cash flow of money, easy money from the Congress, that ended up having some detrimental effect. I did not think that was right and we talked to the General about the way in which it was handled.

I also questioned some of the ads that were in magazines that youngsters never read. It does not do any good to put ads on drugs in *The Economist* for youngsters, or *Forbes*, some magazine like that because teenagers rarely read those magazines. We had a lit-



tle go-around about that too, I have always been a steadfast supporter of the money that goes into the media campaign.

I know that it is not a popular thing for elected officials to talk about rehabilitation because you look like you are weak on crime. When it comes times for reelection, you would be surprised at the accusations that are made at you if you talk about trying to help somebody recover as a drug addict rather than just locking them up and throwing away the key. That seems to sell. It gets you lots of votes. But it is penny-wise and pound-foolish. It is dumb not to put more into education and rehabilitation.

I used to be a volunteer prison counselor years ago and I think I can speak from a direct relationship with some of the people that were in prison with drug abuse.

You mentioned Native American and Alaskan youngsters, and Senator Dorgan did too. I can tell you, some of our campaigns might not work with them because it is a different kind of a drug. You go on the Indian reservations, I will tell you what they are using. They are using paint, spray paint, and oven cleaner, and canned heat, and shaving lotion mixed with orange juice to drink, and things of that nature. If you gear a drug campaign dealing with sophisticated drugs like cocaine or something, I think it goes right on by them. I do not think it does any good at all.

But clearly Senator Dorgan is right, it is supply and demand. I think we need to continue in our efforts for interdiction. Certainly you have to incarcerate some people that are incorrigible or you cannot help. But as long as the supply is there, you have to lay that at the doorstep of Americans themselves that are demanding it. The supply will always be there as long as they demand it.

Until we can get Americans to realize they do not need it, should not have it, ought to discourage their youngsters from using it, the supply is always going to be there. I do not care how many people we send to South America or how much money we put into South and Central America where most of the drug flow is coming from it is going to keep coming, I think, unless we do something else.

But in any event, I want to ask you about one drug. It seems like every 4 or 5 years we have a new drug of choice or a new drug that seems to be popular. It was marijuana years ago, then it was something else, and then it was cocaine, and then the last few years we have heard so much about crack. Now we are hearing more and more about a drug that youngsters seem to be fooling with and it is killing some of them called Ecstasy.

I would like to ask you a little bit about the findings. What findings has the ONDCP come across regarding the manufacturing and distribution of this drug called Ecstasy?

Mr. JURITH. Very good, sir. MDMA, Ecstasy, it is a mind-altering synthetic drug that is both a stimulant and has mild hallucinogenic properties.

Senator CAMPBELL. Where does it come from? What is it made from?

Mr. JURITH. It is basically made out of various chemicals. It is made primarily in Belgium, the Netherlands, and Luxembourg.

It is a two-pronged effort. It is basically manufactured in Europe, so one of the things that we are doing very intensively in the last few months is trying to work very closely with our European allies

and the European Union to get a handle on the reduction in trafficking out of Europe.

We have gotten a lot of support from our European allies, including the Dutch, in controlling this manufacture and production. Recently I met with representatives from Great Britain, Germany, Sweden, Ireland, as well as the Netherlands, in terms of what we can do together, what the EU can do to control the production and trafficking.

We are seeing a steady increase, you are right, Mr. Chairman. Since 1995 we have seen a steady increase in Ecstasy use by our young people. In fact last year in the Monitoring the Future Survey, among all age groups we saw an increased use of this drug by 8th, 10th, and 12th graders. So that is on the prevention side. We need to be more aggressive in terms of—

Senator CAMPBELL. Is it a vegetable or organic base?

Mr. JURITH. No, it is chemical.

Senator CAMPBELL. It is chemical-based. You know the last couple years we have had a horrible rise in the manufacture and use of methamphetamines.

Mr. JURITH. Correct.

Senator CAMPBELL. Is it like meth in that it is explosive, contaminative, flammable or something of that nature?

Mr. JURITH. No, I do not believe it causes those environmental damages. There is a perception out there, unfortunately, that somehow casual Ecstasy use is safe. That has unfortunately been brought, transported to this country from Europe, the whole rave club scene. That somehow you can take this drug, dance all night, feel good, feel happy, and have no adverse effects.

Senator CAMPBELL. Yes, die later.

Mr. JURITH. Our research at the National Institute of Drug Abuse shows otherwise. That there are some significant long term neurological effects from the use of Ecstasy. So I think we have a two-pronged approach here.

On one hand we are trying to work with our European allies to control the production and trafficking of Ecstasy. We are working domestically through our own enforcement agencies to be more aggressive in seizing Ecstasy.

For example, in 1999 we seized worldwide about 10 million Ecstasy tablets around the world. So we need to be more aggressive. Our Customs and DEA work together to seize these shipments as they are coming into the country.

Lastly, we need to intensify our prevention efforts. Getting the message out to young people that Ecstasy use is not safe. The Media Campaign, for example, in August 2000 launched a special \$5 million Ecstasy initiative that included Internet advertising and national radio ads, along with the limited use of print ads.

Later in May, the Media Campaign and the American Academy of Pediatrics is going to conduct a background seminar for writers in the creative community to look at Ecstasy use to ensure that in our popular culture we are not borrowing this mistaken belief that somehow this is a safe drug to use.

Senator CAMPBELL. Are you familiar with fetal alcohol syndrome?

Mr. JURITH. Yes, sir.

Senator CAMPBELL. It is as if the mother uses too much alcohol the baby is born with certain disabilities that are never—they never get well. They are never correctable. It is a preventable thing but not correctable. I understand from Senator Dorgan's staff that this Ecstasy may have somewhat the same effect. If pregnant women use it there is pretty good chance that there will be an effect, a permanent effect on the unborn child. Is that true?

Mr. JURITH. There is a significant amount of ongoing research being done at the National Institute of Drug Abuse on the long term effects of Ecstasy use. I would be happy to share the results of all that research with the subcommittee.

Senator CAMPBELL. I wish you would. You mentioned that you are trying to work with the countries where most of it seems to be manufactured, if that is the proper word for how it is put together. What are we doing in this country to try to stem the rising tide of it? Are we going through the normal process that we do with all of our other programs to prevent drug use?

Mr. JURITH. Correct. Also what we are trying to do on the enforcement end is to collect the appropriate data to see what locations around the country are having significant problems with Ecstasy use, trying to deal with the rave club scene, because that is where apparently the popularity of this drug exists, along with other club drugs. To work with rave operators to remind them of their obligations that in addition to having their raves alcohol free, they also must be drug free.

We are also working with our Customs Service to seize this stuff before it comes into the country. And again, intensifying our prevention efforts not only through the Media Campaign but other prevention efforts as well.

Senator CAMPBELL. It is also my understanding that a lot of it is used at teenage group things rather than as an individual, like some of the drugs that are taken intravenously, and it is done at some youth nightclubs, rave groups they are called, and so on.

Mr. JURITH. Yes.

Senator CAMPBELL. You are in charge of your own department, but I would encourage you to take a look at where it is being used in these groups and try and have some input into those too.

Mr. JURITH. Yes, we are doing that. Again, by gathering data through our Pulse Check, for example. As you know, Pulse Check is a report we do every 6 months looking at drug trends around the country from an epidemiological point of view, from a basically anecdotal evidence point of view. The last Pulse Check report had a special section in it dealing with Ecstasy, and this has been supplied to the subcommittee.

We are tracking this very closely. Working with DEA and Customs on the enforcement side, looking at our prevention efforts, including the Media Campaign, to see how we can get the message out to young people. Again, the National Institute on Drug Abuse has done very effective research in this area. Getting that research out that this is not a safe drug, contrary to an earlier European view on the subject.

Senator CAMPBELL. I think those ads are on the right track, with youngsters doing the talking, because youngsters tend to listen to youngsters more than they do adults. When you have real graphic

illustrations of youngsters talking, I think that could be very effective.

Mr. JURITH. Senator Campbell, the great thing about it, those are two of the 75,000 young people that submitted their anti-drug suggestion to the Campaign. Those are real kids, kids that reached out. We are reaching out and touching our kids through this Campaign, and there is good evidence how we are drawing young people into the Campaign. So you are right, those are real kids expressing their real, true anti-drug beliefs about whether it is drawing or cartooning or listening to music.

#### ADDITIONAL COMMITTEE QUESTIONS

Senator CAMPBELL. I thank you. I have no further questions, but if I do in the next day or two I will submit them to you in writing.

Mr. JURITH. Very good, sir.

Senator CAMPBELL. We will be looking forward to working with you. I might tell you, we are not sure yet how much money we are going to have to be able to spend—

Mr. JURITH. I understand.

Senator CAMPBELL [continuing]. But we will do everything we can for you.

Mr. JURITH. Thank you, sir.

[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 BEN NIGHORSE CAMPBELL

*Question.* So far, Congress has provided \$750 million for the National Youth Anti-Drug Media Campaign. And, you are requesting an additional \$185 million for fiscal year 2002—the fifth year of what was described to us back in 1997 as a five-year program. Although many people have seen the ads and have had favorable reactions to them, there appears to be little information on whether the ads themselves have had any impact on drug use. When will we be able to get some measurable results from our investment?

*Answer.* ONDCP is proud to report that the National Youth Anti-Drug Media Campaign is undergoing a rigorous and extensive evaluation. The National Institute on Drug Abuse (NIDA), the world's leading drug research organization, is evaluating the Campaign for ONDCP. The National Survey of Parents and Youth-NIDA's evaluation survey—is a nationally representative longitudinal (i.e., the same parents and youth will be interviewed up to 3 times) survey of parent and child attitudes, beliefs, and behavior with regard to drugs. More than 34,000 interviews will be conducted in households in 6-month waves. Reports detailing the findings from each of the Waves are issued every 6 months; the second report was released in April 2001 and the final report is due in Spring 2004.

The Wave 2 report presents findings from the first two waves of data collection (November 1999-May 2000 and July 2000-December 2000), focusing on evidence of change between the first two waves of data collection. There was a relatively short period of time for change in the outcome measures to occur; thus, the second evaluation report's analysis is not definitive. The analysis involves two complementary tests: (1) establishing that change has occurred, and (2) that the change is associated with exposure to the Campaign's messages. The Wave 2 report shows some positive and encouraging changes that suggest the Campaign is having an impact, but we cannot yet definitively attribute these to the Campaign. Findings include:

—There is good evidence of increased anti-drug sentiment among older non-drug-using teens (aged 14 to 18) with regard to their intentions to not try marijuana in the next year, which may signal subsequent declines in marijuana use in the near future.

—The parent data indicate a consistent pattern of association between exposure to anti-drug messages and three key outcomes (talking with, monitoring, and engaging in fun activities with youth), meaning that parents who reported high levels of exposure to anti-drug messages were more likely to have engaged in

the three activities with their children—but, there were no changes in the measures between Waves 1 and 2.

Over time, because of the evaluation's longitudinal design and extensive set of questions measuring exposure to the Campaign and outcomes related to the Campaign's messages, it will be able to assess whether the Campaign is having an impact on drug-related attitudes, beliefs, and behaviors over time. The Wave 4 report (due 1 year from now) will include data for the first 2 years of Phase III and will be the first to include follow up data on the parents and youth first interviewed in Wave 1. The Wave 4 report will provide a more conclusive assessment of the extent to which any changes in beliefs, attitudes, and behaviors can be attributed to the Campaign.

The National Household Survey on Drug Abuse (NHSDA) and the Monitoring the Future Survey (MTF) indicate that youth drug use, particularly marijuana use, rose in the early 1990's but has leveled off, and even declined, in the past 2 to 3 years. It is during this period of time that the Campaign was launched, with full implementation in mid-1999. These surveys were not designed to evaluate the Campaign and include no questions about target audience exposure to anti-drug ads and response to the campaign; consequently, any changes in attitudes and behavior regarding drug use reported by these surveys cannot be proven to be as a direct result of the Campaign. NIDA's independent evaluation of the Campaign, in conjunction with continued monitoring of drug use rates by NHSDA and MTF, will provide an assessment of the Campaign's impact over the next 3 years as the series of reports is released. Release of the 2000 NHSDA is expected in August 2001; the 2001 MTF in December 2001; and the next evaluation report (Wave 3) in Fall 2001.

*Question.* In addition to maintaining funding for 26 HIDTA programs, the fiscal year 2001 appropriations bill provided additional discretionary funding. I expect that every one of those 26 HIDTAs can justify significant increases in their budgets. I know that the Rocky Mountain HIDTA can always use more, especially for efforts to address the ever increasing methamphetamine problem. What criteria did you use to decide how to allocate the additional funding provided?

*Answer.* ONDCP takes seriously its responsibility to allocate discretionary HIDTA dollars in an objective and transparent manner. Our first priority was to provide basic funding to establish the recently designated Nevada and Northern Florida HIDTAs. This funding will enable the HIDTAs to begin focusing on HIDTA Program priorities related to combating their regional threat, including intelligence/information sharing, training, and communications interoperability.

The second priority was to provide funding to bring the HIDTAs designated in 1999 (Central Valley California, Hawaii, New England, Ohio and Oregon) up to the minimum \$2.5 million level necessary to provide effective support. In order to become fully operational and fund a new fugitive apprehension initiative, the six-state New England HIDTA will receive a total of \$2.85 million.

The third priority was to establish electronic connectivity among the HIDTAs via the Regional Information Sharing System (RISS.net). This initiative will significantly enhance intelligence/information sharing, communication and coordination among the HIDTAs. Establishing connectivity between the HIDTAs also will fulfill a major requirement of the General Counterdrug Intelligence Plan (GCIP). This connectivity will also provide the network upon which the HIDTA Program fiscal database currently under development will operate. Connectivity costs between HIDTAs vary because the 11 HIDTAs identified as RISS.net node sites must take on the responsibility and added cost of user authentication for the non-node HIDTAs. HIDTAs receiving base costs of \$22,000 will supply connectivity and allow them to operate as "RISS HIDTA Client Sites" and fund costs associated with the lines, Internet Sites, Internet firewalls, and routers. HIDTAs selected as RISS.net node sites receive \$150,500. This increased funding will provide for a network person to assist clients, authenticate/manage users, administer security system(s), man help desk, etc., connection costs, and equipment costs (firewall, computers, smart cards and readers, etc.).

The final priority was to carefully evaluate supplemental requests received from 23 HIDTAs, which totaled \$48 million. Decisions to allocate funding for new or expanded initiatives were based, in large part, on HIDTA Program priorities (intelligence/information sharing infrastructure), and the content and composition of the supplementary funding requests.

*Question.* Speaking of methamphetamine, we have a real problem in the West, as you know, and in the Denver area in particular. Now we're reading about folks cooking methamphetamine in pots in apartments! And, a recent article in the Rocky Mountain News stated that 83 methamphetamine sites have been discovered in three months. What are you doing to try to educate people about the dangers of methamphetamine use?

Answer. ONDCP recognizes the threat posed by this emerging drug. Clandestine laboratories in California continue to produce more methamphetamine than any other region, but the smaller “mom and pop” laboratories, operated by thousands of independent U.S. traffickers, are found in large numbers in the Midwest and growing numbers in the southeast United States. The growing popularity of methamphetamine has led to an alarmingly high number of clandestine laboratory seizures across the country. According to the National Clandestine Laboratory Database (NCLD) at EPIC, as of March 2001 there have been 533 reports of clandestine laboratory seizures nationwide (there were 6,480 in CY 2000). In CY 2000, 23 percent (1,469) of these 6,480 clandestine labs were seized in California. Arrests in DEA methamphetamine investigations increased in fiscal year 2000, to 7,519, a 22 percent increase over the 6,145 arrests in fiscal year 1997, and a significant 85 percent increase over the 4,069 arrests in fiscal year 1996.

The average purity of methamphetamine discovered in DEA investigations declined from 71.9 percent in 1994 to 35.3 percent in 2000. Subsequent control measures by the US and other countries have reduced availability and contributed to the decrease in amphetamine purity since 1997. Nationally, the average purity for amphetamine has dropped from 56.9 percent in 1997 to 20.1 percent in 2000.

The HIDTAs employ a comprehensive approach that includes specialized training and equipment for law enforcement personnel responding to methamphetamine labs, a plan to better coordinate intelligence initiatives regarding super methamphetamine labs as well as mom and pop labs, and the establishment of additional methamphetamine task forces in high risk areas and regions. Investigative initiatives aimed at penetrating the communications and dismantling the command and control elements of Mexican-based methamphetamine trafficking organizations are included in the strategy. To combat the environmental hazardous from clandestine lab waste, investigative efforts aimed at mom and pop labs will be expanded and intensified. The strategy calls for additional treatment, prevention, and awareness programs targeted at high-risk youths. The considerable resources of Federal State and local law enforcement and public service institutions will be orchestrated to bring about a measurable change in the methamphetamine situation.

The Midwest, Central Valley California, Rocky Mountain, Northwest and Oregon HIDTA's focus the majority of their enforcement efforts towards methamphetamine enforcement. The Southwest Border HIDTA sponsored National Methamphetamine Chemical Initiative (NMCI) is a nationwide initiative that seeks to control and subsequently reduce the availability of precursors and chemicals to illicit manufacturers through education and regulation of chemical sources and through a unified law enforcement and prosecutorial effort. The total fiscal year 2000 funding for methamphetamine-specific HIDTA initiatives was \$21,033,676.

*Question.* I noted that you have requested \$50.6 million for grants under the Drug-Free Communities Act. The currently authorized level for that program in fiscal year 2002 is \$43 million. Do you believe that there will be enough new communities seeking grants to justify that significantly increased funding? How many grants do you expect to make in fiscal year 2002? How does ONDCP handle the management of this program?

Answer. Yes. Over the last few years we have seen growing interest in the Drug-Free Communities Program by state prevention network directors and state alcohol and drug directors. We have presented workshops on the Drug-Free Communities Program Application process at several state coalition meetings, and we have held a series of regional workshops for potential applicants in Mississippi, Illinois, and New York. Four workshops are planned in May in Georgia, Texas, Connecticut, and California.

The Ad Council, working with ONDCP's National Youth Anti-Drug Media Campaign, is planning to launch a major public service campaign this fall to feature what coalitions do and the successes they have achieved. We believe this campaign will further stimulate increased interest in forming eligible coalitions around the country. Requests for the grant application for this year's solicitation greatly increased. The ONDCP Clearinghouse sent out 7,200 applications for fiscal year 2002 funding, double the number of applications sent for fiscal year 2001.

ONDCP is proud to report that the program currently supports 307 communities located in forty-nine states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia. Furthermore, twenty-five of the grants have been awarded to communities with predominately Native American and Native Alaskan populations. We anticipate awarding 140–150 additional grants during the fiscal year 2001 grant cycle (September, 2001).

Of the total \$50.6 million ONDCP is requesting for this program, \$46.6 million will be granted directly to community anti-drug coalitions (assuming an increase in the administrative cap to not more than eight percent). We anticipate being able to

award approximately 150 new grants in fiscal year 2002, bringing the cumulative five-year total of grantees to over 600.

The implementation of the DFCA involves the awarding of grant monies, through competitive peer-reviewed procedures, directly to community anti-drug coalitions in the United States and its territories. Non-Federal matching funds equal to the amount of each grant are required for all projects. ONDCP understands and appreciates the intent of Congress to ensure that the maximum amounts possible go directly to enhancing, expanding, and improving existing community coalitions. ONDCP shares this goal and has engaged the assistance of key Federal and private sector partners to provide low-cost, high quality technical training and administrative support to the grantees.

Through a Memorandum of Understanding with ONDCP, OJJDP is administering the Drug-Free Communities through its Special Emphasis Division (SED). SED is the OJJDP division responsible for administering all OJJDP demonstration and replication programs. SED is comprised of 22 professional staff, 3 administrative support staff, a deputy director and a director. Currently, SED staff members are responsible for monitoring approximately 630 local programs (307 of which are Drug-Free Communities grants). The seven Drug-Free Communities program managers are currently responsible for monitoring almost 50 percent of the Special Emphasis Division's workload. OJJDP collaborates with the Office of National Drug Control Policy, the Center for Substance Abuse Prevention and the CSAP funded Centers for the Application of Prevention Technologies.

All of the grant awards to date have been with the assistance and cooperation of a small team coordinated by ONDCP. At ONDCP, the administrator and a program support specialist oversee the entire project and coordinate the work of the Advisory Commission. The Commission has met in formal session on six occasions and their recommendations and observations have guided the implementation of all aspects of the program. Commission members are consulted regularly by the administrator and kept informed about key decisions, problems, and issues facing the program. The Department of Justice, Office of Juvenile Justice and Delinquency Prevention (OJJDP), has a team of seven program managers and two support personnel dedicated to the day-to-day aspects of grants management. Each of the 307 grantees has a specific program manager with whom they consult on matters relating to their strategic plans, budgets, and reporting. At the Center for Substance Abuse Prevention (CSAP), there are no agency administrative costs supported by DFCA funds. Nevertheless, CSAP staff members assist the program in numerous ways. Chief among these is assisting applicant community leaders in the development of appropriate logic models for their proposals and further helping local communities select specific prevention strategies that have amassed better evidence for effectiveness through scientific study.

As the number of grantees has increased from 93 in fiscal year 1998 to 213 in fiscal year 1999 to 307 in fiscal year 2000 the administrative challenge has grown proportionally. We expect that this challenge will become nearly unworkable with the 150 new grants ONDCP expects to award in both fiscal year 2001 and fiscal year 2002, bringing the cumulative number of DFC coalitions to over 600. However, the declining administrative cap has kept constant the actual amount available for administration at \$1.2 million annually. As a result, whether OJJDP has 91 grants or 300 grants, the legislation does not anticipate or permit the increase in costs commensurate with the growth of the program. OJJDP Drug-Free Communities program managers are currently carrying caseloads that limit their ability to monitor effectively the existing 307 anti-drug coalitions. The Special Emphasis Division of OJJDP utilizes 15 staff to manage almost the same number of grants in other programs as the 9 Drug-Free Communities program managers currently manage. In other programs, OJJDP usually assigns one program manager to every 25 grantees. During early 2001, OJJDP has only 7 program managers for 307 grantees, a ratio of nearly 44 grantees to 1 program manager. By Oct. 1 of 2001 there will be more than 450 grantees and OJJDP will not be able to operate the program without additional staff.

If the cap on administrative costs is raised in fiscal year 2002 ONDCP and OJJDP anticipate awarding approximately 150 new community coalition grants which will bring the cumulative number of grants to a projected estimate of more than 600. This figure assumes an 8 percent limit on all administrative costs, full funding of the continuation budgets for 447 previously awarded grants, and full funding at \$100,000 per year of 140 new projects.

An increase in Drug-Free Communities administrative funds will allow ONDCP and OJJDP to administer the program and monitor the DFC grants in a manner intended by Congress and as necessary to comply with all applicable Federal regulations and policies.

*Question.* I'd like to talk a bit about the anti-drug media campaign. As I understand it, the intent of the program is to "educate and enable America's youth to reject illegal drugs". The most visible of that effort is the TV ads we've all seen, followed closely by the print media ads. How do you determine how to place your ads?

*Answer.* The Campaign purchases ad space and time using widely accepted standards and practices of the advertising industry, as well as the judgment and expertise of our advertising contractor, Ogilvy & Mather. The first consideration is the appropriateness of the media outlet for the target audience. The objective is to deliver drug prevention messages to the people we intend and need to reach.

Media are generally subjected to a rigorous analysis process as follows:

—Step One: *Preliminary Screening.*—The goal of our overall screening and planning process is to explore all media and narrow the field of consideration down to a smaller more relevant list of potential outlets.

—Step Two: *Quantitative Analysis.*—Using syndicated research (MRI/Nielsen) or other studies as well as negotiated pricing, each medium's coverage, composition of the target audience (youth, parents, ethnic, etc) and Cost-Per-Thousand (CPM) is considered.

—Step Three: *Pro Bono Match Participation.*—We conduct an evaluation of the ability/willingness of the particular media outlet to participate with the Congressionally-mandated match process, whereby each Federal dollar of advertising is matched by the vendor with a 100 percent public service contribution.

Ogilvy & Mather uses additional leading-edge media research, tracking econometric analysis, and measurement tools to provide accountability and highly sophisticated media delivery data and analysis to ensure the effort delivers as planned.

*Question.* Mr. Jurith, since the beginning of this program I have been urging ONDCP to aggressively encourage pro bono matches from media organizations. This is a particularly important component to this five-year pilot project. How successful has the pro-bono match been?

*Answer.* Last year, the National Youth Anti-Drug Campaign generated a 102 percent pro bono match for advertising dollars. Since the campaign began, more than \$507 million in pro bono advertising time and space has been received in addition to the time and space purchased by the campaign. An additional \$37 million in donated media time has been received through our collaboration with the Advertising Council (totaling \$544 million). This level of pro-bono matching is unprecedented and underscores the support given to the Campaign by the media, particularly television and radio.

Because of the Campaign, 58 national organizations have benefited from 400,000 TV and radio time slots. America's Promise, Boys and Girls Clubs, Mothers Against Drunk Driving, National Youth Symphony League, and many other organizations supporting anti-drug activities have achieved tangible results. For example, Save the Children, USA garnered 8,000 new mentors; National Fatherhood Initiative received three times as many calls to its hotline; and the Benton Foundation/Connect for Kids has had a 600 percent increase in user sessions for its web site that provides information and resources for parents to help kids.

The Campaign has also launched, in conjunction with the Ad Council, the first PSA campaign to support local anti-drug coalitions. These PSAs have received over \$33 million in donated media since August 2000—more than an average Ad Council campaign receives in a year.

*Question.* Mr. Jurith, I have been a long supporter of the CTAC technology transfer program. I've seen first-hand how excited State and local law enforcement officers have been when they see what is available through this program. What has the technology transfer program been able to deliver to State and Local law enforcement entities? What kinds of new technology are under development?

*Answer.* The Technology Transfer Program (TTP) provides technologies developed with Federal funding "directly to state and local law enforcement agencies that may otherwise be unable to benefit from the developments due to limited budgets or lack of technological expertise." Strong bipartisan congressional support has resulted in \$39,052,000 being appropriated to the TPP over the past three years (fiscal year 1998-fiscal year 2000). These funds have made possible the delivery of 1,808 pieces of equipment to 1,325 state and local law enforcement agencies. CTAC provided hands-on training and limited maintenance support to all recipients.

In fiscal year 2000, 1,055 agencies applied to the TTP with their three priority requests. Congress appropriated \$13,052,000 to the TPP, which enabled CTAC to deliver 827 pieces of equipment to 666 agencies. An additional 469 agency requests, valued at \$10,494,000, could not be delivered in fiscal year 2000. Of those 469 requests, 389 agencies received no items. In fiscal year 2001, Congress appropriated \$18,209,850 to the TTP. CTAC plans to prioritize these funds to ensure that all



1,055 agencies that applied to the TTP during fiscal year 2000 will receive a technology (other than only Drugwipes) by the end of fiscal year 2001.

The President's fiscal year 2002 Budget Request for the TTP will allow CTAC to transfer much-needed technology to more than 1,500 state and local law enforcement agencies across the country. ONDCP submitted evaluation reports to Congress in September 1999, March 2000, and February 2001 and will continue to submit annual reports on this program.

There are a number of current CTAC-sponsored R&D projects that will provide improved capabilities or additional options to systems currently available through the TTP:

- A communications interoperability system will be demonstrated in Denver in August 2001. This system provides a cost effective option to enable the smaller state and local agencies to continue to use their existing radios and still be able to communicate with other agencies using different communications systems.
- The video stabilization system has been miniaturized and made less expensive with improved functionality (it now uses a PC card for processing rather than an entire CPU).
- Additional functionality, called CRYSTAL, will be available for the AG-SMS tracking system. This system links criminal and background information derived from drug-related investigations to geo-positional information in real-time. In addition, there are a number of CTAC-sponsored R&D projects that soon will be completed and considered for transition to the TTP:
- Several case management tools are in the final evaluation stages. These systems, such as CrimNET, allow investigators to access and link data on phone records, financial information, utility bills, and ownership information to specific drug-related crimes on a scale suitable for use by smaller sheriffs offices and police departments.
- Two hand-held non-intrusive inspection systems, one to identify drugs in the field and the other to find anomalies in storage tanks and hidden compartments in bulkheads are currently being tested and evaluated by the Federal user agencies.

*Question.* I am pleased with the progress on the wireless interoperability pilot project in Colorado, and I am looking forward to a demonstration of Phase I, the Denver metro area testbed, later this year. When do you expect that this technology will be available on a state-wide basis? How long after that will other areas be able to take advantage of this capability?

*Answer.* CTAC continues to make progress on this wireless interoperability project to identify and evaluate those radio interoperability systems that allow state and local agencies to retain and use their existing radios to communicate with other agencies using different communications systems. The following is the timeline of major events:

- By September 2001: Initial installation among five drug task forces in the Denver area (Metro Gang, North Metro, South Metro, West Metro, and Boulder County), U.S. Customs Service, FBI, DEA, Colorado National Guard, Denver Police Department, Aurora Police Department, and Jefferson and Douglas counties on the state's Digital Trunked Radio System (DTRS).
- By May 2002: Statewide implementation, demonstration for all LEA's, transition to Technology Transfer Program.
- This technology will be available for transition to the TTP by May 2002.

*Question.* Mr. Jurith, I noted that ONDCP is requesting \$5 million for a new program to encourage parents to help kids stay drug-free—Parents For a Drug-Free Future. When can we expect to receive detailed information on this new initiative?

*Answer.* ONDCP greatly appreciates the Committee's interest in the details of this \$5 million Presidential initiative to support and encourage parents to help children stay drug-free. This program will create a "Parent Drug Corps" by providing matching funds to national parents' organizations for the following purposes:

- Assist training thousands of parents in communities nationwide in skills, methods, and information that help prevent drug abuse by young people;
- Promote cooperation among national parent efforts and increase their impact through fostering partnership with the network of parent organization affiliates and chapters, regional and state-level entities that involve parents, and local community anti-drug coalitions; and
- Provide science-based prevention strategies, information, and materials to parents and parent-serving organizations, thereby strengthening their ability to protect their children from the risks of drug use.

ONDCP staff have been working diligently to develop the details of this proposal in consultation with anti-drug parent groups and other Federal agencies. We plan

to have a recommendation for the next ONDCP Director to forward to the Committee upon confirmation.

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QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

*Question.* You note in your written testimony that the “Campaign reached 90 percent of America’s youth at least four times a week in nine languages . . .” Please specify how your office determined this level and frequency of saturation.

*Answer.* ONDCP derived the 90/4.0 weekly reach/frequency goal in order to achieve the ultimate goal of reaching all of America’s youth on a near-daily basis throughout the year in order to change attitudes and behaviors concerning drug use. Given that a daily rate (90/7.0) is cost prohibitive, ONDCP established a more attainable goal of reaching teens nearly every day (4 times per week). ONDCP is confident that this level of saturation is sufficient to achieve the goal of reducing drug use among youth. As a point of reference, the 90/4.0 is equivalent to an aggressive effort during a promotional period by a private sector client. The 90/4.0 is calculated by combining the delivery of all media combined. (i.e., television, radio, print, Internet, out of home), including the “spill” from the Parents media, to arrive at one total communications figure.

*Question.* You also note in your testimony that the Campaign relies on strategic partnerships to extend and enhance the Campaign’s message to parents and youth. Specifically, you mention the Partnership for a Drug-Free America, the Ad Council and the American Advertising Federation as well as industry, education and media partners. Please detail the nature of each of these relationships, including the terms of any contracts/agreements entered into with them and the amount of Federal funding associated with these partnerships.

*Answer.* The National Youth Anti-Drug Media Campaign established over the last three years more than 150 partners from major media, education, industry, and other areas of the private sector. These partnerships include both contractual and non-contractual relationships. Further, the nature and cost of each of these partnerships varies from year to year, to accommodate changes in the campaign and take advantage of new opportunities. Virtually all of these partnerships are developed and implemented through our contractors. Some of the more significant partners are noted below. In many instances, only the labor of our contractor was paid for by Campaign funds:

*Partnership for a Drug Free America.*—This is our key partner. There is a written agreement between our two organizations and a Congressional mandate to work with them. The Campaign relies on PDFA to produce a majority of our paid ads on a pro-bono creative basis. ONDCP pays for production of these ads, which averages about \$5 million per year. PDFA also assists ONDCP in a wide range of strategic and media-related activities including assistance with our entertainment industry and media outreach. PDFA receives no Federal funds from the Media Campaign.

*Advertising Council.*—The Advertising Council performs three functions for ONDCP. Through a subcontractor, it reviews the production estimates and costs for all paid advertising used in the Campaign. It develops and implements a specific campaign to promote the value of community anti-drug coalitions. It also administers the Media Match Task Force, which has helped to allocate more than \$211 million worth of pro bono TV and radio time (more than 400,000 time slots) to the drug-related messages of 60 national organizations including the Boys and Girls Clubs, MADD, America’s Promise, Center for Substance Abuse Treatment, etc. The Ad Council also provides strategic media advice to our campaign, and identifies potential partners for collaboration. Ad Council is a contractor costing approximately \$2 million per year from Campaign funds.

*American Advertising Federation.*—The AAF is a sub-contractor to Fleishman Hillard, our primary non-advertising contractor. It has more than 200 local Ad Clubs throughout the nation and they have been helpful in establishing local level task forces to review public service ads submitted by community organizations seeking free air time from our pro-bono match (the Ad Council does this for national organizations) where local media time is purchased. This costs approximately \$200,000 per year in Campaign funds.

*American Bar Association.*—Created first ever substance abuse prevention brochure tailored to the needs and interest of lawyers. Wrote copy, secured content reviews and approvals and managed design and layout for the brochure, and assisted in distribution of 50,000 copies (at no cost to ONDCP).

*Boy Scouts of America (BSA).*—The Campaign has partnered with BSA to disseminate drug prevention information to their vast network nationwide. The Campaign will have a major presence at the Boy Scout Jamboree scheduled for July 23–August

1, 2001. About 40,000 Scouts attend the Jamboree, which attracts an additional quarter-million visitors during a two-week period every four years. Activities under development include: a “My Anti-Drug” on-site activity board where scouts declare their anti-drugs; youth-oriented information to engage scouts at on-site computers; and distribution of Campaign literature and information.

*Girl Scouts of the USA (GSUSA).*—Developed a new “High on Life” badge for Junior Scouts (ages 8–11), which may be earned upon satisfactory completion of drug-prevention exercises; planning a satellite program targeting Girl Scout troops across the country focusing on the myths and realities faced by girls today; creating a series of drug-prevention materials called “Issues for Girls,” customized for all five age levels of Girl Scouts, which will reach the more than 2 million GSUSA members. This activity will cost \$40,000 in Campaign funds.

*YMCA of the USA.*—Creating a substance-abuse prevention handbook for the Y’s middle school after-school program (the Y is one of the nation’s largest providers of after-school care for the Campaign’s tween [children 9–12 years old] audience); disseminated substance-abuse prevention messages via various Y communications channels which reach nearly 21 million people; enrolled YMCA of the USA in the “What’s Your Anti-Drug?” youth branding initiative; facilitated creation of customized Web content focusing on drug prevention and the Campaign for the Y’s site.

*Community Anti-Drug Coalitions of America (CADCA).*—The Campaign has partnered with local CADCA chapters to promote youth outreach activities at their “Race Against Drugs” events with Kmart; enrolled CADCA in the “What’s Your Anti-Drug?” youth branding initiative to engage kids in considering what are the things that stand between them and drugs.

*Congress of National Black Churches.*—In 1999, the Congress of National Black Churches entered into a strategic alliance with the Campaign to promote and assess a pilot program to incorporate substance abuse prevention programs into the youth programming. As a result of the pilot, the Campaign is developing an activity guide that will assist youth ministries to incorporate substance abuse prevention activities into their existing youth programs. This activity will cost \$10,000 in Campaign funds.

*U.S. Hispanic Leadership Institute.*—In partnership with the Campaign in 2000, the U.S. Hispanic Leadership Institute engaged Hispanic youth in the “What’s Your Anti-Drug?” initiative and Hispanic leaders through programming at the U.S. Hispanic Leadership Conference. This activity cost \$7,500 in Campaign funds.

*National Asian Pacific American Families Against Substance Abuse (NAPAFASA).*—A key Media Campaign partner in reaching the Asian community is the NAPAFASA organization. NAPAFASA has assisted the Campaign in developing resources tailored to Asian parents and youth and distributing campaign resources through their network, newsletters, informational materials and national conferences.

*National Education Association (NEA)/Health Information Network (HIN).*—Partnering with the nation’s largest multidisciplinary education organization to reach 2.5 million educators and school personnel through multifaceted initiatives; integrating Campaign messages and materials into the full range of NEA’s print, satellite and online communication channels; collaborating with NEA to enhance the Campaign’s educator Web site [www.teachersguide.org](http://www.teachersguide.org); produced “Safer Schools: Helping Students Resist Drugs,” a free national satellite telecast focusing on successful school-based programs that help students resist peer pressure to engage in drug use. This activity cost \$50,000 in Campaign funds.

*New York Times Newspaper in Education.*—Revised, edited and promoted “Anti-Drug Education with The New York Times,” a standards-based anti-drug classroom guide for middle-school teachers that demonstrates how to incorporate the daily newspaper into classroom lessons to help youth develop skills to resist the use of illicit drugs, alcohol, and tobacco; collaborated to create an online version of the guide. This activity cost \$40,000 in Campaign funds.

*Associated Church Press (ACP).*—Working with ACP on the creation and placement of feature articles on youth substance-abuse prevention. With nearly 160 member publications, ranging in circulation from a few hundred to 650,000, the ACP is a unique resource for the faith press and can provide the Campaign with access to denominational and ecumenical media that reach 28 million people.

*The Hollywood Reporter.*—The Hollywood Reporter is one of two trade publications in Hollywood that is read by everyone in the industry and is very influential in the entertainment community. The Reporter is partnering with the Campaign by co-hosting a series of roundtable discussions for writers and industry executives in the Hollywood community. They have co-hosted two events so far, a session on Ecstasy and a session on steroid use among teens. They have committed to hosting a number of future sessions.

*Oxygen Media.*—Oxygen Media, a multimedia company that includes Websites and cable broadcasting disseminates Campaign parenting and youth drug-prevention messages via their Websites (momsonline.com) and television programs. They have also co-hosted two roundtables in New York for NY-based television and feature writers on the topics of Ecstasy and Inhalants. In addition, Oxygen Media publishes and promotes drug prevention articles written for the Campaign's Web site for parents, TheAntiDrug.com. In turn, TheAntiDrug.com features parent-focused content provided by Moms Online.

*USA TODAY.*—Partnered with USA TODAY (circulation 2.2 million; readership 4 million plus) to develop a special "by kids, for kids" anti-drug print insert. The insert, included in the November 27, 2000 edition of USA TODAY, showcased young people's personal "anti-drugs"—those things that stand between them and drugs—through stories, prose, photography and artwork. An additional 500,000 copies are being disseminated through youth-serving organizations including the National Association of Student Assistance Professionals (NASAP), schools, and drug-prevention coalitions throughout the country. This activity cost \$200,000 in Campaign funds.

*National Newspaper Publishers Association (NNPA).*—In 2000, the Campaign, in collaboration with NNPA and Howard University, established The Charles Drew Center for Public Health Reporting Seminar Series. The seminars, and supporting Web site of resources, will train community journalists to report on substance abuse and related public health issues affecting the African American community. This activity will cost \$40,000 in Campaign funds.

*Society for Human Resource Management (SHRM).*—Created the first-ever substance-abuse prevention brochure tailored to the needs and interests of human resource officers and employee assistance professionals to facilitate distribution of drug-prevention resources and information in the work place.

*National Association for Children of Alcoholics (NACoA).*—Developed and disseminated information for youth and adult influencers in daily contact with tween and teen children of alcoholics. Developing posters for distribution in local schools and libraries nationwide.

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QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

DRUG TREATMENT

*Question.* Is it your opinion that the proper balance between interdiction, prevention, and treatment is being struck in the overall drug control policy of this Country?

*Answer.* Yes. Drug prevention, treatment, research, law enforcement, protection of our borders, drug supply reduction, and international cooperation are necessary components of our efforts to reduce drug use in our nation. The Administration is outlining a new approach to reducing illegal drug use that focuses on reducing the demand for drugs through effective education, prevention, and treatment.

The President's fiscal year 2002 Budget Request focuses on reducing drug use by young people, making treatment more available to chronic users, targeting sources of illegal drugs and crime associated with criminal enterprises, and interdicting the flow of drugs at our borders. The President's Budget includes \$2.2 billion for programs that educate and enable America's youth to reject illegal drugs as well as alcohol and tobacco, including approximately \$52 million in additional prevention research funding through the National Institutes of Health. In addition, for reducing the health and social costs of illegal drug use, including activities targeting drug treatment programs, the President's fiscal year 2002 Budget includes an estimated \$3.3 billion, an increase of 6.5 percent over fiscal year 2001.

Projected resources devoted to breaking foreign and domestic drug sources of supply will reach \$2.6 billion in fiscal year 2002, an increase of 28.1 percent. This increase includes proposed funding of \$731 million in fiscal year 2002 to support drug control activities in the Andean region. Further, multi-agency efforts, which target ports-of-entry, the Southwest Border, and implementation of the Western Hemisphere Drug Elimination Act, will expand funding for shielding America's air, land, and sea frontiers from the drug threat to an estimated \$2.8 billion in fiscal year 2002, an increase of 8.5 percent. Finally, funding requested for increasing the safety of America's citizens by substantially reducing drug-related crime and violence is \$8.3 billion in fiscal year 2002, an increase of 2.5 percent.

*Question.* According to data provided by SAMHSA, there is an enormous gap in the number of people who need treatment and can't get it. The most recent data shows that in 1998, 57 percent of drug users in the more severe categories of abuse were unable to receive treatment. From 1991 through 1998 that percentage has

shifted between 54 percent to 68 percent which should be unacceptable in our effort to curtail drugs in our country. Is there a ceiling we are trying to reach as a goal? Are we doing enough to decrease this gap?

Answer. Nationwide, there continues to be a great need for additional capacity for effective drug treatment. The largest problem in treatment (the "gap") revolves around three issues: Accessibility, Affordability, and Availability. These three issues effect both private and public funding streams. In addition to the Federal responsibility to close the public system treatment gap, the National Drug Control Strategy also addresses private sector treatment issues through its efforts to ensure parity for substance abuse treatment.

Current estimates of the treatment gap are based on methodology developed by the Substance Abuse and Mental Health Services Administration (SAMHSA) using data from the National Household Survey on Drug Abuse (NHSDA) and other sources. This methodology, while useful, has not proven sufficient to meet policy and budget needs. Using this methodology, SAMHSA estimated that in 1998 there were 5,031,000 people in need of treatment and that 2,137,000 received treatment. The resulting difference produced a treatment gap of 2,894,000 people.

The Performance Measures of Effectiveness Volume of the 2000 Annual Report on the National Drug Control Strategy sets forth the target concerning reducing the treatment gap. This target is, "[b]y 2002, reduce the treatment gap by at least 20 percent as compared to the base year. By 2007, reduce the gap by at least 50 percent compared to the base year."

Yes. The Administration is committed to reducing the treatment gap. On May 10th President Bush announced that his budget will provide \$1.6 billion over the next five years to close the treatment gap. The President also directed Department of Health and Human Services Secretary Tommy Thompson to conduct a state-by-state inventory of treatment needs and capacity, and report back within 120 days on how to most effectively close the treatment gap in this country.

Specifically, the President's Budget provides an additional \$60 million (\$42.6 million drug-related attribution) for the Substance Abuse Prevention and Treatment (SAPT) Block Grant. This increase for the SAPT Block Grant will provide additional funding to states for treatment and prevention services. This program is the backbone of Federal efforts to reduce the treatment gap. The President's Budget also provides an additional \$40 million for the Targeted Capacity Expansion (TCE) program. This funding will support Substance Abuse and Mental Health Services Administration's (SAMHSA) TCE program to respond to emerging trends in substance abuse. The Budget proposes an additional \$17 million for national data collection to support the evaluation of what works, examine what makes quality care, and determine whether needs and services are a good fit.

*Question.* We spend almost 2½ times as much for the anti-drug ads than we do for drug treatment in Federal prisons (\$185 million vs. \$74 million) and we have substantive data on the effectiveness of drug treatment in prisons. What more could you do if additional resources or funding could be provided?

Answer. A balanced approach, including both prevention and treatment is critical if we are to succeed in reducing drug use in America. The \$185 million ONDCP is requesting for the National Youth Anti-Drug Media Campaign will enable ONDCP to continue using strategically targeted, high impact, paid media ads to change drug use behavior through changes in adolescent perceptions of the danger and social disapproval of drugs.

The coercive power of the criminal justice system to provide drug treatment to persons under its supervision is an effective tool to reducing drug use and recidivism. The Administration is committed to criminal justice diversion programs to help more Americans break the vicious cycle of addiction and incarceration. Specifically, the President's Budget is requesting \$50 million, an all-time high, for the Drug Court Program. 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. Furthermore, the Budget proposes an \$11 million increase for the Residential Substance Abuse Treatment (RSAT) program. This formula grant program distributes funds to states to help them develop and implement residential substance abuse treatment programs that provide individual and group treatment activities for offenders in residential facilities operated by state correctional agencies.

Clearly, the Campaign and programs providing treatment in the criminal justice system are critical to reducing drug use in America. It is important to note, however, that the Media Campaign is attempting to impact all youth and their adult influencers across the nation, while the programs providing treatment to those

under the jurisdiction of the Federal prison system are targeting a significantly smaller population.

*Question.* The Drug Court Institute has provided invaluable training and resources to the judicial system in almost every state. They have spent their appropriations wisely and have received high marks across the board. If they could receive more funding, what additional missions and goals would you like them to achieve?

*Answer.* In fiscal year 2002, ONDCP is requesting \$1.0 million for the National Drug Court Institute (NDCI). The NDCI provides valuable leadership to the almost 1,000 drug courts in existence or being planned across the nation. These include approximately 175 juvenile courts, 55 Tribal courts and 50 family courts. Continued support of the NDCI is imperative in light of the Department of Justice's fiscal year 2002 request for the Drug Court Program which maintains the program at the all-time high level of \$50 million.

These funds will enable the NDCI to continue fulfilling its mission of promoting education, research and scholarship for drug court and other court-based intervention programs. With regard to education efforts, the NDCI provides a comprehensive drug court training series for practitioners. The research component will support investigative projects aimed at developing more effective drug court policies and procedures. Furthermore, the NDCI serves as an information clearinghouse to the drug court field professionals by disseminating important drug court specific research, evaluations and relevant commentary. Specifically the NDCI will use these funds to continue expanding their drug court training program for practitioners, convene special advisory groups to develop curricula in new disciplines, develop a national community probation initiative, and expand and update the Institute's video instruction library.

#### NATIONAL YOUTH ANTI-DRUG MEDIA CAMPAIGN

*Question.* With drug trends shifting towards more illicit drugs such as methamphetamine and Ecstasy, why is the media campaign not depicting it? Specifically, why did you cut the \$5 million portion of the campaign that focused on Ecstasy?

*Answer.* The Media Campaign is a primary prevention effort. It's strategy is based on reaching "tween" youth to prevent use of entry level drugs—principally marijuana, which research shows is the preponderant drug of first initiation among youth. Until early this year, the Campaign had been supporting anti-methamphetamine and heroin advertising through spot television ads. However, advertising specifically against methamphetamine and heroin was eliminated to maximize the funds targeted to the core strategy of the Campaign—preventing youth from beginning drug use.

Recognizing the rapid rise in the incidence of Ecstasy and its false billing as a "safe" drug, ONDCP used funds from the primary prevention campaign to launch a special, \$5 million Ecstasy initiative within the Campaign in August 2000. The initiative consisted of Internet advertising and national radio ads, along with a limited use of print ads in some newspapers and magazines. Because of advertising rate inflation affecting the Campaign ONDCP made the decision not to renew the initiative.

For issues such as ecstasy, a drug surging in popularity and affecting several age groups, we have convened a series of background briefings in Hollywood and New York City for writers and producers of television shows and feature stories. These events have been among the most successful of the Campaign's efforts.

#### NATIONAL YOUTH ANTI-DRUG MEDIA CAMPAIGN

*Question.* With the July 2000 GAO report entitled "ANTI-DRUG MEDIA CAMPAIGN: ONDCP Met Most Mandates, but Evaluations of Impact are Inconclusive," shows that these advertisements have increased awareness, yet there is little evidence to show attitude changes among our youth. Let me read you a quote from the report "First, ONDCP stated that indications from NCADI (National Clearinghouse/ or Alcohol and Drug Information) and focus groups 'support that the Campaign has positive effects on changing you attitudes toward drug use.' As discussed in this chapter we found that information from NCADI and focus groups provided indications that the Campaign may have had some positive effects on anti-drug awareness. We did not find, however, that these sources provided indications of the Campaign having positive effects specifically on youth attitudes toward drug use." How are you addressing this serious concern?

*Answer.* ONDCP is proud to report that the National Youth Anti-Drug Media Campaign is undergoing a rigorous and extensive evaluation. The National Institute on Drug Abuse (NIDA), the world's leading drug research organization, is evaluating

the Campaign for ONDCP. The National Survey of Parents and Youth—NIDA's evaluation survey—is a nationally representative longitudinal (i.e., the same parents and youth will be interviewed up to 3 times) survey of parent and child attitudes, beliefs, and behavior with regard to drugs. More than 34,000 interviews will be conducted in households in 6-month waves. Reports detailing the findings from each of the Waves are issued every 6 months; the second report was released in April 2001 and the final report is due in Spring 2004.

The Wave 2 report presents findings from the first two waves of data collection (November 1999-May 2000 and July 2000-December 2000), focusing on evidence of change between the first two waves of data collection. There was a relatively short period of time for change in the outcome measures to occur; thus, the second evaluation report's analysis is not definitive. The analysis involves two complementary tests: (1) establishing that change has occurred, and (2) that the change is associated with exposure to the Campaign's messages. The Wave 2 report shows some positive and encouraging changes that suggest the Campaign is having an impact, but we cannot yet definitively attribute these to the Campaign. Findings include:

- There is good evidence of increased anti-drug sentiment among older non-drug-using teens (aged 14 to 18) with regard to their intentions to not try marijuana in the next year, which may signal subsequent declines in marijuana use in the near future.
- The parent data indicate a consistent pattern of association between exposure to anti-drug messages and three key outcomes (talking with, monitoring, and engaging in fun activities with youth), meaning that parents who reported high levels of exposure to anti-drug messages were more likely to have engaged in the three activities with their children—but, there were no changes in the measures between Waves 1 and 2.

Over time, because of the evaluation's longitudinal design and extensive set of questions measuring exposure to the Campaign and outcomes related to the Campaign's messages, it will be able to assess whether the Campaign is having an impact on drug-related attitudes, beliefs, and behaviors over time. The Wave 4 report (due 1 year from now) will include data for the first 2 years of Phase III and will be the first to include follow up data on the parents and youth first interviewed in Wave 1. The Wave 4 report will provide a more conclusive assessment of the extent to which any changes in beliefs, attitudes, and behaviors can be attributed to the Campaign.

The National Household Survey on Drug Abuse (NHSDA) and the Monitoring the Future Survey (MTF) indicate that youth drug use, particularly marijuana use, rose in the early 1990's but has leveled off, and even declined, in the past 2 to 3 years. It is during this period of time that the Campaign was launched, with full implementation in mid-1999. These surveys were not designed to evaluate the Campaign and include no questions about target audience exposure to anti-drug ads and response to the campaign; consequently, any changes in attitudes and behavior regarding drug use reported by these surveys cannot be associated directly with the Campaign. NIDA's independent evaluation of the Campaign, in conjunction with continued monitoring of drug use rates by NHSDA and MTF, will provide an assessment of the Campaign's impact over the next 3 years as the series of reports is released. Release of the 2000 NHSDA is expected in August 2001; the 2001 MTF in December 2001; and the next evaluation report (Wave 3) in Fall 2001.

#### NATIONAL YOUTH ANTI-DRUG MEDIA CAMPAIGN

*Question.* The GAO report also details faults in the data collected by ONDCP in Phase I and II. What documentation, independent of government funds, do you have that shows the effect of this \$750 million media campaign?

*Answer.* The National Youth Anti-Drug Media Campaign is undergoing a rigorous and extensive evaluation by the National Institute on Drug Abuse (NIDA). NIDA is the world's leading drug research organization and has an unassailable reputation for objective research. While it's too early to detect many statistically significant changes between the benchmark first wave (November 2000) of the NIDA evaluation and the most recent report, we believe the major measures of trial usage, and the leading edge indicators of attitude and belief, are moving in the directions we want.

NIDA/WESTAT says, "There is credible evidence of an increase in desirable beliefs and attitudes between Waves 1 and 2." For example, it indicates the following in the areas of trying and using marijuana:

- Statistically significant higher non-intention to try marijuana among 14 to 18 year-old nonusers, particularly high sensation-seekers (+4.3 percent);

—Directional decrease in perceptions of friends' usage among 12 to 18 year-old non-users.

We are seeing good results in the area of attitudes and beliefs, which are precursors to behavior change. Although most increases are not statistically significant, they are moving in the right direction. For example, there are clear increases in anti-drug attitudes among 12 to 13 year-old non-users, in terms of perceptions that using marijuana regularly will:

- Make you lose your ambition;
- Cause you to lose your friends' respect;
- Not make you have a good time with your friends;
- Act against your moral beliefs; and
- Mess up your life.

Significant increases in anti-drug attitudes among 14 to 18 year-old non-users, in terms of perceptions that using marijuana even once or twice will:

- Make you lose control of yourself;
- Get you in trouble with the law;
- Not make you feel better about yourself; and
- Not make you have a good time with friends.

A 4.4 percent increase (not statistically significant) in anti-drug attitudes among 12 to 13 year-old non-users, in terms of perceptions that using marijuana even once or twice will not make you like the coolest kids. Among Hispanic youth we have seen some indications of increases in advertising exposure and ad recall and decreases in several measures of marijuana use, including "ever used" (–6.3 percent) and "past year use" (–8.0 percent). With respect to parents, NIDA/WESTAT says, "There is impressive and consistent evidence for associations between parental exposure and reported behavior and cognitions related to several Campaign objectives in the desired direction."

In addition to the NIDA evaluation, ONDCP studies other national monitors such as PDFA's PATS Study (which is funded independently of the Campaign), University of Michigan's Monitoring the Future, and our Ogilvy & Mather ad tracking surveys. These reviews provide additional indicators which lead us to believe strongly that the Campaign is working. In addition, the 2000 Monitoring the Future Study shows positive movement in anti-drug attitudes, increased perceptions of marijuana risk and a directional decline in use among the nation's 8th graders:

- "More recent classes of eighth-graders have begun to see marijuana as dangerous to the user, and to become more disapproving of its use, which probably helps to explain the recent decline in use."

The work of the Partnership for a Drug Free America gives us further reason to be optimistic. Their Partnership Attitude Tracking Study (PATS):

- Indicates that youth who reported seeing anti-drug ads on a daily basis increased overall, from 32 percent to 49 percent (a relative increase of 53 percent) from 1998 to 2000.
- Specifically, Federal anti-drug media purchases resulted in significantly increasing teen awareness of anti-drug advertising: PATS shows half of teens now claiming daily anti-drug ad exposure.
- Youth's perceived risk of negative consequences associated with marijuana use increased significantly from 1998 to 2000.
- There was an approximate increase of 6 percent in youth's perception of losing friends (from 47 percent to 50 percent), or missing out on good things (from 53 percent to 56 percent).
- Linking this finding to advertising, data indicates that youth who saw anti-drug ads more frequently were more likely to be aware of the risks of using drugs.
- Youth's perception of difficulty to say no to marijuana decreased in 1999 & 2000.
- Youth intent not to use marijuana increased in 1999 and 2000.
- The proportion of youth who report that anti-drug ads made them less likely to try or use drugs increased overall, from 30 percent to 37 percent (a relative increase of 23 percent) from 1998 to 2000.

PATS data shows that the upward trend in teen marijuana usage is now being reversed since it's peak in 1997:

- Lifetime use of marijuana is down from 44 percent to 40 percent (a relative decrease of 9 percent)
- Use in the past year has decreased from 36 percent to 33 percent (a relative decrease of 8 percent)
- Use in the past month has decreased from 24 percent to 21 percent (a relative decrease of 3 percent)

Ad Tracking and Copy Testing. Further audience survey work within the advertising campaign itself provides additional indicators of effectiveness:



- Data indicates that advertising levels are directly related to agreement with anti-drug belief statements.
  - Data shows that as anti-drug beliefs increase, intent to use marijuana decreases.
  - Many of the commercials created for the campaign significantly strengthen anti-drug beliefs and/or reduce intent to use.
  - Visual recognition of the anti-drug logo more than tripled from 10 percent to 46 percent in nearly half the time of what is expected in the average new product launch.
- Taken collectively, this information paints a clear picture of the campaign's growing impact.

*Question.* When will you have data from your review of Phase III?

*Answer.* The National Survey of Parents and Youth—NIDA's evaluation survey—is a nationally representative longitudinal (i.e., the same parents and youth will be interviewed up to 3 times) survey of parent and child attitudes, beliefs, and behavior with regard to drugs. More than 34,000 interviews will be conducted in households in 6-month waves. Reports detailing the findings of each Wave are issued every 6 months; the second report was released in April 2001 and the final report is due in Spring 2004.

Over time, because of the evaluation's longitudinal design and extensive set of questions measuring exposure to the Campaign and outcomes related to the Campaign's messages, it will be able to assess whether the Campaign is having an impact on drug-related attitudes, beliefs, and behaviors over time. The Wave 4 report (due 1 year from now) will include data for the first 2 years of Phase III and will be the first to include follow up data on the parents and youth first interviewed in Wave 1. The Wave 4 report will provide a more conclusive assessment of the extent to which any changes in beliefs, attitudes, and behaviors can be attributed to the Campaign.

*Question.* Your statistics show different trends among different teenage age groups (12–17 and 18–25 year olds). How does your campaign reach these groups individually or are the same messages being sent to both?

*Answer.* The Primary objective of the National Youth Anti-Drug Media Campaign is to reach tween and teen youth, and their parents with an education message that will help them stay free of drug use. Young adults are not part of our target audience set and would require a different strategy if they were. Media time/space is purchased targeting teens 12–17 and their parents. The 18–25 year old segment was not the original focus of the Campaign, which reinforced the idea that this is an inoculation effort targeted primarily at non-users, with a secondary emphasis on occasional users. Research data, including from Westat, confirm that occasional usage rises with age, and the idea of reaching tweens as the primary focus of a prevention effort continues to be a sound strategy.

However, given the mix of media utilized for teens 12–17, which includes a significant television and radio presence, and the nature of how media is consumed, the Campaign also has a significant presence among 18–25 year olds. The extensive use of television on networks such as the WB, UPN and cable channels MTV and ESPN provides strong delivery to both teens and young adults 18–25. Other media also work this way. For example, a recent analysis of our Ecstasy radio effort revealed that many of the top radio stations targeting teens are also the lead stations for adults 18–25. Given the recent reported rise in Ecstasy trial and usage among the 12–34 segment, the Campaign has been flexible and accommodated this dynamic via an anti-Ecstasy effort on radio stations appealing to teens and young adults.

The creative message aired for these groups is the same, focusing on prevention, delivered through strategic messaging platforms such as Negative Consequences and Resistance Skills.

*Question.* News reports claim that teen drug use is going up and that the drug of choice is getting more dangerous and experimental. Your evidence shows the trend decreasing, but you usually compare it with 1970's data. Where is your data that compares it to a similar generation (early vs. late 90's)?

*Answer.* Drug use in the U.S. reached peak levels in 1979 and then declined significantly through 1991, from 14.1 percent to 6.6 percent. Since 1991, the percentage of the household population twelve and older who are current users of any illicit drug has remained relatively steady, with no statistically significant changes. However, it is clear that our nation still faces a serious problem with illicit drug use, especially among our youth and among chronic, hardcore drug users. There are currently more than 3.3 million chronic cocaine users and almost 1 million chronic heroin users in the United States. These users consume the bulk of the cocaine and heroin; and are responsible for a disproportionate amount of the crime, health, and social consequences attributed to drug use.

The 1999 NHSDA (the most recent available), provides some good news about youth drug use. After a five-year period of rising drug use, the rate of current use of any illicit drug among 12–17 year olds declined for the second straight year, dropping from 11.4 percent in 1997 to 9.0 percent in 1999 (returning to the 1996 level). This may indicate that the increases that began in 1993 finally have been reversed. However, not all of the news is positive. For those aged 18–25 years, the current rate of use of any illicit drug has risen—up from 13.1 percent in 1992 to 18.8 percent in 1999. Without appropriate treatment, this 18–25 age cohort, which includes many of those who started using drugs in the early 1990s, is expected to continue to relatively higher rates of drug use as they age.

A second key source of data on youth drug use comes from the Monitoring the Future Study (MTF), a yearly survey of 8th, 10th, and 12th graders. The latest MTF data, for 2000, provides additional support for the good news in youth drug use—2000 is the fourth year in a row that drug use rates have leveled or declined since their rapid rise in the early 1990s. Use of most illicit drugs in all three grades remained unchanged from 1998 and 1999. As reported by the NHSDA, marijuana use dominates youth drug use and the situation is serious, with more than one in twenty high school seniors reporting daily use of marijuana.

The data from the Monitoring the Future Survey (MTF), as with the NHSDA, clearly shows that not all the news is good. All three grades showed notable increases in MDMA/Ecstasy use. Specifically, MTF data shows past year use for 8th graders increased from 1.7 percent in 1999 to 3.1 percent in 2000; past month use for 10th graders increased from 1.8 percent in 1999 to 2.6 percent in 2000; and past year use for 12th graders increased from 5.6 percent in 1999 to 8.2 percent in 2000. Furthermore, among 12th graders, the perceived availability of MDMA rose from 40.1 percent in 1999 to 51.4 percent in 2000 (not measured for 8th or 10th graders). The movement of MDMA from the club or rave scene into schools, neighborhoods, and other venues is especially troublesome. Special emphasis on prevention and enforcement efforts must be developed and implemented immediately to reverse this trend.

While we remain optimistic that the recent trends are moving in the right direction, we clearly must continue our efforts to ensure the trends remain positive, especially with regard to new and emerging drug threats.

*Question.* Do you have any evidence that your branding campaign is having an effect on “drug users?”

*Answer.* The central objective of the Campaign is to prevent youth 9–18 from ever using illicit drugs, not to convince users to stop using highly addictive drugs. The drug prevention and communication experts who helped to shape the strategy for the Campaign believe our focus has to be on prevention, which discourages or delays early experimentation. Once drug users have progressed beyond abstinence to initial experimentation to regular substance abuse, treatment and finally criminal penalties (combined with treatment) much better address the users’ ingrained behavior.

Rather than hoping to cure an addict’s recurring disease with media messages, ONDCP hopes to use persuasive social marketing communication to intervene with sensation seekers and others before they have a drug problem—not after.

The brand awareness is quite high overall for the campaign. Based on Partnership for A Drug Free America’s PATS Study, ONDCP’s Advertising Tracking Study, and Copy Testing Analyses, we believe our advertising is also related to changes in beliefs and decreases in intentions to use drugs. PATS data show awareness of ads has increased for non-users and users of Marijuana, and some positive directional movement in risk awareness. As with our other findings, we find the trends moving in the right direction.

The following PATs data support this contention:

[In Percent]

	Non-Marijuana Triers	Past Year Mari- juana Users	Past Month Marijuana Users
1998:			
See or hear commercials telling you about the risks of drugs everyday or more .....	33.3	29.7	29.2
Agree a lot that commercials made you more aware of the risks of using drugs .....	38.8	19.1	17.1
Agree a lot that commercials made you less likely to try or use drugs .....	40.8	13.3	10

[In Percent]

	Non-Marijuana Triers	Past Year Mari- juana Users	Past Month Marijuana Users
1999:			
Agree a lot that commercials gave you new information about drugs .....	36.6	21	19
See or hear commercials telling you about the risks of drugs everyday or more .....	46.9	40.4	37.4
Agree a lot that commercials made you more aware of the risks of using drugs .....	43.7	21.3	19.2
Agree a lot that commercials made you less likely to try or use drugs .....	45.8	14.7	12.5
Agree a lot that commercials gave you new information about drugs .....	40.6	19.9	18.7
2000:			
See or hear commercials telling you about the risks of drugs everyday or more .....	51.3	46.8	46.6
Agree a lot that commercials made you more aware of the risks of using drugs .....	47.1	23.4	20.2
Agree a lot that commercials made you less likely to try or use drugs .....	50.3	14.6	10.3
Agree a lot that commercials gave you new information about drugs .....	45.2	21.4	18.2
Base sizes 1998 .....	3,872	2,384	1,572
Base sizes 1999 .....	3,939	2,001	1,251
Base sizes 2000 .....	4,428	2,209	1,397

## PARENTS FOR A DRUG-FREE FUTURE (PARENT DRUG CORPS)

*Question.* This is President Bush's new initiative to provide grants to parent organizations for training programs to reduce drug use in our children. It is proposed to be a 5 year program totaling \$25 million with \$5 million annual allocations. There are very few additional details available on this program. What age group of children are you planning on targeting with this program?

*Answer.* The Parent Drug Corps program will target parents and not their children. This effort will focus on making parents more cognizant of their critical role in educating their children about the dangers of drug use. The program will seek to ensure better and more effective involvement of parents with their children, as well as empowering parents as members of the community to take on a more visible leadership role in drug-control and other important issues facing their community.

The Administration is confident that this is an effective approach because parents have a special stake in the health and safety of their neighborhoods and communities. In the past, parents have played key leadership roles in organizations like the PTSA, in faith-based organizations, and in social and service clubs. They can and should expand these roles into other organizations and coalitions. Parents are a critical source for informing state and local governments about problem areas, issues, and needs, as well as for assistance in forming effective responses to these identified problems and measuring their success or impact. The Parent Drug Corps will enable parents to assume stronger roles in the lives of their children and the communities where they live.

*Question.* What research indicates that this is the right approach to take in reaching parents?

*Answer.* The Prevention Research Branch at NIDA has greatly changed the nature of its research portfolio in the last several years, resulting in an increased emphasis on the family with regards to drug abuse prevention. This emphasis on the family includes:

*Primary Prevention Programs.*—This involves working with families through an entire population, such as a school system. These types of programs involve prevention activities with the school, family, and the community.

*Selective Prevention Programs.*—These are prevention programs that include a family focus conducted with children who are considered at larger risk for drug abuse. Examples include young children who are: highly aggressive, experiencing

academic and behavior problems in school, or born to substance abusing parents or are living in homes where substance abuse occurs.

*Indicated Prevention Programs.*—These family-focused prevention programs consist of children who are already beginning to experience problems with substance use, but not yet at a clinically significant level. Examples include adolescents who are experiencing difficulties in a number of areas, including school, behavior, and drug use.

*Developmentally Appropriate Prevention Programs.*—The portfolio contains prevention programs that are targeted towards different developmental levels (e.g., pre-school, elementary, middle and high school) and target transitional periods that are difficult for children (e.g., transition from elementary to middle school and from middle school to high school).

*Culturally Appropriate Prevention Programs.*—The portfolio contains prevention programs with a family focus that focus on children and families from different cultures (e.g., American Indian, African American, Hispanic, and Asian).

*Urban/Rural Populations.*—Because of the different needs of these populations, some of the family-focused programs in the portfolio focus on urban populations and others focus on rural populations.

*Gender.*—There is an increasing emphasis in the portfolio for examining developing programs that are gender and culturally appropriate.

*HIV Prevention.*—More recently there has been an emphasis in the portfolio for research grants that focus on HIV prevention in the context of drug abuse prevention.

*Question.* What will be the breakdown of grants? How much for administrative/overhead costs?

*Answer.* ONDCP intends to minimize administrative costs but recognizes that an empirically sound evaluation is of paramount importance to ensure the integrity of the program. This evaluation will guide ONDCP's management of the program as it will be focused on outcome measures of effectiveness. Based on our experience with other programs, including the Drug-Free Communities Program, we believe that non-grant costs are unlikely to exceed eight percent of the amount appropriated for the program.

*Question.* What programs will parent organizations fund through this program? What groups will be targeted with this program?

*Answer.* This program will provide matching funds to national parents' organizations for the following purposes:

- Assist training thousands of parents in communities nationwide in skills, methods, and information that help prevent drug abuse by young people;
- Promote cooperation among national parent efforts and increase their impact through fostering partnership with the network of parent organization affiliates and chapters, regional and state-level entities that involve parents, and local community anti-drug coalitions; and
- Provide science-based prevention strategies, information, and materials to parents and parent-serving organizations, thereby strengthening their ability to protect their children from the risks of drug use.

The program will target parent groups with experience in drug prevention efforts.

*Question.* Will groups submit grant requests to ONDCP? Who will administer the program? Who will decide on the awards?

*Answer.* Although ONDCP is a unique Executive Office of the President agency with both policy and programmatic responsibilities, it does not have the personnel to staff the specialized grants administration apparatus necessary to administer the Parent Drug Corps Program on its own. Therefore, ONDCP will maximize efficiency and ensure accountability through entering into an agreement with another Federal agency with the capacity to provide efficient grant administration.

ONDCP maintaining an oversight function over this drug prevention program creates numerous benefits to the parent groups applying for grants and those who are eventually awarded funds. For example, ONDCP will be responsible for overseeing the work of the grant management agency throughout the entire grant process, including competition, award, disbursement, and monitoring through normal Federal grant-making mechanisms.

ONDCP recognizes that local coalitions require immediate access to leadership development, strategic planning assistance, field-tested initiatives, distance-learning opportunities for staff and community volunteers, media and public affairs guidance, and other services which may not be readily available at the local level. The ONDCP-grant management agency partnership will serve those needs as ONDCP is able to utilize its role in shaping national drug control policy to better serve the grantees through increased outreach and responsiveness without sacrificing the tra-

ditional grant management functions to ensure accountability of these drug prevention funds.

*Question.* At what age does research indicate parents will have an effect of initiating a dialogue on drugs with their children?

Answer. The educational responsibilities of a parent are not so specific as to allow for dialogue on any specific issue to wait for “the right time.” Parents who form close and responsive relationships with their children from the beginning and who use the parental dialogue to properly socialize and educate their children on all those issues important to the family will know when the time has come to talk about drugs. An open and effective parental dialogue is two-way and informs both the child and the parent. This is not done in isolation, but rather as part of a long-term dialogue initiated and intended to move the child along a continuum of learning, decision-making, and empowerment that will, in the end, prepare another generation of parents to do the same with their children.

#### HIDTA

*Question.* Since it was created in 1988, the High Intensity Drug Trafficking Area program has been very successful in providing Federal assistance to better coordinate and enhance counterdrug law enforcement efforts of local, state, and Federal law enforcement agencies in areas where major drug production, importation and distribution flourish.

A good example is the Midwest HIDTA, which includes my state of North Dakota. In fact, I believe the Midwest HIDTA serves as a model for its work to coordinate area law enforcement in the fight against methamphetamine.

Today, there are 33 HIDTAs across the nation—each trying to deal with their own special needs to reduce the supply and demand of the illegal drug of choice in their areas.

Last year, Congress approved a \$14 million increase for existing HIDTAs and to create two more. For fiscal year 2002—with two additional HIDTAs to fund, the Administration has requested level funding from fiscal year 2001.

What is your office’s vision for these HIDTAs and the Federal government’s role in providing the resources they need to continue providing this critically needed assistance to our states?

Answer. ONDCP greatly appreciates the bipartisan support the HIDTA program has enjoyed since the program’s inception in 1988. There currently are 28 HIDTAs across the nation. This number includes the Southwest Border HIDTA (which encompasses five regional partnerships) and the two newly designated Nevada and North Florida HIDTAs. HIDTA-designated counties comprise approximately 10 percent of U.S. counties and are present in 41 states, Puerto Rico, the U.S. Virgin Islands, and the District of Columbia.

The Anti-Drug Abuse Act of 1988 authorized the Director of The Office of National Drug Control Policy (ONDCP) to designate areas within the United States which exhibit serious drug trafficking problems and harmfully impact other areas of the country as High Intensity Drug Trafficking Areas (HIDTA). The HIDTA Program provides additional Federal resources to those areas to help eliminate or reduce drug trafficking and its harmful consequences. Law enforcement organizations within HIDTAs assess drug trafficking problems and design specific initiatives to reduce or eliminate the production, manufacture, transportation, distribution and chronic use of illegal drugs and money laundering.

The HIDTA Program helps improve the effectiveness and efficiency of drug control efforts by facilitating cooperation between drug control organizations through resource and information sharing, collocating and pooling resources, coordinating and focusing efforts, and implementing joint initiatives. HIDTA funds help Federal, state and local law enforcement organizations invest in infrastructure and joint initiatives to confront drug-trafficking organizations. HIDTA’s also help facilitate treatment and prevention in the communities they serve.

ONDCP will continue to utilize the funds Congress appropriates for the key priorities of the HIDTA Program:

- Assess regional drug threats;
- Design strategies to focus efforts that combat drug trafficking threats;
- Develop and fund initiatives to implement strategies;
- Facilitate coordination between Federal, State and local efforts; and
- Improve the effectiveness and efficiency of drug control efforts to reduce or eliminate the harmful impact of drug trafficking.

The ability to maintain regional flexibility while demanding accountability is essential to the HIDTA Program’s success. ONDCP formalized its HIDTA Program Review Process during 2000 to ensure that the overall HIDTA Program addresses

the goals and objectives of the National Drug Control Strategy in an effective, efficient, and fiscally responsible manner. ONDCP must be continuously aware of the management, operation, and performance of the individual HIDTAs so that it can fulfill its oversight and support responsibilities in managing the HIDTA Program and provide recommendations to the Director of ONDCP regarding the Program.

The individual HIDTAs are required to assess the drug-related threats in their areas and establish effective strategies and appropriate initiatives to address the threats. Performance must be measurable and in accordance with the Performance Measures of Effectiveness and the Government Performance and Results Act. HIDTA resources must be used efficiently with a high degree of fiscal accountability. Compliance with ONDCP/HIDTA policies and procedures is required.

In order to monitor the HIDTAs and to provide the oversight required by ONDCP, a HIDTA Program Review Process for review of the individual HIDTAs has been established. The HIDTA Program Review Process addresses the following areas with regard to the individual HIDTAs:

- Support of the National Drug Control Strategy by the strategies and initiatives of the individual HIDTAs;
- Effectiveness of the HIDTAs' efforts in accomplishing their missions;
- Efficiency in the use of HIDTA resources;
- Accountability in the use of HIDTA resources; and
- Compliance with ONDCP policies, program guidance, and directives.

Furthermore, ONDCP contracted with Klynveld, Peat, Marwick, Goerdeler (KPMG) to perform external financial audits. In order to maximize the impact of these limited audit resources, KPMG is currently conducting audits based on a risk-assessment model. While we are pleased that these reviews/audits have not discovered any major problems, the program/budget reviews have provided the impetus for ONDCP to provide some HIDTAs with conditional grant language to bring minor issues into compliance.

ONDCP is preparing to obligate the \$14.5 million in discretionary funding Congress provided in fiscal year 2001. Supplemental budget requests for the discretionary funds from 23 of the 26 HIDTAs (now 28) totaled in excess of \$48 million. The requests were thoroughly reviewed and ONDCP will soon begin obligating these funds in the following manner:

- Provide basic funding to establish the recently designated Nevada and Northern Florida HIDTAs. This funding will enable the HIDTAs to begin focusing on HIDTA Program priorities related to combating their regional threat, including intelligence/information sharing, training, and communications interoperability. These funds are incorporated as base funding in ONDCP's fiscal year 2002 Budget Request.
- Provide funding to bring the HIDTAs designated in 1999 (Central Valley California, Hawaii, New England, Ohio and Oregon) up to the minimum \$2.5 million level necessary to provide effective support. In order to become fully operational and fund a new fugitive apprehension initiative, the six-state New England HIDTA will receive a total of \$2.85 million.
- Provide connectivity via the Regional Information sharing System network (RISS.net) to all HIDTAs. This will bring the HIDTA Program into compliance with a requirement of the Presidentially directed General Counterdrug Intelligence Plan (GCIP).
- Enhance Several HIDTA intelligence centers.
- Enhance existing and create new HIDTA law enforcement initiatives.

#### SUBCOMMITTEE RECESS

Senator CAMPBELL. Thank you very much for appearing. This hearing is recessed.

[Whereupon, at 10:18 a.m., Thursday May 3, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# **TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2002**

THURSDAY, MAY 10, 2001

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

The subcommittee met at 9:38 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, DeWine, and Dorgan.

## **DEPARTMENT OF THE TREASURY**

### **STATEMENT OF JAMES SLOAN, ACTING UNDER SECRETARY, LAW ENFORCEMENT DIVISION**

#### **OPENING REMARKS**

Senator CAMPBELL. Good morning. The committee will be in order. I apologize for being a little late. It is one of those morning.

We are here today to talk about the fiscal year 2002 budget request for the Treasury law enforcement agencies. The mission of the Bureau of Alcohol, Tobacco and Firearms can be summed up in three major strategic goals: To reduce violent crime, to collect the revenue, and to protect the public. In order to accomplish these goals, the ATF is requesting a total of \$803.521 million for the fiscal year 2002. We will be talking about some of their responsibilities this morning.

Similarly, the Secret Service goals speak of their wide-ranging duties to protect our Nation's leaders and visiting world leaders, to reduce threats posed by global terrorists, to reduce crimes against our Nation's currency and financial system. The Secret Service is requesting a total of \$860.469 million in fiscal year 2002. We will be getting some information on that as well.

The Treasury law enforcement agency with probably the most diverse jurisdiction is the United States Customs Service. Their responsibilities include stimulating and protecting trade and economic growth, border security, reducing narcotics trafficking, to disrupt criminal finance and public protection. The Customs Service believes they need a total of \$2,385,226,000 next year to carry out their mission. That sounds like a lot of money but it should be noted that over \$250 million of that is for their automation modernization project.

The fourth agency before us this morning is the Federal Law Enforcement Center known as FLETC. They provide comprehensive

training to Federal law enforcement officers, establish partnerships with client agencies, they work with agencies to evaluate and adjust training schedules and availability. It is estimated that the consolidated training provided by FLETC saves the Federal Government about \$175 million per year. The FLETC funding request is \$122.602 million.

Probably the least visible Treasury law enforcement agency is the Financial Crimes Enforcement Network. FinCEN, as it is called, supports a major Treasury goal by working with Federal, State and local law enforcement agencies to dismantle domestic and international money laundering networks. Included in this responsibility is the management of the program to register check cashing and similar businesses, as well as the administration of the Bank Secrecy Act. To accomplish this goal, FinCEN is requesting \$45.155 million.

For the first time this morning, we will also hear from the Director of the Office of Foreign Assets Control. Although this is a small office, it has a very significant impact. It is responsible for enforcing economic and trade sanctions against some foreign countries based upon policy decisions made by the President of the United States. The Department estimates that the funding necessary for this effort is at least \$19.732 million.

So we have a full plate of requests of money this morning. I might mention to the witnesses that we are going to have a vote at 11:30, so I would appreciate it if you would make your comments relatively brief. We will go over them, and as in the past, we will do the very best we can for you.

I am going to chair part of the hearing and I have one of those murderous mornings, as Senator Dorgan does, and he will also be chairing part of the hearing.

STATEMENT OF SENATOR BYRON L. DORGAN

Senator Dorgan, if I could ask for comments.

Senator DORGAN. Mr. Chairman, thank you very much. I have a Commerce and Energy Committee hearing occurring at the moment, as well, so I think what we will do is switch off, and I appreciate that. We appreciate the witnesses and appreciate the work they do for the law enforcement agencies in the Federal service.

Let me just say that your remarks, I think, pretty much cover my feelings about what we are doing. I have great admiration for the service of the men and women who work in these agencies. They do a lot of important work, some of it not well recognized at times, but we need to be very supportive of their efforts. We spend a great deal of money in these areas. We also need to be attentive to that, to make sure it is spent in a wise and appropriate way.

But I have read the testimony that will be presented this morning by the agencies and by Mr. Sloan and we appreciate your being here. I will not cover the same ground that the chairman did, only to say that we appreciate the service of the men and women who work in your agencies.

[The statement follows:]



## PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Mr. Chairman, I join you in welcoming these gentlemen here today. Other than the IRS, the agencies these men represent have the most direct impact on the lives of our constituents than any other agencies which we fund in this Subcommittee. They protect our borders and our currency. They facilitate trade and save lives. They do their duty to uphold and enforce our laws. We appreciate the hard work they do for us and we need to ensure that we provide them with the resources to do their jobs.

The budget that has been presented to us—in my view—fails the men and women who serve on the frontlines. While ostensibly providing nominal increases for each agency, this budget will force each agency to absorb cuts in programs which support their missions.

I am deeply troubled by this budget and the difficult choices all of your agencies will have to make in the coming year if we are constrained by this budget. While the budget may be sufficient to avoid letting people go, it does so just barely. Instead of just limping along, we should be formulating a multi-year hiring plan to bring skilled and motivated men and women into the Customs Service, Secret Service, ATF and the other law enforcement agencies.

The Department of Justice has requested funds to hire an additional 1,100 new Border Patrol agents. Why is not the Department of the Treasury seeking a similar level of new staff for its agencies? The burdens we are placing on these agencies is increasing and the resources they need to do their jobs deserves to increase as well. Otherwise we will continue to face recruiting and retention problems.

I look forward to your testimony and to working with you in the coming months. Thank you.

Senator CAMPBELL. Senator DeWine, do you have a statement?

Senator DEWINE. Mr. Chairman, I am glad to be a member of the committee. Thank you very much. I am looking forward to the testimony today. I have a written statement which I would like to make a part of the record.

Senator CAMPBELL. Without objection, it will be included in the record.

Senator DEWINE. Thank you.

[The statement follows:]

## PREPARED STATEMENT OF SENATOR MIKE DEWINE

Thank you Chairman Campbell and Ranking Member Dorgan for holding this important hearing today. As one of the newest members of the subcommittee, I am glad to be here and ready to get down to business.

Today's hearing is a great opportunity to discuss and examine many of the varied issues facing our nation's law enforcement agencies. Given the vastness of the issues we could talk about, I intend to focus my attention on three areas of particular interest to me and to my home state of Ohio. These areas include drug interdiction; the implementation of the Continued Dumping and Subsidy Offset Act, which is the law that Senator Byrd and I wrote to fight unfair trading practices; and the Bureau of Alcohol, Tobacco and Firearms' (ATF) efforts to keep guns out of the wrong hands.

I am pleased that the Acting Commissioner of our U.S. Customs Service, Charles Winwood, is here today and am interested in getting his input on the state of our current international counter-narcotics operations. I hope to receive an update on the delivery status of the P-3 aircrafts provided in the Western Hemisphere Drug Elimination Act, as well as information regarding the need for additional resources to stop drugs from entering our borders.

The Custom's Service is also playing a direct role in the implementation of the Continued Dumping and Subsidy Offset Act. We need this law because there are many foreign producers, who—in hopes of securing a greater share of the U.S. market or eliminating their U.S. competitors, altogether—are selling their products in the United States at or below production costs. Currently, Customs is writing implementation regulations for our Continued Dumping law. It is my hope that Customs and Treasury—and I have already raised this issue with Secretary O'Neill—will take the necessary action to ensure that the proposed implementation regulations are published very soon.

Finally, I am pleased that Director Bradley is here today to discuss ATF priorities. As my colleagues are well aware, ATF is an integral federal law enforcement

agency. Clearly, Treasury's role in the investigation and enforcement of our nation's gun laws is critical.

Again, I thank all of our panelists for being here today. I look forward to discussing these issues and others during the question period.

Senator CAMPBELL. We will start with our first panel, which is James Sloan, the Acting Under Secretary of the Treasury for Enforcement; Brad Buckles, the Director of the BATF; Charles Winwood, the Acting Commissioner of the United States Customs Service; and Brian Stafford, the Director of the United States Secret Service.

We will start in that order. Why do you not go ahead, Mr. Sloan.

Mr. SLOAN. Thank you, Mr. Chairman, Mr. Dorgan, Mr. DeWine. It is truly a privilege and an honor for me to be able to introduce to you today the Treasury law enforcement community. Rather than take away any of their time, because I think that they will need and require ample opportunity to present their statements and respond to your concerns, I would ask that my full testimony be included in the record of the proceedings.

Senator CAMPBELL. It will be included in the record. In fact, all of your full statements will be in the record.

#### PREPARED STATEMENT

Mr. SLOAN. Having said that, sir, and acknowledging the privilege and the honor it is to introduce them, I would like to present Director Buckles, Commissioner Winwood, and Director Stafford, and later today, Directors Newcomb and Basham and Deputy Director Baity.

With that, I will move on to Director Buckles. Thank you, sir.

[The statement follows:]

#### PREPARED STATEMENT OF JAMES F. SLOAN

Chairman Campbell, Senator Dorgan, and Members of the Subcommittee, I am pleased to be here today on behalf of Secretary O'Neill to introduce the fiscal year 2002 budget request for the Department of the Treasury's law enforcement bureaus and offices.

Testifying with me today are the heads of each Treasury law enforcement bureau: Charles W. Winwood, Acting Commissioner of the United States Customs Service (Customs), Bradley A. Buckles, Director of the Bureau of Alcohol, Tobacco and Firearms (ATF), Brian L. Stafford, Director of the United States Secret Service (USSS), W. Ralph Basham, Director of the Federal Law Enforcement Training Center (FLETC), William F. Baity, Deputy Director of the Financial Crimes Enforcement Network (FinCEN) and R. Richard Newcomb, Director of the Office of Foreign Asset Control (OFAC).

In addition to presenting the fiscal year 2002 budget request, I am also here today to discuss the most significant challenges we face in Treasury law enforcement. However, at the outset of my testimony, I want to thank the Members of this Subcommittee for their strong and continuing support for Treasury law enforcement. Because of your support in fiscal year 2001, we experienced the largest increase in Treasury law enforcement staffing in over a decade.

This Subcommittee is aware of the fiscal challenges we continue to face. The fiscal year 2002 budget request for \$4.3 billion and roughly 30,000 FTE provides our Treasury law enforcement bureaus and offices the support needed to carry forward our challenging missions. Overall, the President's fiscal year 2002 budget proposal would add roughly 900 full-time equivalent positions to Treasury enforcement above the fiscal year 2001 total enacted level. For example, this budget will provide the ATF with an overall increase of 340 full-time equivalent agents, inspectors and other staff, and will be used to enhance our explosives, arson, and firearms enforcement efforts. For Customs, the fiscal year 2002 budget request includes necessary funds to annualize the costs of 370 full-time equivalent positions associated with the

fiscal year 2001 enactment. These positions will further aid Customs in carrying out its very important drug and law enforcement missions.

All of our bureau heads will address their programs in greater detail today. I would now like to touch on a few of the highlights involving Treasury Enforcement.

TREASURY STRATEGIC GOAL: SUPPORT THE ACHIEVEMENT OF BUSINESS RESULTS

*Departmental Oversight*

In addition to funding, it is important that our law enforcement bureaus have clear policies and priorities. The Office of Enforcement continues to focus on providing support, oversight, and policy guidance to enhance the performance of our enforcement bureaus and provide strong leadership in the enforcement community.

*Performance Results*

As the Acting Under Secretary for Enforcement, along with my staff, I am working to ensure that the Treasury law enforcement bureaus' performance goals and measures conform to policy and that the bureaus strive to reach their identified targets. To that end, Treasury law enforcement bureaus are working hard to achieve the strategic goals and objectives identified in the Department's fiscal year 2000 through fiscal year 2005 strategic plan. Our law enforcement bureaus have improved in their overall performance as indicated by a comparison of our fiscal year 1999 and fiscal year 2000 results of the percentage of performance targets met by Treasury law enforcement bureaus and major offices.

<i>Fiscal year</i>	<i>Percent</i>
1999 actual .....	64
2000 actual .....	77
2001 Plan .....	82
2002 Plan .....	85

We will continue to strive to improve as we work toward the achievement of our fiscal year 2001 and fiscal year 2002 performance measure targets. It is important, however, that we not set goals that we are sure to reach. Instead, even though we may not achieve all of our goals, we must set targets that challenge us. If the performance measure targets do not "stretch" our bureaus, we will not improve.

It is my view that the performance measures contained in our fiscal year 2002 bureau performance plans will appropriately challenge us. However, I also recognize that we still have a long way to go in developing the best set of performance measures for our law enforcement bureaus. While this is true for all of our mission areas, such as protection, trade facilitation, and passenger processing, it is especially true for our traditional law enforcement mission. We will work within Treasury, with other Federal law enforcement agencies, and with the Office of Management and Budget (OMB) to develop the law enforcement measures to accomplish our operational priorities and achieve our agency goals more effectively.

*Infrastructure*

For our bureaus to accomplish their missions successfully, they need facilities that are safe and secure. They also need equipment that is up-to-date and reliable. We are working to meet these needs and thereby better serve the American people.

An example of this is the updated Customs Air and Marine Modernization Plan. This Plan is being cleared through the Department and will be forwarded to OMB and this Committee very soon. This Plan was prepared in response to a request by this Committee which, in noting the successes of the Customs Air and Marine Interdiction program, expressed its serious concerns surrounding the growing operational commitments associated with that success. Among other things, the Plan specifically addresses the Committee's concerns regarding the high cost of maintaining the fleet due to aircraft age and operational usage. The Air and Marine Modernization Plan includes a current description and status of air and marine assets and a strategic plan for replacing assets that have exceeded their useful life. To support this effort, the fiscal year 2002 budget request includes a \$35 million initiative for air and marine enhancements consistent with the Western Hemisphere Drug Elimination Act.

*National Laboratory Center*

The ATF National Laboratory Center (NLC) currently is located in a less than satisfactory commercial building in Rockville, Maryland, and a new government owned facility is being built as a replacement. In addition to the existing Forensic Science and Alcohol and Tobacco Laboratories, a new Fire Research Laboratory (FRL) will be part of the facility. In December 1999, ATF broke ground for its new NLC in Beltsville, Maryland. Once constructed, the new NLC will give ATF the kind of forensic and analytical science facility it needs to support firearms, explosives,

and fire investigations, as well as to conduct testing that insures the integrity of regulated alcohol and tobacco products.

The FRL is a new addition to ATF's technical expertise that will directly support fire/arson investigations and complement ATF's on-going fire/arson investigation initiatives such as the InterFIRE Fire Investigation Training, the Certified Fire Investigator Program, and the Accelerant Detection Canine Program. It will be the only laboratory in the world solely dedicated to supporting fire/arson investigations and the resolution of arson related crimes and advancing the science of fire evidence analysis. For the first time, investigators will have a resource that can help them unravel the difficult problems associated with fire ignition and spread. ATF has established a memorandum of understanding with the National Institute of Standards and Technology to join forces on research into the measurement and prediction of fire and its effects, to share training and technology, and to conduct joint research and technical assistance tasks on matters of fire science.

#### *ATF Headquarters*

ATF Headquarters currently is located in a portion of a privately owned office building. In response to increasing safety concerns and capacity limitations, construction funds were provided for a new ATF Headquarters Building. The new building also will be the cornerstone of the redevelopment of the New York and Florida Avenue corridors in Northeast Washington, DC. We anticipate project completion in the spring of 2005. Due to the importance of this project, including the need to ensure the safety of our employees, senior policy officials are monitoring this project closely to ensure appropriate funding, and that it adheres to the original completion schedule.

#### *FLETC Master Plan*

The expansion in recent years in the number of employees hired by the 73 law enforcement agencies that participate in FLETC has stressed FLETC's ability to meet all the requests for training. Although FLETC continues to be able to provide all the basic training needed, by using a temporary facility in Charleston, South Carolina, increases in bureau hiring require coordinated increases in funding for FLETC.

Consistent with past practice, FLETC has submitted its five-year construction plan and updates to Congress. This so-called Master Plan captures how FLETC proposes to expand its Glynco, Georgia and Artesia, New Mexico facilities to ensure that long range demands for training can be met. Currently, FLETC is being challenged to expand facility capacities at its Glynco and Artesia centers to meet expressed U.S. Border Patrol training requirements. A temporary site is now being used in Charleston to provide a portion of basic training due to predicted Glynco capacity limitation. As you know, the Congress has requested that FLETC's expansion be completed in fiscal year 2004, to eliminate the need for Charleston's use. FLETC's current Master Plan, identifies \$83.2 million in construction requirements (\$54.9 million over five years for Artesia and \$28.3 million over five years for Glynco). To date, FLETC has received \$39 million in appropriations and most of which has been, or will be, obligated by the end of fiscal year 2001. Initially, the Border Patrol's training facility in Charleston was scheduled to close in fiscal year 2004, with subsequent consolidation of all Border Patrol basic training at FLETC. Such a consolidation would generate \$55 million in cost avoidance for new construction, and another \$8 to \$12 million annually would be saved by the Border Patrol in per diem cost, above original projected costs. FLETC and Border Patrol have forged a partnership to continue to make prudent decisions to achieve the consolidation as close to the original target date as possible.

#### *FLETC's Cheltenham Facility*

As part of its efforts to support Treasury's law enforcement bureaus, the Office of Enforcement identified a need for a firearms requalification range facility in the greater Washington, D.C. area for Treasury and other law enforcement personnel. To address this need, in March 2000, an interagency working group was formed to conduct a feasibility study to determine the possibility of establishing a consolidated training facility in the Washington metropolitan area. The study attempted to find an available location that would meet the following criteria: (1) government owned property, (2) sufficient acres to allow growth, (3) within the D.C. metropolitan area, and (4) suitable buffer areas between neighboring residential or commercial property. We have identified a site in Cheltenham, Maryland, that meets these criteria, and thanks to the support of this Committee and Congress, we have \$30 million to build the facility. Although there is ongoing litigation about the site, we hope to be able to move forward soon.

The availability of a FLETC operated dedicated firearms and a vehicle operations requalification facility will promote optimum quality, quantity, and cost effectiveness for all law enforcement agencies in the greater Washington, D.C. area. While the original working group consisted of six Treasury law enforcement agencies—ATF, USSS, Internal Revenue Service-Criminal Investigations (IRS-CI), FinCEN, Customs, and FLETC—we now have over 29 agencies interested in using Cheltenham, including the U.S. Capitol Police.

HUMAN RESOURCES

We recognize, however, that the most modern facilities using the latest technology are useless if we are not able to recruit and retain high caliber personnel. We have taken a number of important steps to strengthen our workforce.

*Treasury Law Enforcement Study*

The fiscal year 2000 and fiscal year 2001 House Appropriations Committee Reports expressed concern about available Treasury law enforcement resources and infrastructure issues. In response, the Department of the Treasury, in coordination with the Office of Personnel Management, engaged a human resources management/consulting firm to prepare a series of issue papers. The issue papers involve senior executive service staffing; economy of scale/technology; human resource planning and workforce productivity; quality of work life; external funding; and training. In addition, I am pleased to inform the Committee that, as identified below, Treasury also conducted a series of complementary studies. Together, these efforts outlined the issues and challenges facing Treasury’s law enforcement bureaus. More importantly, the contractor has proposed strategies and next steps to help ensure that they will have the human and technical resources necessary to meet mission demands now and in the future. For certain, additional work will be needed to address the overall aspects of this endeavor.

There are many challenges that compel us to focus on these issues including an increasingly more demanding and complex operating environment, highly sophisticated and complex criminal activities, growing use of the internet, globalization, and the requirements to do more and having to do it with less.

The contractor’s report contains recommendations for next steps in a number of areas, some of which are listed here. However, it is important to note that this report does not connote Administration policy.

Topics	Issues	Next Steps
Senior Executive Service Staffing Levels .....	SES slot allocation; actual number of SES slots needed to carry out the law enforcement mission.	Develop proposal for achieving additional SES slots.
Technology and Economy of Scale .....	Importance of technology in Treasury Law Enforcement Bureau’s work; use of complex technology by criminals.	Review technology needs in the context of the new administration’s goals and bureau strategic plans. Develop plans for dealing with the insertion of new technologies.
Optimizing Staffing in Field Offices .....	Staffing of core occupations; reviewed each bureau’s organization, workforce, workload, and work processes.	Develop pilot offices; determine needed workforce profiles; and assess the costs.
Workforce Competencies and Compensation ...	Focus on workforce competencies and compensation.	Determine competitive levels of compensation and benefits.
Quality of Work-Life .....	Issues that positively and negatively affect employment (e.g. assignment to hardship posts).	Invest further study and attention into critical quality of work-life issues.

Topics	Issues	Next Steps
External Funding and Partnerships .....	How the Bureaus can partner with external organizations, such as commercial industry or trade associations, to help meet anticipated resource requirements.	To further develop the best ideas through a multi level review process.
Training .....	Identification of training needs that cut across bureaus; process for development of joint training; strategies for integration of programs into bureau specific curricula.	Enhance current efforts to facilitate inter-bureau training and the use of technology.

Further investments may be warranted to capitalize on many of the ideas and strategies proposed from both the external and internal efforts from this project.

*Hiring and Agent Staffing*

Retention of employees who have years of experience and in whom we have invested long hours of training is critical. In that regard, the Department has made progress toward meeting the challenges of improving our capacity to develop and retain high-caliber employees. Specifically, we have worked to address workforce retention and workload balancing issues with the aforementioned comprehensive studies. The analysis confirmed that agents and other core occupations are experiencing increased travel, longer working hours, and shortages in technologically current equipment. However, I am pleased to note that several fiscal year 2001 initiatives are being continued in fiscal year 2002, and with the Committee’s support this will enable us to respond to these challenges effectively.

*Senior Executive Service (SES) Allocations*

Allocation of SES positions within Treasury law enforcement bureaus is of vital concern to our present and future leadership planning. This represents one of our highest cross-cutting human resource priorities. This is one of the topics addressed in the contractor’s report, as noted above.

*Demonstration Pay Project*

The Demonstration Project was established to enhance the Department of the Treasury’s ability to recruit, develop, and retain highly qualified non-agent scientific and technical law enforcement personnel. It seeks to do so by implementing changes in personnel management practices for designated occupations. ATF recently launched its pay demonstration project for scientific and technical positions. The Demonstration Project emphasizes flexibility in approaches to recruitment, and establishes a pay-for-performance system designed to provide incentives to compete with state and local government and the private sector. ATF’s Demonstration Project consists of more than 250 employees within 13 divisions and includes occupations such as computer science, fingerprint analysis, firearms enforcement, document analysis, engineering, integrated ballistic information system specialist, firearms and tool making. Paybands, a performance appraisal system, performance-based bonuses and pay increases, and certification and licensure bonuses are some of the interventions being used to develop a higher performing workforce. By all counts, I am confident that this effort is a good barometer of the future for all of the Federal government.

As required by law, we recently provided the Congress with the Demonstration Project Interim Evaluation Report. It provides an assessment of the effectiveness of the project. The interim findings and conclusions state that participating employees are paid more and that they want to continue with the Project. They recognize the link between pay and individual performance. The Report also notes that management needs to make improvements to the performance appraisal system and improve communication to achieve Treasury objectives. Because the interim recommendations were made after just one year’s experience with the human resources interventions, this project needs to be extended to fully assess its effectiveness. Our extension request is included in the President’s April 9, 2001 budget. We thank the

Subcommittee for its support on this project, as we look forward to completing the research and making this capacity permanent.

*Improving the Office of Enforcement*

We also are working to improve the Office of Enforcement. In March, the General Accounting Office completed its report on the Office of Enforcement, entitled Department of the Treasury: Information on the Office of Enforcement. In addition to making a number of constructive observations, the report recommended that the Under Secretary for Enforcement “strengthen internal control by developing a policies and procedures manual to ensure that the policies and procedures on the circumstances under which the bureaus interact with Enforcement are clearly defined, documented and readily available for examination by bureau officials and others.” I want to assure you that we have begun to review our policies and procedures and develop a plan to comply with this recommendation.

TECHNOLOGY

It is especially important for Treasury law enforcement to define and pursue strategies that ensure adequate technological resources are available to support our law enforcement missions and bureaus. Computers and the Internet are an integral part of an ever-increasing number of criminal activities investigated by Treasury bureaus. We have seen computer-generated and computer-assisted fraud dramatically increase. Criminals, in the furtherance of their illegal schemes, frequently utilize hardware and software tools developed for the benefit of businesses and consumers.

Because of the competitive nature of Internet-based financial services, the focus is on speed, “24/7” access, and ease of use; all of which make the job of the “cyber criminal” a little easier. The Internet also provides the anonymity that criminals desire. Alarming, the Internet contains thousands of sites dedicated to all types of criminal activity. “Hacking” sites describe the methods for making intrusions into financial, telecommunications, and government systems, and allow the necessary “tools” to be downloaded directly to the perpetrator.

For just about every new technology that is found to be useful in the conduct of criminal endeavors Treasury law enforcement will have to make a decision on countering these technology related thrusts and find ways to master the relevant technologies. Without continuous technical upgrading and training, the criminal element may acquire an advantage over law enforcement in the fast growing areas of cyber-crime and communications countermeasures. We must meet this threat with technology, knowledge, and law enforcement personnel who have true mastery of these offensive or defensive tools to thwart, control, or reduce crime. Technology infusion and managing technology obsolescence, though at times resource draining, are essential tools for maintaining the decisive edge for the enforcement and protection mission. As noted earlier, we are planning to conduct a follow-on review of law enforcement technology needs and technology strategies to support the new administration’s goals.

MEETING OUR STRATEGIC GOALS

Of course, the purpose of focusing on our infrastructure, human resource and technology needs is to enhance our abilities to meet our law enforcement missions. Treasury’s law enforcement bureaus have a distinguished record of service. We are committed to building on this record and achieving even greater performance.

TREASURY STRATEGIC GOAL: COMBAT MONEY LAUNDERING AND OTHER FINANCIAL CRIMES

*Money Laundering and Financial Crimes*

The Office of Enforcement and the Treasury enforcement bureaus continue to lead the U.S. government’s efforts in the domestic and global fight against money laundering and related financial crimes. Treasury continues to author the National Money Laundering Strategy in conjunction with the Department of Justice. This strategy aims to attack not only the proceeds of narcotics trafficking, laundered, for example, through the Black Market Peso Exchange system, but also the illicit proceeds generated by child pornographers, trade fraud, terrorists, arms traffickers, and those who defraud the elderly.

FinCEN and the Treasury enforcement bureaus continue to work to improve feedback to the industry regarding the utility of the Suspicious Activity Reports (SARs) filed by financial institutions. SARs are a critical component of law enforcement’s ability to detect and combat money laundering. Many investigations are made or enhanced through the use of a SAR, and we are working with industry to help them understand better how law enforcement uses SARs through “The SAR Activity Re-

view,” published under the auspices of the Bank Secrecy Act Advisory Group. SAR review committee groups are being established in the major metropolitan areas to prevent duplication of investigative efforts.

Treasury Enforcement leads the U.S. delegation to the Financial Action Task Force (FATF) and its project to identify Non-Cooperative Countries and Territories (NCCTs). In addition to contributing actively to the FATF NCCT effort, Treasury has informed our domestic financial institutions about the risks posed by the 15 NCCT jurisdictions identified by FATF last June. FinCEN has issued formal advisories to alert U.S. financial institutions to specific deficiencies in the counter money laundering regimes in these 15 jurisdictions and to encourage our institutions to apply enhanced scrutiny to transactions involving them. Treasury has worked both with our allies and with officials from the NCCTs themselves to correct the shortcomings in law, regulation, and practice that elevate the risk of money laundering activity in these locales. We are pleased with the progress being made in many of these named jurisdictions and feel that it is directly attributable to this FATF exercise. We believe that the second round of NCCT reviews, scheduled to be completed by June, will have a similarly beneficial result.

#### *Money Service Business (MSB) Regulatory Program*

In the United States we are continuing to move forward on several fronts to strengthen the nation’s anti-money laundering program. A little more than a year ago, FinCEN issued a final rule requiring registration of money services businesses—money transmitters, check cashers, money order and traveler’s check businesses, and currency exchangers. The new rules will allow law enforcement authorities for the first time to have a firm idea of the size and location of the 200,000 or so entry points into the financial system that those businesses can represent. FinCEN has also issued a final rule requiring suspicious transaction reporting by money transmitters and money order and traveler’s check businesses; that rule is also currently scheduled to take effect at the beginning of next year.

Our priority is ensuring a smooth and effective implementation of both the registration and suspicious activity reporting rules, taking into account what we learn during this critical implementation period. A delay in the effective date of suspicious transaction reporting might be helpful to assure smooth sequencing of the new obligations, but no final decision has been made on this point.

During this implementation period, FinCEN is conducting an extensive outreach program to educate the MSB community about their registration and reporting obligations. On-going consultations are taking place with MSB industry representatives and a series of focus group meetings have been held in Chicago, Los Angeles, and New York. In addition, FinCEN is working closely with the Internal Revenue Service, a key partner with respect to oversight compliance by the MSB industry, to ensure that an enforcement and compliance infrastructure is in place by the time the SAR regulation takes effect.

#### *White Collar/High Tech Crime*

Treasury’s enforcement bureaus also protect our children from on-line pornographers, enhance the safety of worldwide e-commerce, and enforce the intellectual property rights of U.S. industry from unscrupulous pirates. Treasury’s law enforcement agents are recognized leaders internationally in the fight against high-tech crime in all of its manifestations; routinely provide important investigative and forensic assistance to their state and local law enforcement colleagues; and have earned the respect of the private sector industry through their effective handling of cases. Treasury agents have, for example, prevented a computer hacker from shutting down an on-line stock trading service and tracked and captured a hacker who caused the catastrophic shutdown of a medical diagnostic facility’s computer network and communication system. Treasury maintains a Department-wide initiative to ensure that all of its law enforcement bureaus have a technically skilled and highly equipped set of agents to investigate these type of cases, and has deployed nearly 200 Computer Investigative Specialists (CISs) throughout the nation. The CIS program ensures that Treasury agents can handle evidence in whatever media it is stored. Treasury’s enforcement jurisdiction in an increasingly high-tech and wired world.

#### *Black Market Peso Exchange (BMPE)*

Treasury’s counter-narcotic efforts have both a domestic and international dimension. Our initiatives to combat the BMPE, the largest money laundering system in the Western Hemisphere and the primary conduit for Colombian drug cartels, are a good example of this approach. Anecdotal law enforcement evidence, informant statements, and other evidence suggests that between \$3–\$6 billion is laundered annually using the BMPE system.



Three years ago we established a multi-agency BMPE Working Group which has developed and implemented an aggressive strategic plan to combat this form of money laundering. The Money Laundering Coordination Center (MLCC) created and operated by the Customs Service has proven instrumental in fighting the BMPE, is designed to synthesize intelligence from investigations targeting the BMPE. Housed at FinCEN, the MLCC has proven instrumental in fighting the BMPE. Combating the BMPE is a law enforcement priority.

In addition to these law enforcement efforts, the Department of the Treasury and the Department of Justice have developed and implemented an aggressive outreach program to make the U.S. business community knowledgeable of the operations of, and their vulnerability to, the BMPE system. Treasury and Justice are working with business leaders in their efforts to develop, adopt, and implement money laundering compliance programs and best practices guidelines that will aid their companies in avoiding BMPE transactions.

To promote awareness of the BMPE process and its detrimental effects on the global economy, Treasury has created the International BMPE Exchange Task Force. This Task Force is comprised of experts from Aruba, Colombia, Panama, United States, and Venezuela who will examine the operations of the BMPE as a money laundering system and will recommend policy options and actions that can be taken to effectively detect, deter, and prosecute BMPE money laundering.

TREASURY STRATEGIC GOAL: PROTECT OUR NATION'S BORDERS AND MAJOR INTERNATIONAL TRANSPORTATION TERMINALS FROM TRAFFICKERS AND SMUGGLERS OF IL-LICIT DRUGS

#### *Counter-Narcotics*

The Southwest Border (SWB) between the U.S. and Mexico continues to provide a significant challenge to Treasury's law enforcement operational mission. In fiscal year 2000, 293 million people, 89 million cars and 4.5 million trucks entered the United States from Mexico. This immense and growing volume of traffic represents an opportunity for those who would violate U.S. law, making control of our borders and ports of entry essential. Government estimates continue to indicate that nearly two-thirds of the cocaine entering the U.S. comes across the SWB.

Multiple government agencies are tasked with maintaining the flow of legal migration and trade while protecting the United States from the smuggling of drugs, illegal aliens, and other contraband. Customs has primary responsibility for ensuring that all movements of cargo and passengers that enter the United States comply with Federal law. Customs is also the lead agency for investigating and preventing drug smuggling into the U.S.

The challenges we face are significant and complex, but not insurmountable. Working through the Border Coordination Initiative, we have improved our law enforcement capabilities along the SWB. Under Treasury and Justice enforcement guidance, and with significant emphasis on interagency cooperation and locally developed innovation, we have improved port coordination, intelligence gathering and enforcement. We have also enhanced communication, coordination, and operational effectiveness of Federal law enforcement while still facilitating the movement of legitimate commerce across the SWB.

#### *Plan Colombia*

Since mid-1999, Treasury Enforcement has participated in efforts to assist the Government of Colombia in efforts to stop narcotics production and trafficking in that country. The \$1.3 billion "Plan Colombia" was passed by Congress to assist that. The Office of Enforcement has played a major role in the development of the components of that Plan and the contributions in support of its implementation. The Plan Colombia legislation included funding for Treasury programs, including \$68 million for upgrading the radar in the Customs P-3 fleet, \$2 million for OFAC sanctions activities, \$1 million for banking supervision assistance, and \$500 thousand for tax revenue enhancement. Funds provided to the State Department for assistance and training programs are also being used by Treasury bureaus—ATF, Customs, IRS—CID, USSS, and FinCEN—under the Office of Enforcement's lead, have developed plans to participate in a variety of law enforcement efforts such as enhancing the Colombian financial intelligence unit and thwarting the BMPE and other money laundering, smuggling, and counterfeiting activities.

## TREASURY STRATEGIC GOAL: REDUCE VIOLENT CRIME AND THE THREAT OF TERRORISM

*Firearms Violence*

We remain dedicated to reducing firearms violence through ATF's enforcement of the firearms laws. The President's budget permits ATF to maintain this enhanced level of effort and move forward with its comprehensive strategy to reduce violent crime.

As Director Buckles' will discuss in more detail during his testimony, the IVRS sets forth an aggressive three-part plan to reduce gun violence by coordinating ATF's firearms enforcement efforts to: (1) identify, investigate, and recommend prosecution of violent criminals and others who illegally use, possess, or attempt to acquire firearms; (2) deny access to firearms for criminals and others who cannot legally possess them through fair and careful regulation of the firearms industry and proactive investigation of illegal traffickers of firearms; and (3) break the cycle of violence and prevent firearms crimes through community outreach. ATF has enjoyed significant success in implementing this strategy. For example, in fiscal year 2000, ATF's efforts led to the conviction of 1,595 armed career criminals, armed drug traffickers, and other violent or prohibited persons who used, possessed, or attempted to acquire firearms. The President's budget request for ATF will enable us to build on this success.

*Counter-Terrorism*

The President's fiscal year 2002 budget seeks resources that will enable Treasury to continue to apply its unique expertise and assets to the Federal government's efforts to combat terrorism. Treasury's wide-ranging counter-terrorism responsibilities include preventing the unlawful traffic in firearms and explosives, protecting the President and other officials, enforcing the laws controlling the movement of assets, and enforcing the laws relating to exports from or imports into the United States of goods and services. In short, Treasury enforcement bureaus have the legal authority and the essential expertise to perform missions that are critical to the security of the United States, including:

- ATF has primary jurisdiction for the prevention of unlawful trafficking in firearms and explosives. ATF conducts over 90 percent of all Federal bombing investigations and maintains the Federal National Repository on Bombing Incidents.
- Customs is the guardian of our nation's borders. Its counter-terrorism mission is twofold: protect our nation from the introduction of Weapons of Mass Destruction (WMD) and prevent international terrorists from obtaining WMD materials, technologies, arms, funds to support their activities. Customs enforces the laws and regulations that directly relate to the responsibilities entrusted to the Department of the Treasury under Presidential Decision Directive 39. These violations include the smuggling of contraband into the United States; the illegal export of licensable technologies and arms; violations of international sanctions, embargoes and related money laundering statutes. Customs places special emphasis on violations that involve international terrorists, rogue regimes pursuing WMD development programs, and countries which support international terrorism.
- The FLETC offers a variety of programs aimed at assisting Federal, State and local authorities in their efforts to combat terrorism.
- FinCEN unique ability to "follow the money" strikes at the very heart of terrorist organizations. Through the use of a wide array of databases, FinCEN is able to reveal complex financial networks supporting terrorist activities.
- IRS-CI provides the expertise to deter one of the primary means of funding for terrorist organizations—tax fraud. The financial expertise of IRS-CI is best utilized in the investigation of various tax schemes, money laundering and the creation/use of illegal tax-exempt organizations.
- OFAC administers United States economic sanctions against foreign governments and organizations that support terrorism. OFAC's sanctions prohibit any financial transactions or dealings with terrorist sponsoring countries and foreign terrorist organizations and provide the blocking of assets of terrorist countries and entities by Treasury.
- The United States Secret Service (USSS) protects our nation's leaders, the White House complex and certain foreign dignitaries. In addition, the USSS is now the lead agency for the design, planning and implementation of security for events that have a high potential for attracting terrorist activity. The National Security Council proposes to the Attorney General and Secretary of the Treasury events to be designated National Special Security Events. Additionally, the USSS protects our financial infrastructure through its investigations

of counterfeiting, forgery, bank fraud, access device fraud computer intrusion, telecommunications fraud, false identities and fictitious instruments.

*National Threat Assessment Center (NTAC)*

The Secret Service NTAC develops and provides threat assessment training and conducts operational research relevant to public official, workplace, stalking/domestic, and school-based violence. The NTAC provides assistance to other Federal agencies, as well as other state, local agencies and organizations interested in developing threat assessment programs.

*Foreign Terrorist Asset Tracking*

Congress provided funding in fiscal year 2001 for OFAC to develop a Foreign Terrorist Asset Tracking (FTAT) Center. The FTAT Center will be responsible for developing government-wide strategies to counter terrorist fundraising and to incapacitate their financial holdings within the United States, and to assist other countries to employ similar strategies. Such strategies will bring to bear the full weight, influence, and authority of the Federal government—regulatory, diplomatic, defense, intelligence, and enforcement communities. Several agencies with counter-terrorism responsibilities have committed to participate in the FTAT Center—by providing the FTAT Center with all relevant information, by detailing specialists to analyze the data, and by appointing special liaisons to cement the constant interaction of the member organizations. OFAC is now hiring the FTAT Center's permanent staff and is working with participating agencies to identify detailees and liaisons.

TREASURY STRATEGIC GOAL: PROTECT OUR NATION'S LEADERS AND VISITING DIGNITARIES

*Winter Olympics*

The President's fiscal year 2002 budget identified a \$51.6 million resource need to support the fiscal year 2002 Olympic requirements for Treasury law enforcement bureaus. This assumes 1,681 law enforcement officers will be needed to carry out the security plan. An additional, 300 support personnel will be provided. Most of the costs incurred during fiscal year 2002 will be for travel and overtime directly related to the games. However, costs will also be incurred to continue the operation of several coordinating centers, to conduct additional contracted training, for miscellaneous contractual service, to purchase cold weather clothing and to move employees out of Salt Lake City at the conclusion of the Olympics. The number of law enforcement officers from Treasury bureaus is projected at 1,075, with the remainder of 606 to come from outside of Treasury.

The Secret Service is the lead Federal agency for designing, planning, and implementing security for designated National Special Security Events (NSSE). The 2002 Winter Olympics has been designated an NSSE and will occur February 8–24, 2002, in 15 major sporting event venues in and around Salt Lake City. In addition to providing a secure environment for the Olympic athletes and for spectators from all over the world, the Secret Service will also be responsible for providing security for numerous foreign heads-of-state/government, who attend Olympic events. The Secret Service will also provide security for the President and Vice President of the United States while they participate in the opening and closing ceremonies, as well as, any Olympic competitions they may decide to attend.

In addition to NSSE requirements, Treasury enforcement is a member of the Public Safety Utah Command. ATF has the responsibility to assist in the following activities: (1) prevent, detect and respond to arson and explosives activities; (2) provide bomb "render safe" technicians, explosives detecting canines, tactical special response teams, and tactical emergency medical technicians; and (3) provide intelligence analysis of threat data, as well as firearms and explosives tracing.

The Customs core mission responsibilities focus on the entry of equipment, cargo, and individuals participating or attending the games. The primary emphasis will be on the enforcement of intellectual property right violations of Olympic merchandise and antiterrorism efforts on the Northern Border.

TREASURY STRATEGIC GOAL: PROVIDE HIGH QUALITY TRAINING FOR LAW ENFORCEMENT PERSONNEL

To address some of the strain from increased demand for training, we have been exploring ways to use the latest technology to provide alternative means of delivering training courses. Recognizing that the FLETC facilities cannot accommodate all of the requests for training that are likely to arise in the future, we are searching for ways to use the Internet and video conferencing to provide needed training.

Likewise, the need for advanced training to keep law enforcement officers abreast of the latest trends in fighting crime is critical. We have been working closely with FLETC to explore ways to enhance training to address high-tech crime. One example of this approach is Computer Investigative Specialist (CIS) 2000 training. This course, which includes agents from the Secret Service, Customs, the IRS-CI, and ATF, uses state-of-the-art training and equipment to teach agents how to deal with the latest computer and encryption technology that they may encounter in conducting an investigation. The CIS 2000 agents have achieved many notable successes in their investigations of counterfeiting, money laundering and various types of fraud as a result of this course.

TREASURY STRATEGIC GOAL: MAINTAIN U.S. LEADERSHIP ON GLOBAL ECONOMIC ISSUES

*Trade Enforcement and Facilitation*

In the area of Regulatory and Trade Enforcement our goals have been to ensure that laws affecting trade and regulated industries are effectively enforced without unnecessarily burdening legitimate commerce. An effective means of realizing both goals is through targeting enforcement actions and extending the capabilities of our finite manpower with automated information management systems. We have also pursued international standardization of trade regulation as a means of enhancing enforcement cooperation while reducing the burden on business. The fiscal year 2002 budget request includes \$130 million for continued work on the Customs Automated Commercial Environment (ACE) and \$123 million for life support for the antiquated Automated Commercial System (ACS). Developing the ACE system is vital to Customs ability to effectively carry out its trade and other enforcement missions.

CONCLUSION

In this statement I have been able to touch on only some of the important programs of Treasury's enforcement bureaus. Each bureau head will address our programs in greater detail. And, of course, I shall be pleased to respond in writing to any questions you want to direct to me about any of our programs.

In conclusion, Mr. Chairman, again I would like to thank you, Senator Dorgan, and the other Members of this Subcommittee for your support of Treasury's law enforcement programs. Our law enforcement bureaus have grown, they are better equipped, and they have become more professional as a result of your oversight and support.

I also would like to thank the staff of this Subcommittee for its professionalism and patience not only this year, but also in past years. We have wrestled with the problems that inevitably accompany growth and a rapidly changing set of challenges. I do not want to miss this opportunity to express my appreciation and gratitude.

BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

**STATEMENT OF BRADLEY A. BUCKLES, DIRECTOR**

Mr. BUCKLES. Mr. Chairman, Senator Dorgan, Senator DeWine, thank you for this opportunity to appear here this morning to testify in support of ATF's fiscal year 2002 budget request and to report on results from your past investments.

As you noted, our budget request this year is for \$803.5 million and almost 5,000 full-time equivalent positions. This represents essentially a maintain current services budget with no new initiatives.

Over the past several years, this committee has secured additional resources for ATF related in large part to our firearms mission, and I am happy to report that your investments are paying off. Numbers of investigations, referrals for prosecutions, and convictions are all up dramatically. Since our cases focus on armed, violent, and often repeat offenders and those who knowingly supply firearms to them, removing these individuals from our streets produces a very direct and tangible benefit to the communities they threaten. At the same time, we remain committed to the prevention efforts, like the Gang Resistance Education and Training (GREAT) program, which is designed to prevent the next generation from starting down the road to gangs and violence.

Recent reports show that violent crime is at its lowest level in decades, and these statistics are encouraging, but they are still not acceptable. There is much work to be done and it is clear that this is no time to let up. Around the country, ATF is working with State, local, and other Federal enforcement authorities to develop coordinated strategies to address gun violence, and these united efforts are making a difference. This budget is essential if ATF is to meet its part of the bargain in these joint efforts. Our collective goal is to turn the tables and make the criminal with the gun the one who feels unsafe on our streets.

Another important investment of this committee, however, is proving to be somewhat problematic. The construction costs for our new laboratory and fire science facilities have escalated beyond original estimates. I am currently working closely with the Department to arrive at a solution that both funds the necessary construction and meets the approval of this committee. When this process is completed, I will be prepared to give you a full briefing and offer our solution to the problem.

Our important work in the alcohol, tobacco, explosives, and arson arenas will also be funded by this budget, and our work in each of these areas is vital, as well. ATF's annual revenue collections are now over \$14 billion. We protect millions of dollars in State revenues by preventing interstate smuggling of alcohol and tobacco products, and ATF is the source of leading-edge technology and unique capabilities in addressing bombings and arson crime.

## PREPARED STATEMENT

With your support, the men and women of ATF are determined to make this bureau a great value to the American public as we pursue our goal for a sound and safer America. Thank you for this opportunity to appear before the committee, and I will be happy to answer questions.

Senator CAMPBELL. Thank you. In my view, the ATF is already a great value to the American public, by the way, Mr. Sloan.

[The statement follows:]

## PREPARED STATEMENT OF BRADLEY A. BUCKLES

Thank you Mr. Chairman, Senator Dorgan, and members of the subcommittee. I welcome this opportunity to appear before the subcommittee and present to you ATF's goals for fiscal year 2002 and to report on the results of your previous investments in ATF.

I look forward to working with this subcommittee toward strengthening ATF's infrastructure, which is essential for ATF to continue to function as a highly professional and effective law enforcement organization. In my 27 years of service to the Bureau, I have had the opportunity to participate in the formulation of our strategic vision, and I am eager to assist in moving the Bureau forward in the new century.

The foresight of this subcommittee to provide fiscally sound investments has allowed the Bureau to strengthen its infrastructure to adequately support all program activities. Through calculated investments in investigative equipment, training, information technology, and personnel, ATF is in a balanced and stable position. I am pleased to report to you that your investments have been prudently spent. For the sixth consecutive year, the Office of the Inspector General's independent contractor (PricewaterhouseCoopers LLP) has issued ATF its highest audit opinion of "unqualified," with no material weaknesses. A copy of our Accountability Report will be delivered to each of your offices in the next few weeks.

As ATF's Director, I present to you a requested level of resources that maintains the strong foundation you have established. This level of resources focuses on the personnel and technology needed to address the varied and critically important responsibilities that have increased over the past decade. Challenges such as the investigation of cases resulting from the background check required by the Brady Act, expansion of focused enforcement programs, such as Project Exile and the Youth Crime Gun Interdiction Initiative (YCGII), and a continued leadership role on the Federal level in arson and bombing incidents require these resources.

## FISCAL YEAR 2002 BUDGET REQUEST

ATF's fiscal year 2002 Salary and Expense (S&E) request is \$803,521,000 in direct budget authority and 4,982 full-time equivalent (FTE). Our request represents an increase of \$32,378,000, or 4.2 percent over the total fiscal year 2001 enacted level of \$771,143,000.

This increase will maintain the current services program level of mandatory payroll costs and growth through inflation for existing programs. No new initiatives are included; however, this request will allow us to continue to build the foundation of critical initiatives funded in fiscal year 2001.

ATF has a unique combination of law enforcement and regulatory responsibilities. As Director, I will continue to focus on our core mission and vision of "Working for a Sound and Safer America . . . Through Innovation and Partnership," through our three principal strategic goals: (1) reducing violent crime; (2) collecting all revenue due to the United States; and (3) protecting the public. ATF has developed sound programmatic initiatives, based on existing laws and regulations, targeting resources to respond to crime and violent acts that threaten public safety and instill fear in all Americans. Our vision helps us chart the course to best serve the public and achieve new levels of effectiveness and teamwork.

## FISCAL YEAR 2000 ATF ACCOMPLISHMENTS

*Reduce Violent Crime*

As the Director of ATF, I am proud to appear before the subcommittee today to highlight some of ATF's accomplishments during the previous fiscal year. We have been able to perform at a high level because of dedicated ATF personnel and this subcommittee's support and guidance. Violent crime continues to plague America

despite the recent declines documented in Uniform Crime Report and Centers for Disease Control data. As a result, much of our efforts and resources have been devoted to reducing violent crime. We are reducing violent crime through multiple programs that use both our criminal and regulatory authorities.

Your investments are having an impact. In fiscal year 2000, ATF initiated 16,604 criminal investigations, an increase of 26 percent over the previous year. During this same period, 6,938 cases were referred for prosecution involving 8,737 defendants. This represents an increase over the previous fiscal year of 35 and 28 percent respectively. Indictments for criminal offenses more than doubled.

Effective enforcement of existing firearms laws has and continues to be a top priority of ATF. With the support and resources provided under the guidance of this Committee, in fiscal year 2000, 6,330 firearms cases were referred for prosecution involving 7,822 defendants. Again this represents a dramatic increase over the previous year of 36 and 29 percent respectively.

I would now like to present the primary programs in our efforts to combat violent crime.

#### *Integrated Violence Reduction Strategy (IVRS)*

In fiscal years 2000 and 2001, ATF received a combined increase in funding of \$62.2 million and 305 FTE to augment its Integrated Violence Reduction Strategy. We will be providing the subcommittee with a separate report on the accomplishments of the strategy. Today, I will provide you with a brief summary of how the various facets of the strategy interrelate.

Violent crime, specifically firearms violence, continues to be a grave public concern in America. ATF addresses this concern through IVRS with a multi-pronged approach: (1) investigating and arresting armed career and violent criminals and other prohibited firearms possessors, (2) denying criminals access to firearms through effective regulatory and enforcement efforts, and (3) providing outreach to youths to teach about the dangers of gangs and violence.

It is essential that ATF combine these elements to attack the violent crime problem. Thorough and consistent enforcement of the law is a crucial step in reducing violent crime, and will result in the prosecution and incarceration of armed offenders, removing certain criminals from society. Law enforcement must also address the continued flow of crime guns from illegal sources. Frequently, crime guns recovered in high-crime areas, where drug distribution fuels the need for firearms, are unlawfully obtained in other jurisdictions. The jurisdictions where the crime guns are being used may be unable to prosecute or even prevent the systemic diversion of guns to their city. Because of jurisdictional boundaries and limited resources, police departments often face barriers that prevent them from identifying the source of their crime guns. ATF has the unique ability to trace crime guns and provide analyses of tracing trends to assist these State and local agencies. Furthermore, the Bureau uses intelligence gathered from defendant debriefings to detect, investigate, and recommend prosecution of traffickers who illegally divert firearms into the hands of career criminals, gang offenders, and juveniles.

ATF's regulatory efforts augment its enforcement strategies by working to ensure that firearms dealers are in compliance with Federal law and that illegal diversions are not occurring. The Bureau strives to educate licensed dealers so that they do not sell firearms to individuals known as "straw purchasers," who then illegally traffic them to those persons prohibited from owning them. Seminars are conducted to not only clarify ATF regulatory requirements, but to promote best business practices for both compliance and security of merchandise. For example, ATF entered into a partnership with the National Shooting Sports Foundation to promote the "Don't Lie for the Other Guy" campaign that points out the penalties associated with purchasing a firearm for a prohibited person.

ATF administers the Gang Resistance Education and Training (GREAT) program, a community-based curriculum designed to instill basic life skills in children aged 8-14 (grades 3-8). GREAT addresses real-life issues, such as positive decision making, goal setting, conflict resolution and responsibility, and anger management, to name a few. The vision of the GREAT program is to prevent youth crime, violence, and gang involvement while developing positive relationships among law enforcement, families, and youth. The program offers children of all backgrounds the building blocks for personal empowerment to create safer communities.

#### *National Integrated Ballistics Identification Network (NIBIN)*

In addition to the firearms tracing process, which helps law enforcement officials identify the perpetrators of violent crime, ATF provides investigative support through its leadership role in the National Integrated Ballistic Identification Network (NIBIN), a contributing program of the IVRS initiative. NIBIN provides for

the nationwide installation and networking of automated ballistic imaging equipment in partnership with State and local law enforcement agencies. Because thousands more pieces of recovered ballistic evidence can be compared using automation than would be possible using only manual comparisons, links between otherwise seemingly unrelated crimes are discovered, and investigative leads are generated for police follow-up. In addition, the system makes it possible to share intelligence across jurisdictional boundaries, enabling State and local law enforcement agencies to work together to stop violent criminals. To date, a cumulative total of 684,344 images have been entered into the NIBIN network, consisting of the IBIS and DRUGFIRE technologies. These entries have resulted in 8,826 ballistic matches, and numerous shooting crimes have been solved as a result, many of which could not have been completed without the use of the system.

#### *Youth Crime Gun Interdiction Initiative (YCGII)*

YCGII is an integral part of ATF's Integrated Violence Reduction Strategy that focuses agent and inspector resources on interdicting the supply of firearms to two key age groups, juveniles (ages 0–17) and youths (ages 18–24), using the unique assets of crime gun tracing. During the 1990's, ATF developed new information systems to reinforce our firearms enforcement efforts. We can now use the crime gun itself as a vital investigative and evidentiary tool by tracing it back to its criminal user or its illegal supplier. In doing so, we are able to identify, arrest, and refer for prosecution both armed violent felons and those who are illegally supplying criminals and juveniles with guns. YCGII has been the platform for systematically developing, managing and analyzing crime gun tracing information.

ATF began the establishment of Regional Crime Gun Centers (RCGC) located in YCGII cities during fiscal year 1999. The RCGCs are an expansion of the National Tracing Center's Crime Gun Analysis Branch efforts. The RCGCs are located in major cities and supported by local special agents, police officers and civilians. Local law enforcement agencies can contact personnel at these centers for investigative assistance, queries, mapping of crime gun recoveries, full identification of possible suspects, and various other technological tools available from personnel who know the local jurisdiction and suspects.

During fiscal year 2000, ATF provided Youth Crime Gun Interdiction Initiative (YCGII) training to 1,678 ATF, Federal, State, and local law enforcement officers. ATF's 23 Field Divisions initiated YCGII investigations that resulted in 535 defendants, of which 345 have been convicted, 36 were found guilty on other charges and the remainder are awaiting further judicial action.

#### *Comprehensive Crime Gun Tracing*

The Comprehensive Crime Gun Tracing Initiative begun in fiscal year 2001 will expand comprehensive tracing capability as well as provide faster trace results. As a result, there has been an increase of approximately five percent of trace requests thus far in fiscal year 2001. The National Tracing Center (NTC) provides State and local agencies with information on crime guns to support their law enforcement efforts. The NTC provides valuable investigative leads to assist in solving crimes committed with firearms, and identifies those persons responsible for supplying crime guns to criminals. The NTC maintains the record of all crime guns traced by ATF, firearms stolen from firearms dealers and multiple sales of handguns. The Firearms Tracing System (FTS) provides data on firearms that is used by ATF special agents and inspectors to identify illegal firearms trafficking. The funds available in the fiscal year 2001 budget are assisting 250 State and local agencies in building tracing capability, and will allow ATF to complete traces and respond to requests more rapidly, making information available in real time for criminal investigations.

Currently 10 percent of traces are completed through Out of Business Records and in fiscal year 2001 over 50 percent of all traces have utilized these records in at least some part of the overall process. Consistent with Congressional restrictions relating to the centralization and computerization of firearms records, the NTC is also currently in the process of indexing Out of Business Records by a firearms serial number. This effort will dramatically reduce the average time to trace a firearm.

#### *Firearms Training*

ATF conducted 11 Serial Number Restoration courses in police laboratories across the United States. One hundred and forty-five law enforcement personnel were trained in the latest techniques for recovering obliterated or damaged serial numbers from crime guns.

Aimed at combating the firearms trafficking problem, a joint ATF and Department of Justice Firearms Trafficking Seminar was provided to approximately 150 U.S. attorneys and State and local law enforcement officers.



Through the National Firearms Examiner Academy (NFEA), ATF has developed a unique and innovative training program that has received much acclaim and recognition. This successful program represents a firm partnership between ATF, State and local police departments, and the firearms and ammunition industry. Designed to provide comprehensive training to entry level firearms examiners from State and local crime labs, the NFEA has developed a yearlong training curriculum that has become an all-inclusive benchmark for education in this field. The selection process is highly competitive and the course work demanding; to date, ATF has graduated 18 examiners. These examiners are trained in NIBIN technology, thus expediting State and local ballistics evidence examination on current and cold shooting cases.

#### *Arson and Explosives Enforcement*

ATF has had equally significant success addressing violent crime in the area of arson and explosives through enforcement and training. ATF's focus on violent crime involving acts of arson and with explosives continues to be a major initiative in the Bureau.

In fiscal year 2000, ATF certified fire investigators (CFIs) responded to an estimated 2,250 fires across the country. These highly trained special agents respond to incidents at all times of the day and night to make the initial determination wherever there is evidence of potential criminal acts warranting further investigation.

The Arson and Explosives National Repository Branch supports investigators from all levels of Government with the analysis of detailed incident information and the status of explosives thefts. It has over 95,000 incidents maintained in its state-of-the-art database. The Repository's tracing of recovered explosive material and military ordnances provides a vital investigative service to law enforcement personnel nationwide.

To prevent the criminal misuse of explosives, ATF is strengthening its cadre of explosives enforcement officers (bomb technicians), who possess unique capabilities in explosives and bomb disposal. Currently there are 23 explosives enforcement officers on board.

ATF's Explosives Study Group (ESG) is examining the tagging of explosive materials for purposes of detection and identification; the rendering of common chemicals used to manufacture explosive materials inert; the imposing of controls on certain precursor chemicals used to manufacture explosives; State licensing requirements for the purchase and use of commercial high explosives; and the possible use of prevention (explosives detection) technologies, as directed by Section 732 of the Antiterrorism and Effective Death Penalty Act of 1996, as amended by the Omnibus Consolidated Appropriations Act for fiscal year 1997.

In early 2000, the ESG completed its analysis of an ATF commissioned study by the International Fertilizer Development Center (IFDC) on whether different ammonium nitrate (AN) products manufactured and imported into the United States can be identified by their existing, unique crystallographic or other properties. We have endorsed IFDC's findings, which are encouraging about the possibility of using the unique signature of each product as a forensic tool in the event of a criminal incident involving AN fertilizer.

The ESG has also compiled a comprehensive list of State Licensing Requirements for the purchase and use of commercial high explosives, and is currently consulting with State regulators and industry members to develop recommendations for consideration by Congress that would advance public safety.

The ESG is working with The Fertilizer Institute (TFI) to expand the "Be Aware for America Program" to address areas of vulnerability for distributors of ammonium nitrate fertilizer and agricultural chemicals.

Additionally, the ESG is funding promising research at the Oak Ridge National Laboratory, including prototype development, engineering, and training on advanced sensing technologies for explosives detection. The ultimate objective is the development of a portable explosives detector that will function with a short, real-time response rate for trace amounts of explosives.

The ESG has continued to communicate and work with other Federal agencies such as the Federal Aviation Administration, the U.S. Customs Service, the Department of Justice, and the Department of Energy. The goal is to achieve a coordinated effort to identify and direct resources toward the most promising technologies, for both the detection of additives and the detection of explosives and explosive materials themselves.

It is our intention to provide briefings to interested Members of Congress on our findings and ongoing research.

### *National Response Teams*

Our National Response Teams (NRTs) are comprised of highly trained and well-equipped individuals and related support functions that can be deployed within 24 hours to major bombing and fire scenes anywhere in the United States. The NRTs were activated 27 times in fiscal year 2000 to investigate major fire and explosives incidents. Of these 27 activations, 13 were determined to be arsons, 3 were accidental fires, 10 were undetermined fires, and 1 was an accidental explosion. Our NRTs had a fire cause/determination ratio of 61 percent within the fiscal year, a rate approximately three times higher than the national average. To date, of the incidents that occurred in fiscal year 2000, half have been resolved by arrest, and we expect this percentage to increase as ongoing investigations continue. Because of the complexity of arson investigations, it often takes several years to complete an investigation from the time of incident to determining the cause of the fire, and, if an arson, to arresting the arsonist. In fiscal year 2000 customer surveys completed by State and local users of the ATF NRT gave it a satisfaction rating of 97 percent.

In addition to investigating fire and explosives incidents, the NRTs provide assistance to other Federal, State, and local law enforcement agencies during special events. In fiscal year 2000, the NRT provided support at the World Trade Organization Meeting in Seattle, Washington; the U.S. Olympic Trials in Sacramento, California; the Republican National Convention in Philadelphia, Pennsylvania; and the Democratic National Convention in Los Angeles, California.

### *Arson Training*

ATF and the U.S. Fire Administration (USFA) are teaming up to redesign and deploy a web-based system managed by the USFA, entitled "Fire and Explosion Investigation Management System." This system will include information on fires and fire-related explosives incidents that occur nationwide for use by the fire/explosion investigation community. In partnership with the insurance industry, we have finalized the development and begun the distribution of InterFIRE, a virtual reality, CD-ROM-based training tool that is intended to establish "best practices" in fire investigation and bring fire investigators to a base level of knowledge.

To strengthen cooperation between investigators and prosecutors, and to encourage prosecution of cases, ATF provided four Advanced Arson for Prosecutors classes in fiscal year 2000, training 211 prosecutors from across the country.

Two classes were delivered in Advanced Cause and Origin/Courtroom Techniques. This highly advanced and technical program was attended by 32 students. These individuals are full-time public service employees whose workloads are focused primarily upon the investigation or management of arson-related crimes.

### *Explosives Training*

ATF has produced and distributed numerous sets of explosive training materials, including Power Point presentations, videotapes, and lesson plans, to ATF field offices and State and local officers. These materials have included "A Deadly Mix," "When Danger Calls," "Tools of Terror," and "A Mother's Tears." These materials, along with numerous additional Bomb Threat Management programs, have been used extensively to train State and local law enforcement officers and to provide explosive awareness training to public and private agencies.

To protect the nation's largest airports, the Federal Aviation Administration (FAA) and ATF have teamed together to conduct national seminars on terrorism and explosives (SEMTEX) and field training exercises that better prepare and train aviation, security, and law enforcement personnel in explosive countermeasure techniques. In fiscal year 2000, ATF trained 500 personnel.

During fiscal year 2000, we delivered the Advanced Explosives Destruction Techniques (AEDT) course. The audience for this training is State and local bomb technicians. ATF explosives experts developed this course because more bomb technicians are injured during disposal operations than while performing any other activity, including render safe operations. It is the only training of its kind in the country. As one would expect, the demand to attend this unique and important training has been considerable. To meet the large demand we have doubled the number of courses to be offered this fiscal year.

Through its explosives and accelerant detection canine training program, ATF provides an investigative tool for use in explosives, firearms, and fire investigations, National Response Team investigations, public security, and the investigative needs of outside agencies. The canine training facility in Front Royal, Virginia, is now open and the kennels have been completed. Under a training arrangement with the U.S. Department of State, ATF also trains explosives detection canines for foreign countries to be used overseas in the war against terrorism, and to protect American travelers abroad against terrorism. Through fiscal year 2000, ATF has trained and

certified 80 accelerant-detecting canines for State and local agencies, and has trained and certified 183 explosives detection canine teams for deployment in 10 countries worldwide. Additionally, since 1998, ATF has trained 35 explosives detection canine teams for other Federal, State, and local agencies including the FBI, the Central Intelligence Agency, and the Internal Revenue Service.

#### *Counter-Terrorism*

ATF Special Agents, Inspectors and professional support personnel stand in the front ranks of the nation's battle against terrorism. ATF is charged with the responsibility of preventing terrorists from acquiring firearms and explosives, the principal instruments by which they carry out their terrorist acts. In part, to fulfill that responsibility, ATF staffs each Joint Terrorism Task Force with its most experienced criminal investigators to deter and prevent terrorist activity. The criminal enforcement and regulatory nature of ATF's unique areas of firearms, explosives, arson, alcohol, and tobacco have contributed to our working relationship with other State, local and Federal agencies in combating terrorism. Recent ATF investigations have prevented weapons and money from reaching the international terrorist groups for which they were intended. ATF's enhanced communication with the Intelligence Community has opened access to training, information, and analytic judgements on general and specific national security threats from domestic and international terrorists. To complement its investigative and regulatory efforts, ATF deploys the National Response Teams to every National Security Special Event, providing unparalleled expertise in the areas of post-blast and arson investigation.

#### *National Laboratory Center*

In December 1999, ATF broke ground for its new National Laboratory Center in Beltsville, Maryland. The building is now under construction with a projected completion date of December 2002. The new National Laboratory Center will give ATF the kind of forensic and analytical science facility it needs to support firearms, explosives, and fire investigations, as well as to conduct testing that insures the integrity of regulated alcohol and tobacco products.

Also at the new facility is a one-of-a-kind fire research center located alongside the Forensic Science Laboratory and the Alcohol & Tobacco Laboratory. The Fire Research Laboratory is a new addition to ATF's technical expertise that will directly support fire/arson investigations and complement ATF's on-going fire/arson investigation initiatives such as the InterFIRE Fire Investigation Training CD-ROM, the Certified Fire Investigator Program and the Accelerant Detection Canine Program. It is the first laboratory in the world solely dedicated to supporting fire/arson investigations and the resolution of arson related crimes and advancing the science of fire evidence analysis. For the first time, investigators will have a resource that can help them unravel the difficult problems associated with fire ignition and spread. ATF has established a memorandum of understanding with the National Institute of Standards and Technology (NIST) to join forces on research into the measurement and prediction of fire and its effects, to share training and technology, and to conduct joint research and technical assistance tasks on matters of fire science. Information Technology

We are placing the best available technology into the hands of every ATF employee, enabling us to work better and smarter. In the summer of 2001 we will begin the refresh cycle to replace all desktop and laptop computers throughout ATF under our enterprise-wide seat management contract. We were the first Federal agency to implement a seat management contract, which outsources end-user-computing support to private industry. This approach frees up our people for other important agency functions and guarantees a refresh of technology at specified intervals with a flat budget.

The National Field Office Case Information System (N-FOCIS) is comprised of a suite of custom-built case management applications: N-Force, N-Spect and N-Quire. N-FOCIS, built specifically for ATF Special Agents and Inspectors, assists in the collection, dissemination, management and analysis of investigative and inspection information. The secure centralized information repository fed by the N-FOCIS applications streamlines antiquated business processes and provides an analytical component for managing complex case and inspection information. Through the automation of many of the reporting requirements, ATF has increased the efficiency and effectiveness of its field work force by eliminating redundancy and providing a powerful analytical tool to sift through large amounts of information.

N-FOCIS technology continues to be refined and expanded. The multi-phased development plan is flexible and allows for changes in information needs and advances in new technology. As we continue our operational missions into fiscal year 2002, ATF's N-FOCIS programs will be the "information" heart and collection point for

all information that supports all of our outlined enforcement and regulatory programs.

#### *Management and Administrative Efforts*

During fiscal year 2000 ATF continued to focus on improving our administrative systems and addressing quality of worklife issues so that the Bureau as a whole can continue to function as a streamlined and efficient tool for government service. Our systems goal continues to address an integrated, strategic approach to all administrative systems to streamline operations, realize cost efficiencies, and create a paperless environment. To this end, ATF implemented its integrated financial management information system and acquisitions system in fiscal year 2000. This new system automated and linked the budgeting, requisitioning, acquisition, receiving and payment processes. We are pleased to report another unqualified audit opinion using the system in its first year of implementation.

We are also proud to report that we successfully deployed the second phase of the Treasury-wide Human Resources information system, now designated as HR Connect. With this deployment, the Bureau is electronically processing virtually all of its personnel actions through HR Connect.

ATF completed the first year of a pilot Treasury Demonstration Project for Designated Critical Positions that addressed a major quality of worklife issue. The pilot program, authorized by Congress in 1998, allowed ATF to test new management practices designed to improve our capacity to recruit, develop and retain a workforce of the highest caliber. Unlike other demonstration projects, ATF employees were given the option of participating. Approximately 90 percent of the eligible employees (primarily in our scientific and technical occupations) elected to participate in the Project. Authority for this project is slated to end on October 19, 2001; it has only been implemented for one year. Since Congress intended the authority to be based on three years, ATF is requesting an extension to continue the project. This will allow us the opportunity to better gauge its impact and effectiveness in meeting the project's goals and its potential for other Treasury Bureaus' participation. Congress will be briefed on its progress in the near future.

During this past fiscal year, we also established a pilot flexi-place program for inspectors as directed by a congressional mandate on telecommuting. Moreover, we hired 519 employees in fiscal year 2000. In the hiring period from October 1, 2000, through April 2, 2001, we have hired 109 special agents and 99 inspectors. This demonstrates our commitment to the congressional mandate to hire more special agents and inspectors. Of the 96 special agents hired from October 1, 2000, through March 14, 2001, 21 percent are minorities, an increase over fiscal year 2000, when 8.4 percent of 202 new agents hired were minorities. These numbers reflect a vast improvement in our goal to diversify our workforce. Our current level of hiring puts the Bureau in a good position to continue hiring additional personnel approved in our fiscal year 2001 budget. By the end of fiscal year 2001 we anticipate having 2,288 special agents and 953 inspectors on board. We believe this staffing level will provide ATF with the necessary resources to better accomplish our various anti-violent crime, public safety, and revenue protection missions.

At the heart of these initiatives are integrity and internal controls considerations. With this in mind, we have issued new policy guidance to our managers and simplified the reporting process for management control reviews to ensure proper and effective use of Bureau assets. We are also in compliance with the Civil Asset Forfeiture Reform Act of 2000 which took effect in August 2000. Training was provided to all field divisions, special agents and attorneys prior to the effective date of the law change. We believe that we have created a solid foundation to support the Bureau's mission requirements.

#### *Internal Training Activities*

Excellence in performance and programs requires continuous training and development, and the Bureau is committed to fully developing the individual and collective skills of its employees. ATF provides high quality, innovative training programs, thus improving individual and organization performance in support of ATF's Strategic Plan.

In fiscal year 2000, ATF provided nearly 10,000 instances of training for ATF personnel. ATF provided basic training to 155 agents, 63 inspectors, and 18 specialists through the New Professional Training program (NPT). The New Professional Training Program is designed to provide a uniform approach to the training and development of new ATF employees. Training initiatives enhance employee development and performance in a variety of technical training programs, which seek to expand the base of employee knowledge and improve skills regarding ATF's roles, missions, and capabilities. In much of the technical training provided, there are ei-

ther pre-tests for admission or academic requirements for graduation. In addition, lessons on ethics and integrity, customer service, teamwork, and accountability to the American public are woven into many of the training programs.

In fiscal year 2000, ATF focused on leadership development programs for all ATF supervisors and managers with an emphasis on core competencies, ethics, integrity, and teamwork, to include: 23 new Directors of Industry Operations (DIOs) attended a training conference this fiscal year; the goal of the training was to assist the DIOs in adapting to their new roles; training of 60 managers through the Institute for Management Studies; formulation of University partnerships to provide standardized leadership training; design of a formal, comprehensive, Bureau-wide succession plan program and sponsorship of the Women in Federal Law Enforcement annual conference. And, in conjunction with the conference, produced the video, "Women in Federal Law Enforcement: Pioneers in Valor and Vision." The video will be used for future ATF and other agency law enforcement recruitment efforts.

ATF also is a leader in Federal law enforcement in training 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.

#### *Collect the Revenue Due*

For fiscal year 2000, ATF continued to honor its obligation to fairly and efficiently collect approximately \$14.1 billion in revenue in accordance with current laws. In fiscal year 2000, ATF collected the following revenue: \$13,500,000,000 in alcohol and tobacco excise taxes; \$197,800,000 in firearms and ammunition excise taxes; \$103,000,000 in special occupational taxes; \$262,000,000 in tobacco floor stocks taxes; and \$6,300,000 in licensing and transfer fees, for a total of approximately \$14,100,000,000.

The Balanced Budget Act of 1997 contained excise tax increases on tobacco products as of January 1, 2000 and January 1, 2002. Also, a floor stocks tax was to be paid by industry members with inventory on hand on each of these days. In fiscal year 2000, ATF collected \$262 million in tobacco floor stocks taxes. Tobacco importers were required to obtain ATF permits for the first time when this legislation became effective. We also issued regulations relating to the tobacco tax increase and to the restrictions on previously exported tobacco products and cigarette paper and tubes.

ATF works with Federal, State, local and Foreign Governments in an effort to effectively collect revenue and to regulate the industries subject to the Bureau's authority.

ATF pursues tax assessments against domestic producers and individuals for several reasons, one being when ATF determines that documentation supporting the tax-free exportation of these products is counterfeit, inaccurate, or non-existent. For example, during fiscal year 2000, ATF discovered a United States distiller smuggling distilled spirits disguised as windshield washer fluid and other solvents into the Ukrainian Republic and the Russian Federation. This distiller made restitution of \$1 million to the Ukrainian Republic, had its U.S. operating permit suspended for 7 days and submitted a \$1 million offer-in-compromise for record keeping violations.

In fiscal year 2000, ATF continued to redirect its approach to revenue collection through a program that uses a factoring system to identify taxpayers who pose high risk to the revenue due. In addition, a statistical sampling process was established to identify taxpayers for inspection in order to validate the criteria of the program and determine whether other industry activities pose jeopardy to the revenue. For these programs, new internal control documents were developed to pinpoint high-risk activities and weaknesses for inspection. These programs were developed for the distilled spirits, wine, malt beverage, tobacco, and firearms manufacturing industries. ATF collected an additional \$4 million due to excise tax examinations.

In fiscal year 2001, we have entered a partnership with the Financial Management Service to pilot an electronic filing system (Pay.gov) for the industries ATF regulates. To date, we have 6 tobacco companies using this system which represents approximately 21 percent of the taxes ATF collects.

In fiscal year 2000, ATF opened 125 alcohol and tobacco diversion investigations. Seizures of alcohol and tobacco monies and real property totaled over \$2 million. Diversion investigations in fiscal year 2000 also resulted in 70 defendants being recommended for prosecution and several members of organized crime groups being successfully prosecuted for alcohol and tobacco related criminal activity. Diversion of alcohol and tobacco products is a growing international problem and ATF is taking the lead in investigating these crimes.

*Protect the Public**Firearms Regulation*

As of March 30, 2001, there are 103,934 Federal firearms licensees in this Nation authorized to conduct commerce in firearms. In an effort to ensure firearms industry members fully understand the regulatory requirements of maintaining their license, we conducted 77 seminars for licensees in fiscal year 2000. Our National Licensing Center screens all firearms license applicants for proper qualification to engage in business.

ATF's National Firearms Act Branch maintains the National Firearms Registration and Transfer Record (NFRTR), which is the central registry of NFA firearms, such as machineguns, short-barreled rifles, short-barreled shotguns, silencers, and destructive devices. In fiscal year 2000, the NFA Branch processed 309,006 registrations and transfers of NFA firearms. ATF searches the NFRTR in support of criminal investigations and regulatory enforcement inspections. The NFA Branch is in the process of imaging and indexing all NFA records back to 1934 to afford ATF the highest possible accuracy of the NFRTR.

Our Firearms and Explosives Imports Branch (FEIB) is responsible for processing all applications for permits to import firearms, ammunition, and other defense articles into the United States, and for maintaining the registry of commercial importers of such articles. In fiscal year 2000, FEIB processed 12,135 import permit applications, and 300 registration applications.

With the firearms licensee population over 100,000, it is not practical to perform a regular cycle of inspections of the entire licensee population. Fortunately, the majority of dealers rarely have guns they sold end up at a crime scene, and only a small percentage of the population is involved in criminal activity. In fiscal year 2000, ATF conducted full compliance inspections of 3,620 licensees, resulting in the detection of 5,934 violations and 1,214 referrals to law enforcement. ATF also inspected 3,938 FFL applicants, resulting in the detection of 181 violations and 97 referrals to law enforcement.

ATF implemented a "focused" inspection policy in October 1998, that directs field division personnel to select Federal firearms licensees (FFLs) for inspection based on information developed by the Crime Gun Analysis Branch of the NTC. This valuable information provides indicators of possible illegal firearms trafficking. These include such things as the number of crime guns traced to an FFL in a 1-year time-frame, time to crime, number of firearms reported stolen, and number of unsuccessful traces associated with a particular FFL. ATF then selects for inspection the FFLs that have a high rate of the indicators associated with their businesses. The focused inspections help direct ATF inspectors to the most potentially problematic FFLs.

In fiscal year 2000, ATF conducted 1,012 focused, more intensive, compliance inspections. These included inspections of over 900 dealers who had 10 or more crime guns traced to their businesses in 1999 and 30 dealers who were uncooperative in responding to trace requests. As a result of these focused inspections, 45 percent of the licensed dealers inspected were recommended for follow-up actions ranging from a re-inspection to license revocation proceedings. Inspectors also recommended 20 revocations and 33 denials of licenses.

Based on what we have learned from this project, we have further refined our focused inspection program to inspect those licensees whose traces establish a short time to crime (within 3 years of the retail purchase) and those who have been uncooperative in responding to traces.

*Alcohol Regulation*

ATF receives approximately 70,000 alcohol beverage label applications each year, of which 20 percent were denied approval due to non-compliance with regulatory requirements. For 80 percent of these applications, the turnaround time to approve the applications was 9 days, which is the customer service standard.

ATF remains committed to improving customer service for label and formula approvals. In fiscal year 2000, ATF implemented the methods identified by the Beverage Alcohol Streamlining Team (BAST) with the goal of improving ATF business processes, thereby improving customer service. In fiscal year 2001, ATF initiated a customer service survey, and these results will be available for the first time this fiscal year. ATF created the Alcohol Labeling and Formulation Division as a "customer service center" in response to concerns of regulated industry members. It is now on a par with the National Revenue Center, Cincinnati, Ohio; the National Tracing Center, Falling Water, West Virginia; and the National Licensing Center, Atlanta, Georgia.

During fiscal year 2000, the National Revenue Center, Cincinnati processed approximately 3,500 applications and issued approximately 2,400 permits for the industries that ATF regulates.

We have a very strong dialogue with members of the regulated industries, State authorities, advocacy groups, and public health organizations. ATF processed petitions and issued notices of proposed rulemaking resulting in the establishment of three new viticultural area and changes to a fourth area.

#### *Explosives Regulation*

ATF inspectors carried a considerable workload in helping to ensure the lawful use and storage of explosives materials. In fiscal year 2000, inspectors completed 4,983 inspections of the 9,436 explosives licensees and permittees. They identified and corrected 1,119 violations that jeopardized the safety of the general public and required immediate attention. Although the number of inspections declined because of the loss of experienced inspectors and the challenge of meeting additional demands for firearms inspections, we have seen an increase in the identification of public safety violations because of ATF's emphasis on advanced explosives training for inspectors. We recognized that our inspector staffing would not allow for 100 percent coverage and prioritized our resources. Prioritization allowed us to inspect those licensees and permittees who had a history of storage problems, and others where the threat to public safety, in the event of an accidental explosion, would be the greatest.

#### CONCLUSION

As you can see, ATF continues to contribute to making America sounder and safer through its efforts in reducing violent crime, collecting revenue, and protecting the public. Along with the men and women at ATF, I am prepared to rise to the challenge of meeting all of our responsibilities under the laws that we enforce. I would be pleased to answer any questions you may have and I would like to express my sincere appreciation for the support that the Committee has provided us. I look forward to working with the Committee to further our mutual goals of safeguarding the public and reducing violent crime.





## U.S. CUSTOMS SERVICE

### STATEMENT OF CHARLES W. WINWOOD, ACTING COMMISSIONER

Senator CAMPBELL. Mr. Winwood.

Mr. WINWOOD. Chairman Campbell, Senator Dorgan, Senator DeWine, thank you very much for allowing me to be here today to talk about the Customs 2002 budget request. I have also submitted a comprehensive statement for the record that I will just try to briefly summarize this morning.

#### FISCAL YEAR 2000 ACCOMPLISHMENTS

Last year, the Customs Service processed a record 22.5 million trade entries. This represents a 150 percent increase from ten years ago. We have also processed 489 million pedestrians and passengers in 2000 and 140 million conveyances at our ports of entry, also record levels.

While the increase in border flow is a bellwether of a strong America, it also demands that we maintain a heightened vigilance against new opportunities for crime and drug smuggling. The men and women in the Customs Service continue to demonstrate their resolve in this fight by seizing 1.5 million pounds of illegal narcotics in fiscal year 2000. They also seized an unprecedented 9.4 million tablets of Ecstasy.

Yet narcotics were not their only priority. The successes of the past year speak not only to Customs' mission to facilitate trade and defend America from contraband, but to our increasing role in fighting the spread of Internet crime, combatting global money laundering, defending U.S. businesses from copyright infringement and fraud, stopping the smuggling of weapons of mass destruction, and preventing the importation of goods made with child and prison labor. Mr. Chairman, the list could go on.

#### STAFFING NEEDS

At Customs, we are busy addressing these future challenges in a very systematic way, beginning with our people. Staffing in general will continue to be a critical issue for our agency. With the help of a leading consultant, we built a resource allocation model to help us project future staffing needs at all our Customs locations. The model was designed as a planning tool for management. It can be programmed to take into account changing scenarios that impact our mission, such as expanded volume in trade or a shift in threat.

#### NII TECHNOLOGY

Thanks in large part to the resources provided by the Congress, we are also requiring the technology needed to supplement the skills of our people. We are currently working towards completion

of a five-year drug technology plan. Under that plan, we have obtained the range of non-intrusive inspection technology for our busy Southern Tier. The use of these tools have cut down our processing times and enabled us to seize more illegal drugs.

Last month, Mr. Chairman, Customs inspectors at Otay Mesa, California, found 15,000 pounds of marijuana concealed in a tractor trailer with the help of one of our new truck x-ray systems. It was believed to be the single largest shipment of narcotics ever seized at a land border crossing.

#### COUNTER-TERRORISM

With funding in our 2001 budget, we were also able to implement a counter-terrorism plan that includes upgrades to Northern border infrastructure, such as improved security and lighting, the acquisition of non-intrusive inspection systems, and the posting of additional Customs agents to the national anti-terrorism task force.

#### BORDER INFRASTRUCTURE REQUIREMENTS

The rapid increase in border traffic has major implications for ports of entry all along our Northern and Southern tiers. At the request of Congress, we just completed a port infrastructure assessment study to identify our most important challenges. That study, conducted with the GSA and our partner Federal inspection service agencies, includes a look at health and safety and occupational initiatives to increase the traffic and processing capacity of our ports. Modernization of our air and marine assets is also essential to keeping up with an ever flexible smuggling threat.

#### AIR AND MARINE INTERDICTION

Again, at the request of Congress, we completed an air and marine interdiction modernization plan in fiscal year 2000. We are very pleased that the President's 2002 budget includes \$35 million for the Customs air and marine interdiction division in support of the Western Hemisphere Drug Elimination Act. We have identified the priority areas to be addressed with this funding consistent with our modernization plan.

#### CUSTOMS AUTOMATION MODERNIZATION

Of all the modernization efforts being undertaken at Customs, Mr. Chairman, perhaps none will benefit the American public in more ways than our new automated system for trade. Customs' ability to contend with a spiraling workload hinges largely on the development of the Automated Commercial Environment, or ACE. ACE will not only help Customs to move imports across our borders more efficiently, it will enable us to do a better job of protecting America from contraband and other threats.

Last year, we received the first downpayment on ACE with the \$130 million for new automation this subcommittee provided in our 2001 budget. Part of that funding was designated for the hiring of a prime contractor to help build our new system. On April 27, I was extremely privileged to announce the team of companies to whom that contract was awarded, the e-business partnership led by IBM. Mr. Chairman, this was indeed a very proud day for the Cus-

toms Service, a milestone event in our efforts to prepare the agency for the challenging new era of global trade and enforcement ahead.

PREPARED STATEMENT

I want to thank the subcommittee once again for this steadfast support of Customs modernization. We ask for your continued support in our fiscal year 2002 budget request. At the appropriate time, Mr. Chairman, I will be able to answer any questions.

Senator CAMPBELL. Thank you.

[The statement follows:]

PREPARED STATEMENT OF CHARLES W. WINWOOD

INTRODUCTION

Good morning, Mr. Chairman and Members of the Subcommittee. It is a privilege to appear before you today to present U.S. Customs' fiscal year 2002 budget request, and to share with you some of our recent accomplishments and ongoing activities. Before I begin, I would like to thank you, Mr. Chairman, Senator Dorgan, and the Subcommittee members for your constant support of Customs and our vital mission.

The Customs Service is an agency with a long and rich history, and a proud record of success. Our mission as America's front line is not an easy one, yet we continue to find ways to rise to the challenges we face.

As you know, the United States faces a continuing threat of terrorism and increasingly sophisticated tactics by narcotics smugglers to move contraband across our borders. A spiraling volume of trade and new avenues for criminal activity will continue to test our abilities as never before. Our successes in intercepting terrorists, seizing narcotics, dismantling smuggling organizations, exposing Internet crime cases and targeting violators of intellectual property rights indicate how intelligence and technology, together with alert and well-trained inspectors and agents can have a major impact in deterring the threats we face. Customs will increasingly rely on automation to take advantage of increased efficiencies. Our future success depends directly on the continued, skilled deployment of training and technology to meet the challenges we face.

In order to meet its core mission requirements, Customs has focused significant attention on the following key challenges:

TECHNOLOGY

*The Automated Commercial Environment (ACE)*

The fiscal year 2002 President's budget requests \$130 million to continue work on modernizing Customs antiquated automated systems. The Automated Commercial Environment, otherwise known as ACE, will enable the Customs Service to utilize technological advances to meet the challenges of a rapidly growing international economy. Customs is the Federal government's second largest source of revenue, collecting \$24 billion in fiscal year 2000. Every year since 1993, Customs import workload has been at least double that of ten years earlier, and this trend is expected to continue through 2007. By 2004, Customs will be processing over 30 million commercial entries a year compared to over 23 million in fiscal year 2000. It is essential that we modernize our automated systems to improve response to the explosion in international trade and travel.

Customs current automated trade system is the 17-year-old Automated Commercial System (ACS). Until a new system is deployed, Customs will continue to rely on ACS. As trade volumes continue to grow dramatically each year, the ability of ACS to manage increased demand will decline. Using the \$123 million in ACS "life support" funding provided in the fiscal year 2001 appropriation, we have taken steps to improve processing time and storage capacity for the trade, and have improved the commercial interface with ACS. There is, however, more work to be done. Customs internal needs must also be addressed. With the additional \$123 million requested for fiscal year 2002, Customs will continue to improve the system's and infrastructure's capacity and accessibility.

The Modernization Act requires new account based import transaction processing that cannot be accommodated through ACS. On the other hand, ACE will address trade compliance and Mod Act requirements. ACE is being developed in four increments-each increment delivers benefits to both the trade community and to Customs operations. The consolidated appropriations of \$130 million provided for ACE in fis-

cal year 2001 enables us to begin our first phase work on ACE. We are pleased that funding was provided last month to allow us to award our Prime contract to the e-Customs Partnership, led by IBM. The "e-Customs Partnership" is a team of top-notch companies and highly qualified professionals who have successfully executed large information systems projects similar to this one in the past. In addition to the IBM Corporation, key team members include Lockheed Martin Corporation, KPMG Consulting, Computer Sciences Corporation, and Sandler & Travis Trade Advisory Services. The team also includes BoozAllen & Hamilton, ITS Services, and over 40 small businesses.

The President's fiscal year 2002 budget builds on this effort by requesting an additional \$130 million to expand the capabilities of the ACE software and to deliver ACE capability to more service ports and sites. Specifically, with the additional fiscal year 2002 funding, we will extend the capability developed with the fiscal year 2001 funding to air, sea, and rail imports; build an interface to the Automated Manifest System; and provide the trade with a common interface to ACE. We will also refine ACE requirements once our prime integration contractor is brought on board.

#### *Non-Intrusive Inspection Technology*

The use of non-intrusive inspection (NII) technology (e.g. truck, rail, sea container, vehicle, and mobile x-ray/gamma-ray systems) is crucial to maintaining the success of our interdiction efforts. Customs has in place a 5-year technology plan that calls for the deployment of NII technology to blanket the Southern Tier and other high-risk locations. At the end of fiscal year 1999, there were a total of 14 NII systems in place. During fiscal year 2000, 23 additional NII systems were deployed throughout the Nation. Currently, 50 systems are in operation, with an additional 45 systems funded and scheduled for delivery by the end of fiscal year 2002. NII systems, in many cases, give Customs the capability to perform thorough examinations of cargo without having to resort to the costly, time-consuming process of unloading cargo for manual searches, or intrusive examinations of conveyances by methods such as drilling and dismantling.

In fiscal year 1999, a total of 100,000 NII examinations were performed. For fiscal year 2001, we have already performed over 260,000 NII examinations. These figures will continue to increase as Customs deploys additional systems.

Since the deployment of the first truck x-ray at Otay Mesa, California, in 1996, these systems have contributed to over 400 seizures totaling over 300,000 pounds of illegal drugs in commercial and passenger vehicles. Recently, in a single week, our NII systems contributed to the seizure of almost 9,000 pounds of illegal drugs.

In addition, on April 4, 2001, a Customs canine at the Otay Mesa port of entry alerted to a tractor-trailer alleged to be carrying televisions from Mexico. The vehicle was subsequently scanned by a gamma-ray imaging system that led to the discovery of more than 15,000 pounds of marijuana. We believe that this is the largest single-seizure ever made at a border station.

NII technology has also benefited the passenger environment. We have deployed 15 body imagers at major land and airports to offer travelers selected for personal searches an option to a physical inspection. These systems are capable of detecting smuggled objects concealed under clothing.

Customs has also contracted for a service at nine international airports that enables us to determine in approximately 30 minutes if a passenger is carrying drugs internally. This process used to require several hours and the participation of at least two Customs officers. The contracted service provides a mobile x-ray van and a licensed x-ray technician at the international arrival terminal for the screening of passengers suspected of concealing drugs or currency in or on their bodies. The x-ray technician performs the x-ray that is then digitally transmitted to a licensed radiologist for interpretation. Based on that determination, Customs may either release the passenger, or hold him or her for further investigation. Of course both the Body Imagers and the Mobile x-ray service examination are only used once all the requirements of Customs personal search policies are met.

#### *Laboratories and Scientific Services*

I am proud to announce that all eight laboratories of the United States Customs Laboratory System have received their International Standards Organization (ISO) Guide 25 Accreditation. The Customs Labs are the first Federal laboratory system to receive this professional accreditation, and have set a benchmark which other Federal laboratories, including the FBI and FDA, are striving to attain.

I am also pleased to announce that twelve of our scientists have received board certification in criminology from the American Board of Criminologists. No other crime laboratory can boast this number of board certified criminologists. With this

certification our scientists can now be considered true expert witnesses for Customs and the American criminal justice system.

Customs has embarked upon a laboratory construction plan that is scheduled to improve and update our aging laboratory facilities. The construction of the Los Angeles Laboratory and Research Laboratory in Virginia have been completed. The New York Laboratory is currently under construction, with plans underway to improve the facilities in New Orleans and San Francisco.

#### TRAINING AND DEVELOPMENT

The Office of Training and Development (OTD) was established to ensure that Customs employees receive quality and effective training. During its first year, OTD has built centralized training programs and systems, created a direct link between training and operational success, enhanced career development, expanded course offerings, and strengthened leadership development and professionalism.

One of the fundamental elements in Customs future training success is the development of The National Training Plan (NTP) which establishes core occupational instruction designed to keep our employees on the cutting edge of new skills and technologies. The NTP was developed to identify the core, standardized, and recurring training requirements for employees at the entry, mid and advanced career levels. The NTP targets training areas with the greatest need to reach the maximum number of employees in the most cost-effective manner. Some of the key areas of training cover passenger and cargo drug interdiction, strategies targeting money laundering, stolen vehicle exporting, and anti-terrorism tailored to the Customs environment. Customs has developed training profiles for its mission-critical occupations, as well as rigorous training and tracking procedures. These procedures were designed to maximize the use of scarce training resources and deliver useful, real-time training to all of our employees.

In addition to the NTP, Customs has created the Customs Tuition Program, which last year provided over 600 employees nationwide with tuition assistance for job-related courses. This program supports the national strategy of raising the level of professionalism and education in the Customs workforce.

OTD has also played an integral role in addressing personal search policies and procedures, introducing change in national policy regarding the 24-hour carrying of firearms by Customs law enforcement personnel, and expanding the national strategy of risk management throughout all levels of Customs.

Through centralized planning and tracking, Customs delivered a record 100,731 instances of training in fiscal year 2000. Since its inception, OTD has developed over 20 new training courses to address mission-critical priority needs. The measurement of OTD's success is seen throughout the Customs workforce. Customs dedicated training efforts increased morale and commitment to the Customs mission. Our training is continuously measured through an evaluation of training by students and supervisors to determine if students are applying newly learned skills on the job. It is imperative that we maintain a well educated, customer-oriented workforce, which protects our officers and the traveling public we serve.

#### RISK MANAGEMENT STRATEGIES

As global trade has expanded, Customs' commercial workload has escalated dramatically. In fiscal year 2000 the agency processed over 23 million trade entries—an increase of almost 10 percent from fiscal year 1999.

Customs strategy to ensure greater compliance among importers with our trade requirements is focused around risk management. At its core, risk management involves the constant analysis of information to determine what areas merit our attention and our resources the most.

For the first time, that analysis is being built uniformly into the way Customs ports are managed. The Trade Compliance Enforcement Plan, which makes each Customs Management Center accountable for implementing Risk Management in all port operations, ensures that the relationship of resources to risk can be monitored on a Service-wide basis.

In addition, we have initiated monthly Management Accountability Reports from the field that provide immediate feedback on the effectiveness of our enforcement activities.

One of the goals of risk management is to ease the movement of goods for law-abiding members of the trade community. By implementing a data-driven focus on the most serious compliance problems, Customs will lessen its oversight of compliant companies. In fact, participants in the innovative Low Risk Importer Initiative can expect fewer cargo exams, document reviews and requests by Customs for more information. To qualify for this program, importers must undergo compliance assess-

ments and pass a thorough evaluation process involving compliance measurement, account manager evaluations, and other reviews.

Customs is using a systematic process to identify those importers whose transactions represent the highest risk of non-compliance. Again, Customs will use this data to make informed judgements about the best use of its limited resources.

Another element in the Risk Management approach has been Customs increased use of account managers to focus on major importers. Since a relatively small number of large importers account for the lion's share of total imports, account managers provide even more leverage in elevating overall compliance with Customs commercial requirements.

In fiscal year 2000, only 392 consignees were responsible for half of the total value of all the imports into the United States. The top 1,000 consignees imported 61 percent, by value, of all imports. Customs has responded to this trend by increasing the number of managed accounts in fiscal year 2001 to more than 1,100.

#### HUMAN RESOURCES MANAGEMENT

As we continue to build a Customs workforce worthy of the highest public trust, our Human Resources Management programs have continued to emphasize recruitment of the most qualified candidates for employment.

Our Quality Recruitment program has proven to be a success in filling our core occupations. Through this program we have hired 565 new inspectors and canine enforcement officers, and we have approximately 750 candidates in our hiring pool. We believe that we have attracted some of our Nation's best and brightest. This has been evidenced by the test scores from the basic training our new recruits go through as well as reports of their successes on the job.

We were pleased to obtain a new hiring authority, Schedule B, for special agents. Quality Recruitment has been expanded for filling special agent positions with monthly tests and structured interviews to build our pool of candidates. Through this program, our objective is to have a supply of candidates ready to hire for our front-line occupations when they are needed.

Our marketing and recruitment efforts have been a success as we continue to attract quality candidates. Our recent announcement for inspectors and canine enforcement officers was open for 5 days and resulted in more than 5,500 applications. More than 1,500 of those applicants passed the test and structured interview. In the past 3 months 1,184 applicants have been tested for special agent positions.

Through our National Recruitment Program we are able to emphasize the importance of attracting a diverse pool of highly qualified applicants for our frontline positions. A recruitment plan is issued each year to ensure a national direction, professional advertising, and recruitment of a diverse applicant pool. We have installed 6 kiosks in selected universities to provide information about Customs occupations and job opportunities. Local recruiters represent Customs in conferences, job fairs, colleges, and general applicant inquiries. Our Office of Investigations recruiters recently held 9 open houses for universities in their geographic areas. In addition, we established a National Intern Program last year and hired 21 interns. Other student programs are also used throughout Customs to provide additional opportunities.

While we are actively filling our entry-level positions, we are also very aware of our aging workforce. Within the next 5 years 34 percent of our current employees will be eligible for retirement. The retirement bubble is particularly significant for our law enforcement employees as they face mandatory retirement. In addition, we anticipate losses in our supervisory and management positions. We have sophisticated data systems that allow us to predict our attrition by occupation, grade, and geographic area. Human Resources Management and the Office of Training and Development are building a succession planning model to prepare for our future losses.

Defending our borders presents many challenges to Customs employees. Through our Employee Support and Assistance Unit we have an immediate response for employees and their families who experience serious injuries, illnesses or other crises. More than 120 collateral duty Family Liaison Officers were recently selected. After completing comprehensive training they will serve as the first line of counseling and advisory support for employees in need.

In addition, we have placed a heavy emphasis on our safety programs. We recently hired 5 additional safety and occupational health specialists and are actively recruiting several others. We can not protect our employees and do our jobs effectively for the American public without first ensuring that we follow the highest safety standards in the workplace. We have expanded our radiation safety program. As a result of our radiation safety committee's efforts, Customs has the most stringent radiation exposure standard of any Federal agency. We are also expanding our environmental management and hazardous material safety programs. In addition, we

have placed greater emphasis on our tuberculosis, hepatitis B, and hearing conservation programs for our employees.

#### INTEGRITY

Customs core law enforcement responsibilities demand an unyielding commitment to the highest standards of ethical and professional conduct by our employees. For the past several years, the agency has been instituting a comprehensive series of reforms aimed at bolstering integrity within the agency. These include a renewed emphasis on our Office of Internal Affairs (IA), the lead office for integrity at Customs.

Internal Affairs has focused more on the Southwest Border. Additionally, Internal Affairs has reinvigorated its ranks by transferring 131 criminal investigators between Internal Affairs and the Office of Investigations since 1999.

The office is presently in the process of reassigning additional investigators; closing smaller, dispersed offices; establishing a larger office in San Antonio; and expanding other offices to concentrate investigative resources. It has also activated a fully operational Special Investigations Unit comprised of senior investigators who conduct investigations into critical and sensitive incidents. In its first six months since activation, the unit completed 21 investigations, seven of which were presented for criminal prosecution.

IA recently revised and published its investigative guidebook to provide special agents with clear, applicable policy regarding nearly every aspect of investigations. Investigative policy is now disseminated using electronic publishing so as to provide instant access to updates.

IA Regional Operations Managers and specialized experts with legal and law enforcement experience now provide on-call guidance to special agents. These personnel provide constant oversight of all aspects of investigations to ensure the resulting investigative reports are accurate, timely, and comprehensive.

A new automated Case Management System is being developed that will more efficiently integrate with other Customs human resource and investigative systems. This system will capitalize upon Web-based technology to provide Internal Affairs with accurate data capture and retrieval, improved accessibility, overall systems durability, and less-costly maintenance. All allegations are tracked from initial receipt to final disposition through the Customs Service's allegation and intake process. This process is continually refined to ensure allegations are handled efficiently and correctly. The process features a combined effort among the IA, the Office of Human Resources Management, and the respective Assistant Commissioners.

In addition, Customs recently published the first annual "Report on Conduct and Discipline." The report provides a summary and overview of discipline cases resolved within Customs for fiscal year 1999. The report emphasizes our primary goal to bring greater fairness, objectivity and consistency to the discipline process. It is another tool to keep employees informed about conduct and discipline matters. It also provides them with an opportunity to learn from others and to gain a clearer sense of what types of behavior can result in disciplinary action.

#### CUSTOMS CORE MISSION ACTIVITIES AND ACCOMPLISHMENTS

Customs core mission has evolved significantly over its two hundred-year history to meet the nation's changing needs. Once concerned primarily with the collection of tariff duties, Customs now serves as one of the Federal government's leading drug interdiction agencies. In addition, it is involved in a wide range of trade and enforcement activities related to the flow of people and goods across borders. Balancing the needs for efficiency in trade facilitation with effective enforcement of U.S. laws is the agency's most fundamental challenge.

Over the last ten years, trade entries (the number of individual shipments of goods processed) have more than doubled, jumping from 9.2 million to over 23 million. By the year 2004, Customs will be processing over 30 million entries.

On a typical day, Customs officers process 1.3 million passengers and nearly 350,000 vehicles at ports and border crossings around the country. They seize over 4,000 pounds of narcotics and upwards of \$1 million in monetary instruments and goods generated from criminal activities. Yet drug smuggling organizations continually demonstrate flexibility in response to our interdiction efforts. We must constantly adapt to their changing methods.

Customs is responsible for enforcing hundreds of Federal statutes on behalf of dozens of Federal agencies. In addition to seizing narcotics and dismantling smuggling organizations, Customs enforcement actions protect domestic manufacturing industries from unfair foreign competition, and help ensure the health and safety of the American public. Through our Strategic Investigations and Antiterrorism ini-

tatives, Customs continuously fights the battle to prevent sanctioned countries, terrorist groups, and criminal organizations from obtaining sensitive and controlled commodities, such as weapons of mass destruction. Customs is also a recognized leader in the investigation of cyberspace-related violations, including child pornography, stolen art and artifacts, and intellectual property rights violations.

#### *Narcotics Smuggling*

In fiscal year 2000, Customs seized approximately 1.5 million pounds of illegal narcotics, conducted 39,000 investigations, effected more than 24,765 arrests, and seized over \$587 million in currency and ill-gotten assets.

Customs approach to fighting narcotics smuggling is multifaceted. It includes traditional searches by our Inspectors and Canine Enforcement teams; partnerships with industry to prevent drugs from being imported in their merchandise or conveyances; air and marine interdiction; and the work of our Special Agents in dismantling and disrupting drug trafficking and money laundering organizations.

The Southwest Border (SWB) continues to be a major crossing area for illegal drugs of all types, including cocaine, marijuana, heroin, and methamphetamine. Customs enforcement records indicate that 79 percent of all Customs narcotics seized in fiscal year 2000 occurred at the SWB. From October 2000 to February 2001, Customs made 323 seizures totaling \$6.8 million in undeclared currency bound for Mexico. In fiscal year 2000, approximately 293 million travelers, 89 million vehicles and 4.5 million trucks entered the United States through the SWB. In fiscal year 2000, Customs seized nearly 1.1 million pounds of narcotics, including heroin, cocaine, marijuana, and methamphetamine, along the SWB.

In addition to the drug threats coming from our Southern Hemisphere, Customs has proactively redirected resources to address the growing threat of Ecstasy. Western Europe now serves as the main source for Ecstasy smuggling. In February 2000, Customs created the Ecstasy Task Force. The mission of the Task Force is to act as a command and control center to maximize the level of interdiction and case exploitation relative to Ecstasy investigations. Customs currently has 94 Canine Enforcement teams trained to detect Ecstasy and is in the process of deploying additional teams. In fiscal year 2000, Customs seized approximately 9.3 million Ecstasy tablets. That is more than a 2,300 percent increase from the 400,000 tablets seized in fiscal year 1997.

Customs actively participated in the recent Presidential Commission on Seaport Security. Customs has always recognized the ever-increasing threat that internal conspiracies pose at our land, sea, and air ports of entry. To combat this risk, Customs has successfully deployed several investigative initiatives that have had a positive impact on this challenge. Operation River Blue and Riversweep are among the successful initiatives that have targeted drug smuggling organizations operating in port environments in the South Florida area.

In addition, Customs is one of the key agencies in a joint operation made up of Federal, State, and local agencies to stop narcotics smuggling on the Miami River, a key drug trafficking route. Florida Governor Jeb Bush announced a 2-year initiative known as Operation River Walk on February 7, 2001, in Miami. Operation River Walk began on February 15, 2001. Customs plays the chief coordinating role for boardings and searches of vessels arriving and departing by the Miami River.

At a national level, a total of 82 additional Special Agents are being strategically deployed at both border and inland command and control cities to conduct long-term, complex investigations that focus on the most significant drug smuggling organizations. These investigations are designed to increase the risk borne by drug traffickers and impede their trafficking operations.

Customs Air and Marine Interdiction Division (AMID) plays an instrumental role in implementing the National Drug Control Strategy. AMID's mission is to protect the Nation's borders and the American people from the smuggling of narcotics and other contraband with an integrated and coordinated air and marine interdiction force. This strategy impacts drug smuggling organizations because it denies drug traffickers the use of aircraft and vessels to smuggle drugs into the United States, thus forcing them to choose other modes of transportation or geographic locations that are less profitable or riskier.

In the arrival zone, Air and Marine assets are strategically located along the Southern Border of the United States and in Puerto Rico and the Virgin Islands. The primary focus of these Branches is to detect, sort, and intercept suspect air and marine targets. The AMID also provides assistance to the enforcement efforts of Customs and other Federal, State, and local law enforcement agencies to stop the flow of money and equipment back to those drug smuggling organizations.

In the transit and source zones, AMID crews work in conjunction with the law enforcement agencies and military forces of our partner nations in support of



counterdrug programs. AMID supports other Western Hemisphere nations with airborne detection and monitoring, interceptor support, and coordinated training with military and law enforcement agencies. Customs P-3 airborne early warning (AEW) aircraft provide radar coverage over the jungles and mountainous regions of Central and South America. They also patrol the international waters of the transit zone to monitor shipping lanes and air routes in search of smuggling activities.

AMID aviation assets include jet interceptors and long-range trackers equipped with radar and infrared detection sensors, high performance helicopters, single and multiengine support aircraft, and sensor-equipped marine search and detection platforms. AMID maritime assets include interceptor go-fast boats with a complement of utility and blue-water support vessels that are equipped with marine radar systems, radios, and other sensors.

Coordinated air and marine interdiction operations have been highly successful, particularly in Southeast Florida and the Caribbean. Customs air and marine interdiction efforts during fiscal year 2000 resulted in the seizure of more than 187,000 pounds of marijuana and close to 44,000 pounds of cocaine. Air and marine personnel also supported law enforcement efforts that resulted in the seizure of over \$17 million and 760 arrests.

As smugglers change their patterns of behavior, AMID must be flexible to meet new threats. A fleet modernization program incorporating innovative technology and multi-mission equipment has been developed by the AMID to combat the current threat and meet future needs. Modernization reduces crew requirements and increases mission effectiveness, which saves money for operations and maintenance.

Since signing the Memorandum of Understanding with the Drug Enforcement Administration (DEA) in August 1999, Customs has been working with DEA to coordinate the process to place permanent intelligence teams in selected drug source and transit countries. Customs sent teams on two 30-day trips to Mexico, and one team each to Ecuador, the Netherlands, and Thailand. These trips were designed as surveys to determine whether a permanent team should be placed in each of these countries, and were found to be very successful. The teams gathered valuable information and made helpful contacts. In coordination with DEA, Customs has held discussions with the Ambassador to Mexico and obtained his approval of the concept. Currently, we are proceeding with the official request to get the proper Department of State approvals for the placement of a permanent team in Mexico. Other countries being considered for placement are Colombia, Venezuela, Panama, Hong Kong, and Brazil.

#### *Personal Search*

As the Committee is aware, the Customs Service has been faced in recent years with allegations that the agency was engaged in racial bias in the selection of certain members of the travelling public for personal searches at our nation's airports. Under no circumstance does Customs tolerate race-based and gender bias discriminatory treatment of individuals. Nonetheless, we have taken these allegations very seriously and implemented a series of reforms to ensure that the rights of the travelling public are protected.

We appointed a Personal Search Review Commission (PSRC) in April 1999 which reviewed the policies and procedures used by Customs to process passengers at our major international airports, including our personal search procedures. The PSRC made several recommendations. In order to address these recommendations, Customs convened the Assessment Implementation and Monitoring (AIM) Committee in July 2000. Significant progress has been made towards implementing actions based on the PSRC recommendations.

Customs also established the Passenger Data Analysis Team (PDAT) to review and analyze personal search data. In addition, Customs has improved the personal search data collection process by making specific input of data mandatory. Additional data is now collected from travelers subjected to a personal search. This data is reviewed daily by management to ensure its integrity.

In November 1999, the new Personal Search Handbook was issued and training was provided to over 8,000 Customs Officers. In an effort to provide continued training, a Personal Search Computer Based Training course was developed. All Customs officers who perform personal searches are required to take this course annually.

Additional training is being provided to all Customs Inspectors, to be completed by December 31, 2001. This Inspection and Interaction Skills Workshop provides 16 hours of refresher training in the areas of interpersonal communications, cultural sensitivity, verbal judo, passenger enforcement selectivity and personal search.

I am pleased to report that these combined reforms have helped Customs to reduce its searches of law-abiding passengers dramatically, while maintaining our overall levels of narcotics seizures. To provide you an example, Customs reduced

searches from 23,108 passengers in fiscal year 1999 to 9,008 in fiscal year 2000. Yet our seizures of illegal narcotics from passengers in the air environment was relatively the same. That trend continues for 2001.

#### *Combating Terrorism*

Customs' mission in combating international terrorism is two-fold: protect the American public from Weapons of Mass Destruction (WMD) and other instruments of terror and prevent international terrorists from obtaining WMD materials and technologies, arms, funds, and other material support from United States and foreign sources.

Customs plays a central role in preventing the smuggling of nuclear, radiological, chemical, and biological weapons, arms, and other instruments of terror into the United States for use in terrorist attacks against our citizens. The increasing terrorist threat has led to the development and implementation of an alert plan that outlines four alert levels, each with a very specific set of actions designed to ensure an appropriate response to the threat at hand, while ensuring minimal disruption to normal border traffic flows. Trained volunteers and specialized equipment are at the ready to respond to a heightened alert, when initiated by the Commissioner of Customs. Customs has also established an external and internal antiterrorism intelligence communications infrastructure that enables the agency to obtain threat information on foreign terrorism and disseminate it to field positions.

Customs conducts investigations into violations of United States laws by terrorist groups, and participates in interagency intelligence groups, and shares in joint international investigations with foreign customs and law enforcement counterparts through our Customs Attaché offices abroad. Additionally, Customs is an active participant in FBI-sponsored Joint Terrorism Task Forces located throughout the United States that are designated to conduct investigations involving outbound counter-terrorism.

Public Law 106-346 and Public Law 106-554 provided additional resources to increase Customs Counter-Terrorism activities. Funding was provided for 48 additional Special Agents to increase Customs ability to counter the threat along the Northern Border and 17 additional Special Agents to participate in Joint Terrorism Task Forces. Resources were also obtained to fix and replace aging Northern Border security infrastructure, including NII technology, gates, signage, and video security systems. A plan for deployment of these resources has been submitted to the Subcommittee for comment.

#### *CyberSmuggling Center Activities*

Customs has assumed a leading role in the fight against various forms of Internet crime, thanks to the funding provided for the agency's Cybersmuggling Center. One of the Cybersmuggling Center's most critical areas of activity is the investigation of the transmission of child pornography via the Internet. We have had numerous successes in this area and continue to monitor this growing enforcement concern. In addition, Customs has tackled other forms of Internet crime, including the illegal on-line sale of pharmaceuticals, controlled substances, pirated software, music and movies, counterfeit watches, clothing, and other goods. In addition, we are actively pursuing cases involving the use of the Internet for financial crime and fraud. The number of "on-line" criminal cases has risen dramatically, from approximately 40 investigations in 1999 to 190 in 2000. Over the first 6 months of fiscal year 2001, Customs has initiated 160 Internet investigations unrelated to child pornography.

#### *Stolen Vehicles*

Customs has expanded its partnership with the National Insurance Crime Bureau (NICB) in its efforts to identify possible stolen automobiles presented for export. NICB VIN examiners and Customs Inspectors review vehicle identification numbers (VINs) and associated ownership documentation for authenticity at the 28 busiest vehicle export locations across the country. Vehicle identification data is transmitted, via FBI's "VINNY" system, for query against FBI and NICB databases. "VINNY" is an electronic reporting system targeting possible stolen or altered VIN vehicles. Vehicles identified as being stolen, salvaged, or plated with fictitious VIN numbers are flagged for intensive examination and possible seizure by field personnel. Further investigation is conducted by Customs Special Agents working cooperatively with State and local law enforcement stolen vehicle task forces.

#### *Forced Child Labor*

The investigation of imports alleged to have been manufactured with convict or indentured child labor is among the most difficult aspects of our mission. These investigations demand a unique balance of investigative and diplomatic skill due to their highly sensitive nature.

As a result of funding provided by Congress in fiscal years 1999, 2000, and 2001, Customs has begun to formulate a better understanding of the extent to which products manufactured or produced with some form of proscribed labor are imported into the United States. Additionally, Customs has sought to create bilateral relationships with foreign governments' labor and law enforcement officials, who recognize the importance of working together to dismantle the organizations that recruit and utilize these labor tactics.

Customs has issued 32 detention orders against foreign manufacturers that utilize prison/forced labor to assemble or cultivate their goods for export to the United States. U.S. Customs, at the request of the Mongolian Government, conducted an investigation and substantiated forced labor allegations against a Chinese-owned textile manufacturer in that country. The Mongolian Government requested Customs assistance because their labor system would not take action against the manufacturers unless the violators came under scrutiny by the importing countries.

Customs is also in the process of opening two Foreign Attaché Offices in the Philippines and Brazil to assist in these types of investigations. We anticipate opening an office in India, pending the authorization of the Government of India.

#### *Tobacco Smuggling*

Customs has experienced a dramatic increase in international tobacco smuggling investigations in the past year. This includes smuggling both into and out of the United States. In addition, Customs is conducting joint investigations with foreign law enforcement agencies, primarily in Europe, to combat international tobacco smuggling. International organized crime groups continue to expand their tobacco smuggling ventures.

Importations of paper wrapped cigarettes reached an all time high in calendar year 2000, with a total value of \$265 million. This figure surpassed the previous high of \$153.7 million in 1993, which was predominantly comprised of Canadian brand name cigarettes imported into the United States to be smuggled back into Canada. As a result of a recent amendment to the Tariff Act of 1930 that became effective in December 2000, importations of cigarettes with brand names registered by the U.S. Patent and Trademark Office will require the permission of the trademark holder to be imported into the U.S. Enforcement of this new statute is likely to become a considerable challenge, as smugglers may seek to skirt the new requirement. In an effort to cope with the increase in international cigarette smuggling, Customs has formed a multi-disciplined task force to coordinate all tobacco-related investigations. The coordination includes intelligence collection and analysis, liaison with domestic and foreign law enforcement agencies, and liaison with tobacco manufacturers and importers.

#### *Intellectual Property Rights*

The enforcement of Intellectual Property Rights (IPR) continues to be a top priority mission for Customs. In order to accomplish this mission, Customs concentrates its efforts in three principal areas: trademarks, copyrights, and patents. Customs routinely pursues criminal, civil, and administrative investigations of individuals, companies, and organizations that utilize illicit trade practices to circumvent and unlawfully exploit Intellectual Property. The goal of Customs in its IPR enforcement effort is to allow for the successful prosecution of violators and to diminish their economic base through the seizure of all prohibited items and merchandise, the assessment of penalties and sanctions, and the collection of lost revenue.

Customs unique border enforcement authority places it at the forefront of IPR investigations. In fiscal year 2000, Customs effected approximately 3,357 IPR seizures valued at an estimated \$60.3 million. These enforcement efforts resulted in a dramatic increase in IPR and Internet-related investigations.

Customs latest IPR initiative is the formulation of the National Intellectual Property Rights Coordination Center (IPR Center). Located at Customs Headquarters in Washington, D.C., the IPR Center is a joint Customs/FBI center responsible for the coordination of a unified Federal response to IPR enforcement issues. Particular emphasis is given to investigating major criminal organizations and those utilizing the Internet to facilitate IPR crime. The IPR Center's positive influence on IPR enforcement worldwide has already been realized. The IPR Center is currently coordinating a transnational IPR investigation involving specific strains of counterfeit computer software. This coordination involves the direct oversight and analysis of intelligence and information from over 80 related investigations currently being pursued by Customs and the FBI.

### *Textile Smuggling*

Customs continues to increase its efforts in combating the smuggling and illegal transshipment of falsely declared textiles and wearing apparel. Violators utilize illegal schemes to circumvent United States quota and visa restrictions to gain unfair trade advantages over United States manufacturers. It is anticipated that, with the elimination of the current quota system in 2005 and the implementation of a new system/rules, illegal textile transshipments to the United States will increase. Customs has developed a strategic plan to address the issue of illegal textile transshipments and smuggling utilizing the coordinated efforts of Textile Production Verification Teams and domestic investigations.

In fiscal year 2000, Textile Production Verification Teams were deployed to 7 foreign countries and conducted visits to over 450 foreign textile factories to verify production capabilities and identify illegal transshipment schemes. The Office of Investigations, through the use of undercover and special operations, successfully identified transnational criminal organizations responsible for smuggling millions of dollars worth of textiles and merchandise into the United States. In one such investigation, Customs identified an organization responsible for smuggling in excess of \$2.3 million of trademarked and quota/visa restricted merchandise into the commerce of the U.S. The head of the organization was convicted of smuggling and faces 20 years incarceration in addition to payment of criminal fines and restitution to Customs of approximately \$700,000.

### *Financial Investigations*

Customs and the Department of the Treasury are the leaders in the Federal Government's efforts to combat money laundering. Customs provides key support to the National Money Laundering Strategy. Customs has been given a broad grant of authority to conduct international financial crime and money laundering investigations. This authority is primarily derived from the Bank Secrecy Act and Money Laundering Control Acts of 1986 and 1988. Customs has implemented an aggressive strategy to combat money laundering and now dedicates in excess of 400 full time equivalent (FTE) positions worldwide to money laundering investigations. These efforts against money laundering are not limited to drug related money laundering, but to proceeds of all crime laundered in a variety of ways. During fiscal years 1998, 1999, and 2000, money laundering investigations conducted by Customs resulted in the arrest of over 3,100 violators and the seizure of more than \$625 million.

Funding was provided in fiscal year 2001 for the creation of multidisciplinary teams which will give Customs the organizational capacity to identify important patterns of noncompliance with the Bank Secrecy Act, identify and establish an expertise in money laundering systems that impact Customs jurisdiction, and equip Customs with the ability to address patterns and trends effectively.

### *Bulk Cash Smuggling*

We have seen a growing problem in the bulk smuggling of cash. Because U.S. banks have become more vigilant about reporting large cash deposits, many traffickers opt to avoid U.S. banks altogether. They smuggle their drug cash out of the country and deposit it into foreign locations where few questions are asked. U.S. Customs has permanent full-time inspectors assigned to outbound programs, and in part they conduct examinations to search for bulk cash shipments. Additionally, Customs is in the process of deploying new technology in an effort to conduct less intrusive and more effective outbound searches. Seizures of outbound currency rose from \$49 million in fiscal year 1996 to \$62 million in fiscal year 2000.

### *Intelligence Collection and Analysis Teams*

Customs has begun implementation of a plan for establishing field intelligence units for the collection and dissemination of tactical intelligence in support of the Customs mission. Two of these units, called Intelligence Collection Analysis Teams (ICATs), were established in fiscal year 2000: one in Blaine, Washington, and one in Los Angeles, California. Customs has begun a programmatic review of the ICATs along the southern tier to ensure compliance with the national standard operating procedure. Any issues identified through this review are being immediately addressed to ensure that the ICATs continue to provide intelligence support in the port environs.

### *Tactical Communications*

Tactical communications and investigative information support is administered to field law enforcement staff on a 24 by 7 basis by the Tactical Communications Division, which delivers services through its principal field entity, the National Law Enforcement Communications Center (NLECC). This activity directly affects officer safety and the successful accomplishment of the tactical enforcement operations.

There are some significant challenges facing this program in the near term. User training on network capabilities and operation is an increasing requirement due to a dispersed user population, added network complexities, and increased functionality. Establishment of a tactical communications training element focused on delivering regular user training through various methods to field enforcement staff is a high priority.

#### *Trade Outreach*

The Customs Service continues to work collaboratively with the trade community to achieve greater streamlining and uniformity of cargo entry processes. The highly successful Customs Trade Symposium 2000, an all-day conference hosted by Customs for business and industry, highlighted agency trade priorities including the Entry Revision Project and the Low Risk Importer Initiative.

The Entry Revision Project is a proposal to develop consensus between Customs and the trade community on a legislative framework to extend modernization to the import entry process. This is second only to the Automated Commercial Environment as a top Customs trade priority. We have met frequently with trade consortia to help build a new entry system that will better meet government and business needs.

Along with risk management and improved oversight, our efforts to enhance compliance have emphasized the need for uniformity. Customs must provide the international trade and travel communities with consistent handling of their transactions at all locations. To help ensure this, we established a new and ongoing process at Headquarters to identify, address and monitor uniformity problem areas. We met with the trade at many outreach events around the country, and used risk management tools to target major areas of need. We have already achieved notable progress with what were once viewed as intractable problems, and we are also giving uniformity top priority in our written directives. Over 5,000 Customs Management Center and port standard operating procedures (SOPs) have been reviewed to ensure alignment with national policies, and we will continue to treat uniformity as a minimum standard of excellence for our Service.

In addition to day-to-day interactions, Customs has also engaged the trade community in numerous fora, including a series of high-level roundtables held around the country where we discussed specific trade concerns. We have also increased our network of Customs account managers, whose outreach efforts identify and help resolve systemic issues. We are fully committed to continuing and expanding our trade outreach efforts to further improve all areas of our commercial operations.

#### *International Affairs*

In the international arena we continue to see an expanding role for Customs in the trade facilitation and law enforcement areas. As the primary border enforcement agency for the world's largest economy, the Customs Service sets the global standard for effective and transparent customs operations. Our international efforts focus on streamlining the flow of global trade, increasing compliance, building effective alliances to combat transnational crime, reducing corruption, strengthening border controls, promoting the rule of law and enhancing economic stability throughout the world. Customs enlists the support of foreign governments to further those objectives and to support the foreign policy goals of the United States.

Customs Attachés represent the Customs Service in foreign countries. They are responsible for investigations, liaison, training coordination, infrastructure building and regulatory and compliance functions. They employ an integrated strategy to deliver law enforcement expertise, training and technical assistance and effective partnerships to combat transnational crime, money laundering and trade fraud. This integrated strategy provides Customs with unique access and influence abroad, which contributes to better outcomes in foreign legislation, trade practices and international law enforcement.

Customs has played a critical role in a number of important international investigations such as operations Blue Orchid (child pornography), Multi-core (illegal export of arms), and Journey (drug smuggling), as well as counterfeit software and tobacco smuggling cases. Collectively, these investigations have resulted in the seizure of over 2,600 videotapes containing child pornography; the indictments of individuals involved in the illegal export of military aircraft and missile parts from the U.S. to Iran; the arrest of a foreign national who headed a major distribution network of counterfeit software; the seizure of 22,489 kilograms of cocaine, 43 arrests, and multiple convictions.

At the Headquarters level, we support the United States Trade Representative and other organizations in bilateral and multilateral negotiations concerning deregulation, protection of intellectual property rights and harmonized Customs proce-

dures. We also service U.S. travelers, the international trade community and the expatriate community by responding to numerous inquiries regarding U.S. import and export laws and procedures.

Customs has also established partnerships with the private sector in order to promote U.S. business interests in foreign countries. The business community frequently cites foreign customs procedures and regulations as one of the most significant obstacles to the efficient, cost-effective movement of goods across international borders. Through our global network of contacts, we provide an important entrée for U.S. business to negotiate foreign regulations.

Customs is proud of its work with the private sector through our Industry Partnership Programs (IPP). Currently, over 4,800 air, sea, trucking, and railroad carriers have signed Carrier Initiative Agreements with Customs. In fiscal year 2000, these carriers provided information to Customs that resulted in 82 domestic seizures totaling 27,014 pounds of narcotics. During the same period, these carriers helped intercept 44,122 pounds of narcotics from conveyances or freight destined for the U.S. from abroad.

Over the last 6 fiscal years (1995–2000), participants in IPP programs have provided information to Customs that has resulted in domestic seizures totaling over 91,823 pounds of narcotics. During the same 6 fiscal years, IPP participants helped intercept over 195,306 pounds of narcotics destined for the United States from abroad.

In addition to our Carrier Initiative programs, Customs is actively working with foreign business communities through the Business Anti-Smuggling Coalition (BASC). BASC is an industry-led, Customs supported program. BASC attempts to enhance security from the point of manufacture in foreign countries, through the distribution of goods throughout the United States. There are currently 17 BASC chapters established by foreign business communities and Customs throughout Colombia, Ecuador, Venezuela, Panama, Peru, Costa Rica, and Mexico.

#### FISCAL YEAR 2002 BUDGET REQUEST

For fiscal year 2002, the Customs Service proposes a total program level of \$2,385,226,000 and 17,849 Full Time Equivalents (FTEs), all of which will be directly appropriated. The fiscal year 2002 budget represents an increase of 4.6 percent above the fiscal year 2001 enacted level.

The explosive growth in the volume of trade will place an even greater demand on Customs to address pressing trade and enforcement issues with limited staffing and resources. The fiscal year 2002 budget includes \$130 million in base funding to continue development of the Automated Commercial Environment (ACE). ACE is designed to replace our current antiquated commercial processing system, and help Customs manage its expanding workload.

As part of the fiscal year 2002 President's Budget submission, \$35 million is requested in the Air and Marine Program to support the Western Hemisphere Drug Elimination Act. These funds will be used towards Customs interdiction efforts primarily in the source and transit zones. Specifically, the resources will support: acquisition of maritime patrol aircraft; implementation of various safety enhancements for flight crews; replacement of aging P-3 Forward Looking Infrared sensors (FLIR); replacement and modernization of current marine vessels; and replacement of deteriorating and obsolete equipment associated with the Customs Air and Marine Interdiction Coordination Center.

This concludes my statement for the record. I appreciate the opportunity to appear before you today. Again, I want to express my thanks to the Subcommittee for its tremendous support of Customs in the past. We look forward to your continued support as we strive to meet the dramatic challenges faced by the Customs Service in this dynamic era of global trade and enforcement.

U.S. SECRET SERVICE

**STATEMENT OF BRIAN L. STAFFORD, DIRECTOR**

Senator CAMPBELL. Mr. Stafford.

Mr. STAFFORD. Mr. Chairman, Ranking Member Dorgan, Senator DeWine, it is a pleasure to be here today to testify on behalf of the Secret Service fiscal year 2002 budget request. With me today are Deputy Director Kevin Foley and the seven Assistant Directors and Chief Counsel of the Secret Service.

Senator CAMPBELL. Seven?

Mr. STAFFORD. Seven.

Senator CAMPBELL. Where are they, all in the audience?

Mr. STAFFORD. All in the audience. Would you like them to be recognized?

Senator CAMPBELL. Yes, I would like to at least have them raise their hands.

Mr. STAFFORD. Please, would you do that.

Senator CAMPBELL. Welcome.

Mr. STAFFORD. Kevin Foley, the Deputy Director of the Secret Service, sitting behind me, I would like to recognize him today. He is retiring at the end of the month after a 21-year career in the Secret Service and 5 years before that in the DEA. I would like to publicly acknowledge not only his service to the Secret Service, but also to our country, and we will miss him.

Senator CAMPBELL. Which gentleman is that? Congratulations on a well-deserved retirement. I know Brian pretty well, and he has told me a number of times about the 24-hour-a-day on call impromptu things. You put something in place where you want to be with your family and you get a phone call and away you go on the next plane. I understand the difficulty of that job.

Go ahead, please.

SECRET SERVICE FISCAL YEAR 2002 BUDGET REQUEST

Mr. STAFFORD. Mr. Chairman, the Secret Service's fiscal year 2002 funding request will advance our primary goals of protecting our leaders and reducing crimes against our nation's currency and financial systems. We currently have more permanent protectees than at any time in our 136-year history and their travel has been unprecedented, putting considerable demands on the Secret Service resources.

PROTECTIVE PROGRAM

Furthermore, the threats and risks to our protectees exist in an increasingly sophisticated and mobile and violence-prone world. The existence of these threats of terrorism prompted Congress to enact legislation designating the Secret Service as the Federal Gov-

ernment's lead agency for the design, planning, and implementation for security for national special security events.

Our preparation for the Salt Lake City 2002 Winter Olympics are ongoing. We are developing a comprehensive counter-terrorism security plan for all official venues of the Olympics. In conjunction with the security for the Olympic games, the Secret Service is also responsible for the safety of all visiting foreign heads of state. The Winter Olympics present a unique challenge for us and we are working very hard to ensure that the games are not marred by a terrorist attack or other security-related incident.

#### INVESTIGATIVE PROGRAM

Despite the heavy protection workload, the past year was also very productive for the Secret Service's investigative program. In fiscal year 2000, we closed over 18,000 criminal cases and made almost 8,000 arrests. In the past 5 years, the Secret Service has made over 50,000 arrests related to our core investigative responsibilities.

#### ELECTRONIC CRIMES SPECIAL AGENT PROGRAM

The Secret Service is confronting a technological transformation in criminal methodology and has adapted investigative methods to meet this new challenge. Our first line of defense in this effort is the Electronic Crimes Special Agent program. These agents are highly trained and are qualified as experts in the preservation and analysis of electronic evidence. They also provide expertise in the investigation of network intrusions and database thefts.

The Secret Service has forged strong alliances with our private industry partners and promotes the task force approach in our field offices worldwide. This method allows us to tailor our investigative programs to the local community, thus maximizing favorable economic impact.

An example, the New York Electronic Crimes Task Force, formed by the Secret Service in 1995, represents an unprecedented regional confederation of law enforcement agencies, prosecutors, academia, and private industry. This is a strategic alliance designed to pool competencies and resources to address electronic crimes. With over 250 members, this task force is the largest in the world and has had positive impact on the local community. Given the extraordinary success and effectiveness of this task force, it is not surprising that some of its most avid supporters come from private industry.

#### GLOBALIZATION OF CRIME

The Secret Service is also responding to the globalization of crime. Since the early 1980s, we have seen a sizeable increase in the foreign production and distribution of counterfeit United States currency. Much of this activity has been linked to organized crime syndicates. In the past 5 years, the Secret Service, in cooperation with foreign law enforcement agencies, has recorded over 2,400 foreign counterfeit arrests and suppressed 141 counterfeit plant operations.



In addition, a number of countries have recently adopted the U.S. dollar as their unit of currency. While dollarization does offer economic and political benefits, it also makes these countries vulnerable to the importation and distribution of counterfeit currency. In light of the proliferation of the U.S. dollar as the international currency of choice, the Secret Service will work to expand its reach throughout the world to guarantee the integrity of the currency of the United States.

#### NATIONAL CENTER FOR MISSING AND EXPLOITED CHILDREN

The Secret Service is very proud of its continuing commitment to the National Center for Missing and Exploited Children and will continue to provide technical and forensic support to further improve on the current 93 percent recovery rate of our Nation's children.

#### NATIONAL THREAT ASSESSMENT CENTER

In furtherance of our protective intelligence mission and as a direct result of this subcommittee's support, our National Threat Assessment Center continues to expand its capabilities to provide consultation, training, and research in areas of targeted violence. The Center's mission focuses on a broad spectrum of threat assessment and targeted violence pertinent to the protective mission of the Secret Service as well as the public safety interests associated with social problems, such as school violence, workplace violence, and threats to public figures.

Mr. Chairman, I am extremely proud to represent an organization comprised of some of the most talented and dedicated men and women in all of government. In both the protection and investigative arenas, the successes we have achieved should be credited to the personnel that we are so fortunate to attract and retain. Since becoming Director, I have made it my priority to improve the quality of life of our personnel. To that end, for the past two years, you have supported us in reversing a critical personnel shortage within the Secret Service resulting from mandatory workload increases. I am pleased to report we are in the process of adding about two-thirds of the additional staffing identified by the interagency working group.

#### PREPARED STATEMENT

Mr. Chairman, on behalf of the men and women of the Secret Service, I want to thank you and the subcommittee and staff for its ongoing support and I am willing to answer any questions you may have.

Senator CAMPBELL. Thank you.

[The statement follows:]

#### PREPARED STATEMENT OF BRIAN L. STAFFORD

Mr. Chairman and members of the Subcommittee, I am pleased to be here today, and to be afforded the opportunity to testify on the Secret Service's fiscal year 2002 Budget Request.

With me today, Mr. Chairman, are Kevin T. Foley, Deputy Director; Dana A. Brown, Assistant Director for Administration; C. Danny Spriggs, Assistant Director for Protective Operations; Barbara S. Riggs, Assistant Director for Protective Research; James E. Bauer, Assistant Director for Investigations; Larry L. Cockell, As-

Assistant Director for Human Resources and Training; George D. Rogers, Assistant Director for Inspection; H. Terrence Samway, Assistant Director for Government Liaison and Public Affairs; and John J. Kelleher, Chief Counsel.

#### FISCAL YEAR 2002 APPROPRIATION REQUEST

The Service's fiscal year 2002 funding request totals \$860.5 million and 5,730 FTE, and includes funding from two sources: the Salaries and Expenses appropriation, and the Acquisition, Construction, Improvements and Related Expenses appropriation. The budget request for fiscal year 2002 is \$26.7 million above the level of funding that the Service has been appropriated this fiscal year.

#### *Salaries and Expenses (S&E)*

The Service's Salaries and Expenses appropriation request for fiscal year 2002 totals \$857,117,000 and 5,730 full-time equivalents (FTE). This is an increase of \$32,232,000 and 173 FTE over the fiscal year 2001 appropriated level of \$824,885,000 and 5,557 FTE. This request includes: \$48,026,000 in upward adjustments necessary to maintain current program performance levels, \$6,553,000 and 173 FTE to annualize program changes implemented in fiscal year 2001, and \$1,649,000 in base funding that was previously funded under the Acquisition, Construction, Improvements, and other Related Expenses account. These increases are partially offset by \$10,372,000 in non-recurring costs, and \$13,624,000 in savings which the Service expects to realize through improved resource management.

There are no programmatic changes or initiatives proposed for the Service's Salaries and Expenses account in the fiscal year 2002 budget. However, the funding needed to annualize the costs of program initiatives begun or continued in fiscal year 2001 is included.

In addition, the fiscal year 2002 budget proposes moving funding currently contained in the Service's Acquisition, Construction, Improvements, and Related Expenses account to the Salaries and Expenses account. A total of \$1,649,000 has been moved. This amount partially covers the Service's shared costs for its use of the Department's Digital Telecommunications System, as well as expenses related to fixed-site security. These expenses are more properly budgeted under the Salaries and Expenses appropriation.

#### *Acquisition, Construction, Improvements, and Related Expenses (ACIRE)*

The Service's fiscal year 2002 request for its Acquisition, Construction, Improvements, and Related Expenses (ACIRE) account totals \$3,352,000, a decrease of \$5,569,000 from the fiscal year 2001 appropriated level of \$8,921,000. This total includes \$3,920,000 in non-recurring costs, and a reallocation of base funding of \$1,649,000 from this account to the Service's Salaries and Expenses account. There are no programmatic changes or initiatives proposed for this account.

#### PROTECTIVE PROGRAM

The Secret Service's protective operations programs provide comprehensive protection for persons and facilities as mandated by law and executive order, and strive to reduce threats posed by global terrorists and other adversaries. Secret Service protectees include: the President, the Vice President, their families, former Presidents, visiting foreign heads of state and government, as well as major Presidential and Vice Presidential candidates and their spouses. This program also provides security for the White House complex, the Vice President's residence, and 463 foreign missions within the Washington, D.C., area.

Fiscal year 2000 was an extremely active year for the Secret Service protection program due to the 2000 Presidential Campaign, the Republican and Democratic conventions, and the Presidential Inauguration. Additionally, the Secret Service provided protection at the World Economic Conference, the United Nation's General Assembly, and other designated "National Special Security Events". Travel of Secret Service protectees was unprecedented during fiscal year 2000, and put considerable demands on Secret Service resources. During fiscal year 2000, the Secret Service provided physical protection at 7,358 travel stops, a 29 percent increase over fiscal year 1999, and a 43 percent increase over fiscal year 1998. The 7,358 travel stops represent an all-time high in our protection workload. The 7,358 travel stops also represent an exhaustive effort by the entire organization in terms of commitment to the achievement of the Secret Service's ultimate protection goal of the safety of our protectees.

During fiscal year 2000, the Secret Service's Office of Protective Operations successfully designed, planned, and implemented four National Special Security Events, including: the January 2000 State of the Union address; the July 2000 OPSAIL and International Naval Review in New York City; the Republican Na-

tional Convention in Philadelphia, Pennsylvania; and the Democratic Convention in Los Angeles, California. In addition to these events, the Secret Service also provided significant resources—including manpower, material and technical—for the April 2000 International Monetary Fund and World Bank Meeting in Washington, D.C., and the September 2000 United Nations General Assembly meeting in New York City.

Our protective workload was further compounded by the 2000 Presidential Campaign. During this election cycle, we were charged with protecting three Presidential candidates and implementing security measures for six debate sites and two political conventions. Due to the uncertainty of the ultimate outcome of the election, the post-election period was extended, which resulted in the continuation of protective details beyond Election Day.

Preparations for the Salt Lake City 2002 Winter Olympics are continuing. Since August, 1998, the Secret Service, as the lead Federal agency for operational security, has been developing a comprehensive counter-terrorism security plan for all official venues of the 2002 Winter Olympics. In conjunction with the security for the Olympic Games, the Secret Service is also responsible for the safety of all visiting foreign heads of state or government who will be in attendance. The 2002 Winter Olympics presents a unique challenge for the Secret Service, and we will work to ensure that the Olympic Games are not marred by a terrorist attack or other security-related incident.

The threats and risks to our protectees exist in an increasingly sophisticated, mobile, and violence-prone world. In recent years, the individuals the Secret Service protects have become targets of ideological and fanatical hatred that often manifests itself in attempts to inflict harm through terrorism or by employing the use of weapons of mass destruction. The existence of this type of threat prompted the enactment of Presidential Decision Directive 62—later codified in 18 USC 3056—which designated the U.S. Secret Service as the Federal Government’s lead agency for the design, planning, and implementation of security for National Special Security Events.

The mandate of our protective mission has historically been defined by threat assessment and risk analysis in anticipation of selective adverse actions directed at one of our protectees. Our hallmark has been the development and implementation of comprehensive security plans to mitigate the potential threat.

Our valuable human resources provide the key to the successes we have enjoyed in our protective mission. This is accomplished by strategically placing field agents throughout the United States and abroad to routinely perform core criminal investigative and protective intelligence activities. Our protective function depends on the support of permanently assigned field personnel to assist with and, in many cases, conduct protective advances, security post-standing and other ancillary protective functions. It is because of their outstanding day-to-day working relationship with other Federal, State, and local law enforcement agencies, the mental health community, and other local community organizations, that the Secret Service succeeds in meeting its protective mission.

#### INVESTIGATIVE PROGRAM

Fiscal year 2000 was also a very productive year for the Secret Service investigative program, despite the heavy protection workload associated with Presidential Campaign 2000, and the unprecedented demands of our permanent protectees. During fiscal year 2000, the Secret Service closed a total of 18,611 criminal cases, made 7,843 arrests, and received 7,520 indictments.

The Secret Service achieved all of its counterfeit-related performance goals for fiscal year 2000. During fiscal year 2000, there was \$76 of counterfeit U.S. currency passed for every \$1 million of genuine currency in circulation. This represents a \$2 decrease (improvement) compared to the fiscal year 1999 rate and a \$19 decrease (improvement) compared to the fiscal year 2000 goal. There were \$39.7 million in counterfeit notes passed domestically in fiscal year 2000, 12 percent less than originally projected.

#### *Computer Crime*

Computers and the Internet are an integral part of a rapidly growing number of criminal activities investigated by the Secret Service. We have seen the proliferation of computer-generated and computer-assisted fraud dramatically increase. Criminals frequently utilize hardware and software tools developed for the benefit of businesses and consumers. Because of the competitive nature of Internet-based financial services, the focus is on speed, “24/7” access, and ease of use—all of which make the job of the “cyber criminal” a little easier. The Internet also provides the anonymity that criminals desire. In the past, most fraudulent schemes required at least

some "face to face" exchange of information, and allowed some of the information being provided to be verified, and later traced, relatively easily.

The Internet has evolved from an information-sharing network into an electronic commerce payment network. Last year there were 3.5 billion financial transactions completed on-line. It is estimated that over 144 million Americans are "plugged into" cyberspace. By 2005, it is predicted that there will be over one billion Internet users worldwide. The rapid migration to E-Commerce is a forerunner to the advent of a truly global economy. In the wrong hands, the computers, Internet connections, and wireless communication devices, which have saturated our global society, can become weapons capable of wreaking havoc on our financial infrastructures.

The Internet contains thousands of sites dedicated to all types of criminal activity. "Hacking" sites describe the methods for making intrusions into financial, telecommunications, and government systems, and allow the necessary "tools" to be downloaded directly to the perpetrator. The demand on the Secret Service to conduct intrusion investigations continues to escalate.

The Secret Service is confronting a technological transformation in criminal methodology and must adapt our methods of investigation to meet this new challenge. The first line of defense in this effort is the Electronic Crimes Special Agent Program (ECSAP). ECSAP agents are highly trained and are qualified as experts in the preservation and analysis of electronic evidence, including computers, telecommunications devices, electronic organizers, scanners, and other electronic paraphernalia. They can also provide expertise in the investigation of network intrusions and database thefts.

The Secret Service mission in the arena of criminal investigations has been historically characterized by its preventive and proactive nature. The focus of this investigative program is the protection of our nation's payment systems and financial infrastructure and is not redundant with the investigative programs of other Federal law enforcement agencies. Our unique core criminal violations concern the counterfeiting of United States currency (and other nations), and fraud perpetrated against the U.S. Government, the citizens of the United States, and American business operations.

In cases involving the manufacture of fictitious financial instruments, false identification documents, identity theft, or the counterfeiting of currency or corporate and bank checks, the investigation usually reveals that they were most likely produced using a computer and desktop publishing software. Experience indicates the majority of Secret Service investigations involve a computer, whether as the target of the crime, a tool used to commit the crime, or as a repository of evidence.

The highlights of our comprehensive investigative program include an aggressive public education and awareness campaign and a proactive approach to criminal investigations in general, focusing our resources on investigations of significant economic and community impact. The Secret Service has forged strong alliances with private industry partners and promotes the "task force" approach in field offices throughout the United States and in offices abroad. This method allows us to tailor our investigative programs to the local community, thus maximizing favorable public and economic impact, while strengthening the financial infrastructures of our nation at every level.

The Secret Service has also developed working partnerships with members of the financial services and telecommunications industries as they pertain to our payment systems. These partnerships foster the sharing of information and permit the Secret Service necessary access to provide risk assessments in the identification of systemic weaknesses in financial institution infrastructures. These partnerships also assist in preventing future compromise, reduce financial losses to the public, respond to our customers' needs, enable the Secret Service to provide quality investigations, and overall, make our nation's financial systems more secure.

The New York Electronic Crimes Task Force (NYECTF), formed by the Secret Service in 1995, represents an unprecedented, regional confederation of law enforcement agencies, public prosecutors, academia, and private industry institutions in a strategic alliance designed to pool core competencies and resources to address electronic crimes. With more than 250 members, this task force has led a successful effort to heighten public awareness and have a positive impact on the local community. They have trained over 10,000 law enforcement personnel, prosecutors, and private industry representatives in the criminal abuses of technology. Given the extraordinary success and effectiveness of this task force, it is not surprising that some of its most avid supporters come from private industry.

The NYECTF serves as a model for increasing public awareness and cultivating community partnerships. Led by a state agency, a similar version of the NYECTF model was recently implemented in North Carolina, and there has also been significant interest from other states and countries in adopting this systemic approach.

Our experience in the investigation of computer crimes has had an added benefit for the Secret Service in the area of our protective responsibilities. We acknowledge the difficulty in separating the cyber dimension from the physical dimension in the area of security today. Consequently, we are developing a plan that addresses the integration of a secure infrastructure and cyber environment with a secure (in the traditional sense) physical environment for our protectees.

In order to meet the challenges of the 21st century, the Secret Service has initiated a new case prioritization policy to focus our resources on emerging technological schemes and crimes that are transnational in scope. Secret Service field offices allocate their resources to the most significant cases based on whether one or more of the following case prioritization criteria is met: involves transnational or multi-district investigations; schemes involving multiple defendants participating in organized groups; schemes involving computers or exploiting emerging technologies; or investigations that will significantly impact the local community. The use of these criteria in case screening and initiation enhances our investigative effectiveness and allows for the optimum utilization of our resources.

#### *Identity Theft*

The responsibilities of the Secret Service in criminal investigations have increased significantly as a result of the proliferation of computer technology and the public's access to the Internet. Advances in technology have changed the nature of financial transactions from paper currency and coins to today's use of electronic payment systems. New criminal schemes are constantly being developed utilizing emerging technologies. Identity theft has become a tool of the criminal element and is usually used to commit several different types of fraud such as: bank fraud; credit card and access device fraud; and other computer-generated and computer-assisted crimes. The Secret Service continues to diligently attack identity theft and other diverse criminal strategies by aggressively pursuing our core violations of counterfeiting and financial crimes.

Identity theft is best described as the illegal use of another person's financial identity to commit fraud. It is not typically a "stand alone" crime; it is almost always a component of one or more crimes, such as bank fraud, credit card or access device fraud, or the utterance of counterfeit financial instruments.

Unfortunately, consumers have little control over who has access to their personal identifiers. Social security numbers, in conjunction with other personal identifiers, are used for the granting of credit (auto loans, home mortgages, small business loans, apartment leases) and when obtaining banking and investing services. They are requested by government agencies on applications for licenses, permits, and benefits, and are required by most health care providers for the maintenance of medical records.

Today, it is a relatively simple task for criminals to obtain personal information on a variety of individuals through public sources, particularly the Internet. Many government and private sector entities have web sites with promotion lists, financial disclosure forms, and biographies of their executives posted on them.

Cyber criminals have also "hacked" into Internet merchant sites and made copies of the proprietary customer lists, which contain personal information and credit card account numbers. These account numbers are then used in conjunction with other personal identifiers to order merchandise that criminals have delivered throughout the world. Most account holders are not aware that their credit card account has been compromised until they receive their billing statement.

In many cases, the hacking attempts on corporate and government web sites, are successful not due to the expertise of the cyber criminals, whose attempts are often quite technologically crude, but because of the failure of some business and government entities to take basic computer security precautions. It is not unreasonable for consumers to expect that they will have to provide personal identifiers when obtaining credit or other services, but it is reasonable for them to expect that basic security measures will be taken to prevent these identifiers from being compromised and/or misused. The Secret Service is addressing this issue through a proactive public education campaign being conducted through our private industry partnerships. This approach, coupled with the successful investigation of criminals involved in financial and computer fraud, has significantly enhanced our ability to detect and suppress identity theft.

We also make it a priority to investigate counterfeit instruments—counterfeit currency, counterfeit checks, counterfeit credit cards, counterfeit stocks and bonds, etc. Many of these schemes would not be possible without the compromise of an innocent victim's financial identity. The Secret Service aggressively targets organized criminal groups that are engaged in financial crimes on both a national and international

scale. Many of these groups are prolific in their use of stolen financial and personal information to further their financial crime activity.

The Secret Service also continues to work in concert with state, county, and local police departments to ensure that our resources are being targeted at those criminal enterprises that are of a high concern to local communities. This partnership approach to law enforcement is exemplified by our financial crimes task forces located throughout the country. Each of these task forces pools the personnel and technical resources needed to maximize the effectiveness of each participating law enforcement agency.

#### *Globalization of Crime*

Since the early 1980's, the U.S. Secret Service has seen a sizeable increase in the foreign production and distribution of counterfeit U.S. currency. Much of this activity has been linked to organized crime syndicates through forensic and investigative techniques. The lowering of barriers to international travel, trade, and capital transfers has contributed to the complexity of the issue of the international counterfeiting of U.S. currency. In the past 5 years, the Secret Service, in cooperation with foreign law enforcement agencies, has recorded more than 2,411 counterfeit arrests and suppressed 141 counterfeit plant operations outside the United States.

The objective of the U.S. Secret Service abroad is to continue to improve and expand bilateral cooperation regarding the investigation, timely reporting, and suppression of counterfeit U.S. currency and a wide array of financial crimes. This includes proactive partnerships with law enforcement authorities and financial industry officials, and maintaining a comprehensive international training program. Training seminars and information exchange sessions can provide much needed awareness and expertise and a stronger joint working relationship.

The strategic placement of overseas personnel promotes more effective police operations because our agents are able to respond more promptly and more consistently. In an effort to combat international crime, the U.S. Secret Service currently has eighteen offices in foreign countries and a permanent assignment at Interpol, as well as several overseas initiatives. Recently, new offices have been opened in Moscow, Pretoria, Lagos, and Frankfurt, with an office soon to open as well in Mexico City. Requests to open offices in Beijing and New Delhi are pending approval, and should be opened within the next 6–9 months. This expansion will enhance our ability to become involved in foreign investigations, which ultimately affect the United States, directly or indirectly.

In light of the proliferation of the U.S. dollar as the international currency of choice, the Secret Service will be playing an expanded role throughout the world to guarantee the integrity of the currency of the United States. Several nations have recently adopted, or have moved to adopt, the U.S. dollar as their base unit of currency. While "dollarization" does offer many economic and political benefits to the United States, it also makes these countries vulnerable to the importation, distribution, and passing of counterfeit currency. To ensure that the manpower and resources are available, without drawing from existing commitments and fiscal considerations, the Secret Service is prepared to explore all available options so that we may continue to perform our investigative mission in these emerging dollar-based economies.

#### *Cyberterrorism*

The Secret Service continues to utilize its core of computer investigative specialists (CIS) and ECSAP agents to conduct investigations into "Cybercrime" and "Cyberterrorism." Most forms of cyberterrorism, as with any other cybercrime, are detected as a simple cyber incident (for example, during routine system testing, or during intrusion detection). The Secret Service program therefore emphasizes initial response and follow-up investigation, to determine if the nature of the incident rises to the threshold of cyberterrorism. Suspects in financial crimes investigations have traditionally been thought of as white-collar criminals. Today we see many criminals for whom financial crime is just one component in a diversified criminal portfolio. The proceeds of the criminal activities are not only used to support the lifestyle of the suspect, but frequently to finance other types of criminal enterprises, including terrorism.

The threat that computer crime represents in our society today is also acutely recognized by the Secret Service in the area of our protective responsibilities. In the cyber context, a small adversary may compete with, and defeat, a larger more powerful entity by deftly exploiting an electronic vulnerability with a minimum amount of resources. A well-placed cyber attack against a weak technology or support infrastructure system can render an otherwise sound physical security plan vulnerable and inadequate. Often, in our networked society, systems that we have come to as-

sume are reliable are often viewed as being susceptible and therefore targeted as easy prey by individuals or groups with malicious intent. For example, a hotel today routinely has its telephone network tied into the same local infrastructure as its elevators, water and electric supply, and fire suppression system.

To be sure, technology will continue to evolve at a rapid rate and play a vital role in our society and daily lives. Our mandate is to leverage its enhancements but also to recognize its shortcomings and ensure that the secure environment which the Service seeks to provide contemplates not only an adversary with conventional weaponry, but the computer-based threat as well.

#### *National Center for Missing and Exploited Children*

With the passage of the Violent Crime Control and Law Enforcement Act of 1994, the U.S. Secret Service was authorized to provide forensic and technical support to the National Center for Missing and Exploited Children (NCMEC). This support includes, but is not limited to: the use of the Automated Fingerprint Identification System (AFIS); the Forensic Information System for Handwriting (FISH); ink analysis and comparison; traditional handwriting and fingerprint comparison; polygraph examination and consultation; visual information services such as image enhancement, suspect drawings and video and audio enhancement; graphic and photographic support; and age regression/progression drawings.

The Secret Service's Forensic Services Division (FSD) has been aggressive in providing specific law enforcement groups with information about our services. Recipients of such presentations include the International Association of Chiefs of Police, the INTERPOL Standing Working Party on Offences against Minors, and the Federal Law Enforcement Training Center. Various publications and brochures have also aided in promoting FSD's ability to provide critical forensic support in these cases. FSD has provided the National Center for Missing and Exploited Children with an icon and a web page of information, which has been included on the desktops of more than 1,500 computers belonging to state and local law enforcement agencies nationwide. The Secret Service will continue its efforts to promote our services and the assistance we can provide to local law enforcement agencies through the Center, through our field offices, and through competent and timely responses to existing case submissions.

#### *Boys and Girls Clubs of America*

Computers and the Internet have revolutionized the way that we communicate, entertain and learn. They have forever changed the way that we conduct business and interact socially. The significance of this has been recognized by the Secret Service and recently applied to our partnership with the Boys and Girls Clubs of America (BGCA). The partnership was created to enrich the lives of our nation's youth by supporting programs that stress the prevention and reduction of youth violence within our communities. That organization plans to open a Cyber Learning Center in every one of its more than 2,000 clubs nationwide. This presents an excellent opportunity for us to share our knowledge and expertise in this area. In support of this partnership, our New York Field Office and the New York area chapters of the Boys and Girls Clubs of America conducted the first Cyber Safety for Kids seminar on January 30, 2001, at John Jay College in New York City.

The seminar was attended by over 500 children aged 6 to 16. The theme of the seminar focused on the prevention of online victimization, exposure to unwanted sexual material such as pornography via the Internet, and instructions on where to go to for help when confronted with these issues. The children received cyber-etiquette training through the use of hands-on activities and exercises and certificates of participation were provided to all the children in attendance. By December 2001, the Secret Service anticipates reaching thousands of children and their parents in the New York City metropolitan area through this model program.

### OFFICE OF PROTECTIVE RESEARCH

#### *Intelligence Division*

The Secret Service's protective research and protective intelligence programs continue to serve a critical role in support of the protective mission. Within the Office of Protective Research, the Intelligence Division oversees the identification, assessment, and management of threatening communications and incidents directed toward Secret Service protectees. Specifically, the division develops threat assessments in support of domestic and foreign protectee visits; conducts evaluations of risk potential associated with specific and generalized threats; prepares analyses of protectee-specific threats; maintains liaison with other law enforcement, mental health, and intelligence agencies; plans and reviews the case management for high risk subjects; and, collaborates in the design and conduct of program evaluation

studies and other risk assessment research to improve our understanding about violence directed toward public officials.

Among key initiatives in fiscal year 2000 was the extensive support provided by the Intelligence Division for the Presidential Campaign in the form of candidate assessments, training for campaign protective details, and trip assessments associated with unprecedented amounts of campaign travel. Similarly, the division coordinated complex protective intelligence activities related to the Inauguration for President Bush and Vice President Cheney.

In addition to directing and performing such operational activities, the Intelligence Division provides leadership for the Protective Detail Intelligence Network (PDIN), a consortium of Washington, D.C., area law enforcement, security, and public safety agencies with protective and security related functions. Initiated in 1999 by the Secret Service, the PDIN has emerged as an important forum for sharing intelligence information that affects security planning issues across agencies in the metropolitan area. Hosted on a regular basis by the Intelligence Division, PDIN meetings include briefings and training concerning significant and designated major security events coordinated by the Secret Service, and they facilitate cooperative partnerships among agencies who share protective and security responsibilities. Through the PDIN, the Secret Service has offered assistance in the preparation of security assessments for incoming Cabinet members and senior officials of the new administration.

#### *National Threat Assessment Center*

In furtherance of our protective intelligence mission, the National Threat Assessment Center (NTAC) continues to expand its capabilities to provide consultation, training, and research in areas of targeted violence. NTAC's mission focuses on the broad spectrum of threat assessment and targeted violence, pertinent to the protective mission of the Secret Service as well as the public safety interests associated with such social problems as school violence, workplace violence, and threats to public figures. NTAC also works to promote information sharing among all agencies with public safety responsibilities. To that end, NTAC has offered a series of week-long Threat Assessment Seminars attended by law enforcement and public safety officials from across the country to receive training on the Secret Service's approach to threat assessment, including the identification and management of persons at risk for targeted violence. These seminars represent one of the initiatives by which NTAC will continue to share Secret Service expertise with those who may benefit from our specialized research and experience.

In 2000, the National Threat Assessment Center completed data collection and data analysis on the Safe School Initiative, a collaborative venture with the Department of Education and supported by the National Institute of Justice. The Safe School Initiative is an operational study of 37 U.S. school shootings involving 41 perpetrators that have occurred over the past 25 years. Through this incident-focused, behavior-based analysis, NTAC researchers hope to increase understanding the patterns of communication, planning, and preparation that precede these incidents. The goal of the Safe School Initiative is to provide accurate and useful information to school administrators, educators, law enforcement professionals, and others who have protective and safety responsibilities in schools, and to help prevent incidents of school-based targeted violence.

The National Threat Assessment Center also provided extensive research support during this past year to examining and analyzing campaign-related threats and incidents. This research was conducted in collaboration with the Office of Protective Operations' Major Events Division to assist with the operational planning and training associated with Campaign 2000. Presently, NTAC is developing its long range agenda for research, training, and consultation activities as part of its mission to enhance and facilitate understanding about the prevention of forms of targeted violence affecting a variety of public settings.

#### *Technical Security Division*

In order to remain on the leading edge of physical security technology, the Secret Service's technical security program maintains a robust research and development capability. Our staff of engineers and chemists serve on several committees within the Technical Support Working Group (TSWG), a multi-agency research consortium, to research innovative technology that is applicable to our mission. For example, the development and deployment of state-of-the-art armored limousines directly resulted from research conducted by the Personal Protection Subgroup of TSWG, chaired by engineers from the Secret Service. Other projects under research by TSWG on behalf of the Secret Service, include development of a lighter and stronger ballistic glass, concealable body armor that meets higher standard performance require-



ments, and blast mitigation research. We are also conducting on-site biometrics testing in the form of facial recognition technology and fingerprint scanning. Promising new developments in this area will one day enable us to enhance our abilities to identify persons known to be a threat to our protectees, and they will increase the performance and reliability of our access systems.

Currently, the Technical Security Division of the Secret Service is playing a major role in the security planning for the 2002 Olympic Games in Salt Lake City. Extensive use of protective technology will serve to reduce the manpower requirements while, at the same time, enhance the overall security of the event.

#### *Information Resources Management Division*

In fiscal year 2000, the Information Resources Management Division (IRMD) completed an internal reorganization to better provide support to Secret Service headquarters and field offices. Through this effort, several major activities were initiated, including the "Customer Touch" program which placed information technology (IT) personnel in our largest field offices and major headquarters customer offices. IRMD also established an Information Assurance staff component to focus greater attention on information assurance and Cyber Critical Infrastructure Protection (CIP). In addition, the division implemented efforts to modernize the Secret Service IT hardware and software infrastructures, and they developed and published a Secret Service Information Technology (IT) Strategic Plan for 2001 to 2005. IRMD has also undertaken partnering efforts with other Treasury bureaus, particularly in the area of SmartCard and Public Key Infrastructure.

#### *Emergency Preparedness Program*

Within the Office of Protective Research, the Emergency Preparedness Program (EPP) became fully operational this past year. The Emergency Preparedness Program was established in 1999 to oversee the Secret Service's emergency preparedness planning efforts. As such, EPP manages four interrelated program areas, evolving from Presidential Decision Directives 63 and 67: (1) Critical Infrastructure Protection (CIP); (2) Continuity of Operations (COOP); (3) Presidential Successor Program; and, (4) Operations Security (OPSEC) program. Specifically, the Critical Infrastructure Program involves the identification of existing or potential vulnerabilities—including physical and computer-related—associated with the Secret Service's critical assets. The Continuity of Operations plan sets forth a strategy for maintaining the capability to perform essential mission elements with minimal or no interruption during national or other emergencies. The Secret Service's role in the Presidential Successor Program includes transporting presidential successors to a secure relocation facility in the event of an emergency. Also, the OPSEC program protects the sensitivity of employee and mission-related information, with a goal of denying adversaries access to critical information that could compromise the Secret Service mission.

#### HUMAN RESOURCES AND TRAINING

On September 29, 1998, a groundbreaking ceremony took place at the James J. Rowley Training Center (JJRTC). This date marked the initiation of an unprecedented construction and consolidation project on the part of the Secret Service and the Department of the Treasury as it pertains to training facilities. The construction of a new classroom building and a new administration building were the major components of this initiative. With the completion of the Administration Building (17,000 square feet—January 2000) and the Classroom Building (50,000 square feet—April 2000), another Secret Service milestone was achieved. For the first time in Secret Service history, all training personnel and facilities were consolidated at one location, creating a more effective and efficient training environment. All instructors and support staff members, including those formerly assigned to the 1310 L Street location, were assigned to the JJRTC. The majority of the personnel assigned to the JJRTC now occupy the new Administration Building and the new Classroom Building. Additionally, the Classroom Building contains 11 new classrooms with two computer labs.

Included in the new building construction was the installation of computer-based training equipment in nine of the new classrooms in the Classroom Building. Prior to the acquisition of this equipment, JJRTC instructors had limited access to computer-based training equipment. Additionally, the installation of this new equipment standardized the amount and type of equipment available for use by the instructors in these classrooms. The remaining two classrooms, which are designated as computer labs, have been outfitted with 12 new computers for use during various aspects of training.

In June of 2000, work on the Wilkie Firearms Building, including the indoor ranges, armory, and classrooms, was completed. Additionally, this building now contains a mat room, counterfeit laboratory, and office/storage space for firearms, emergency medical equipment, and maintenance personnel. The JJRTC Supply Section has also been relocated to this building. Renovation of the JJRTC outdoor ranges was also completed this past fiscal year. This renovation occurred during the months of March and April of 2000, and included an upgrade of the electrical, mechanical, structural, and target systems. The ranges located at the Post Office in the District of Columbia were also renovated with the installation of the new electronic tracking target systems, ballistic traps, and linatex curtains. Since 1997, construction has been completed on the Drummond Building (Protective Detail Training) and the Magaw Building (Counter Assault Team Training, Protective Detail Training).

Last year, the JJRTC provided training for an unprecedented number of personnel. During fiscal year 2000, 432 new Special Agents and 120 new Uniformed Division Officers received their training at the JJRTC. In addition, 11,486 training opportunities were provided to special agents in the form of the Special Agent Basic Training Course, In-Service Training, and Firearms Re-qualifications. 13,304 training opportunities were also provided to Uniformed Division Officers, in the form of the Uniformed Division Officer Basic Training Course, In-Service Training, and Firearms Re-qualifications. Finally, 2,562 training opportunities were provided to other Secret Service personnel, and 1,651 training opportunities were provided to individuals from outside agencies.

A significant challenge for the Secret Service in fiscal year 2001 will be our recruitment and retention efforts. By the end of fiscal year 2002, 379 Special Agents and 190 Uniformed Division members will be eligible for retirement. Further, many eligible Uniformed Division members are likely to retire in fiscal year 2002, as a result of the recently enacted retirement enhancements. The Secret Service's ability to accomplish its mission requires that it recruit and retain well-qualified candidates to replace these retiring employees.

#### CONCLUSION

Mr. Chairman, the Secret Service is committed to its dual mission of protecting our nation's leaders, as well as this country's critical financial infrastructures and payment systems. We will continue to develop our aggressive and innovative approach to combating emerging forms of computer crime, and continue to foster our effective partnerships with local law enforcement agencies, private industry, and community organizations.

This concludes my statement. I would be pleased to answer any questions that you or other members of the Subcommittee may have.

Senator CAMPBELL. When the Secret Service first started, was the mission pretty much totally to protect the President?

Mr. STAFFORD. No, it was not. We were created actually on April 14, 1865, by Abraham Lincoln, and the day he created us, he was assassinated. But he did not create us for protection purposes. We were created for investigative reasons, specifically to suppress counterfeit money. After the Civil War, about a third of all our currency in circulation was counterfeit. There was economic chaos in our country and there was no Federal investigative law enforcement agency that existed at the time to suppress it. We never started protecting Presidents until after Lincoln, Garfield, and McKinley were all assassinated, in the early 1900s.

Senator CAMPBELL. Well, your mission has certainly grown and now you have to protect athletes, as well. I was on an Olympic team a long time ago, and if anybody would have told us in 1964 when I was on the team that we would have to worry about terrorists killing the young athletes, I never would have believed it. And yet within 8 years, in Munich, that was the loss of innocence when the Israeli team was murdered right in the Olympic camp, and I understand the importance of it now. Whenever you have a high-profile event with cameras from all over the world, it seems to at-

tract the whackos and that is where they can really make a statement because they know that everybody in the world will see it. So your mission has grown considerably, as other agencies have, too.

Let me ask a few questions of each of you. Mr. Sloan, in fiscal year 1999, Congress gave the Department the authority to establish a three-year pay demonstration project for critical operations. I think you mentioned that. It took a while to get the project off the ground, but there have been some good results, as I understand it. What plans does the Department have for continuing that project, Mr. Sloan?

Mr. SLOAN. Mr. Chairman, you are absolutely correct. The demonstration project was established to enhance Treasury's ability to effectively recruit and retain highly qualified employees. It did take a little time before it got off the ground and I think it is safe to say that ATF has been involved with this project for about a year now and has, in fact, completed its first cycle in January of this year and has prepared a report relative to that evaluation of the project.

I might also note that in the President's budget, I believe we are asking, because of the short time that we have had for the project itself, for an extension to the demonstration project's authority in the 2002 budget. But it may be appropriate if Director Buckles comments a little further on the project.

Senator CAMPBELL. So far as I understand it, through January 31, as you mentioned, of this year, the total cost has been \$3.4 million. How do you plan to continue that funding. That is in the President's budget?

Mr. BUCKLES. Yes, that would be covered in our budget, in our salary and expenses, yes, sir.

#### ATF SUPERVISORY STRUCTURE

Senator CAMPBELL. Okay. Mr. Buckles, many of your law enforcement officers are still concerned about the supervisory structure in the ATF offices. As I understand it, law enforcement personnel are being supervised in some cases by non-law enforcement personnel. I used to be a cop, among many other things. In fact, I was a police training officer, and based on my own experience, it would be hard for me to remember going through any classes where you are trained for some specialty activity in law enforcement by somebody that was never in it or does not have a background in it. I was wondering if they have the sufficient background or training or experience to be able to do that. How do you justify that structure?

Mr. BUCKLES. The structure is such that we do not have non-law enforcement personnel, first of all, in the field who are supervising any law enforcement activities. Where we do, it is in management functions. Within division offices, there may be agents and other people assigned to those offices. Any time we have any kind of law enforcement activity going on, that is supervised exclusively by law enforcement personnel.

In terms of our training, the training and the type of training we put on is based upon the needs of the law enforcement personnel within the agency. Again, it is supervised in some cases by individ-

uals for management purposes on scheduling classes and maintaining the budget and getting the bills paid and that sort of thing, making sure that we have professional standards, and developing and maintaining curriculums that are proper. But they do not address the law enforcement policy.

Senator CAMPBELL. All right. Well, you are the Director. How many assistant directors are there in the ATF?

Mr. BUCKLES. I think there are seven.

Senator CAMPBELL. Seven? And how many of those have law enforcement background?

Mr. BUCKLES. Well, we can go back through it. I think I just saw a letter, that maybe you have received where it suggested that two-thirds of them do not have law enforcement background. If we go through it, our head of Field Operations that is in charge of all law enforcement activities is a special agent. The head of our Firearms, Explosives and Arson Division is a special agent. The head of our Inspection Division is a former special agent with the Secret Service, so that we have got three. The head of our Training Office is non-law enforcement. Our Chief Information Officer (CIO) over our laboratory and technology is a non-agent. And our Chief Financial Officer (CFO), is a non-agent.

Senator CAMPBELL. Do the assistant directors also make policy decisions?

Mr. BUCKLES. Yes. We operate in an environment where we have something called a Strategic Leadership Team that all of the assistant directors are involved in making policy decisions and strategic settings, and strategic direction for the Bureau.

Senator CAMPBELL. Thanks. That is good.

#### FUNDING FOR MANAGEMENT AND TECHNOLOGICAL IMPROVEMENTS

Director Buckles, as a result of some complaints of legitimate firearms importers, you remember last year \$2 million was provided for management and technological enhancements to assist law-abiding firearms dealers and collectors as they work through the regulatory process with the ATF. The ATF has developed a plan to use that money for information technology to streamline the process. I am told that you are also planning to implement management process changes that should have a more positive impact. Could you outline what steps you are taking to make the firearms regulatory process more customer friendly?

Mr. BUCKLES. The principal areas of concern, I believe, with the funding from last year dealt with our Importation Branch and what is called our National Firearms Act Branch, which handles certain special types of weapons that are registered. What we have done in each of those areas is spent money on advancing computer technology. Frankly, when you are processing, for example, in the National Firearms Act Branch some 300,000-and-some-odd requests for transfers or making of these weapons, if you do not have—

Senator CAMPBELL. In what time frame do you get the 300,000?

Mr. BUCKLES. That is in a year.

Senator CAMPBELL. In 1 year?

Mr. BUCKLES. In 1 year, and we do approximately 14,000 importation permits. So, attempting to manage that level of activity

without proper computer technology has been one of the problems that we have had in this area. We have also been able to add additional staff to those offices so that we have computer data input specialists, so that the examiners we have who are the specialists in the subject matter are able to focus their attention on getting the job done and dealing with the customers, and are not using all their time putting the information into the system.

Senator CAMPBELL. Thank you.

#### AUTOMATED COMMERCIAL ENVIRONMENT

Commissioner Winwood, on April 25, Congress approved the release of funds for the Automated Commercial Environment, called the ACE project. You mentioned that a little bit, I think, in your testimony. On April 27, the Customs Service announced that a partnership led by IBM was their choice as the prime contractor for the ACE contract. I know that you have been instrumental in this ACE process, this project, and I want to commend you for that because I think it is very good. But you have been involved with it for many years. What is the next step? Now that the prime contractor is on board, where does it go from here?

Mr. WINWOOD. Mr. Chairman, it was a great day when we were able to announce the hiring of the prime contractor to get the process started, to actually start building the future for the Customs Service in international trade. We are negotiating right now with that prime contractor to lay out the requirements and the deliverables in the first phase of the development of the ACE program. They probably will be starting their work in approximately 2 to 3 weeks. The prime contractor will take our initial plan and review it from top to bottom to make sure that all the steps we have taken, how we have laid out the initiative and where we need to go, and we are able to do it. They will start forming their office, getting in the proper experts from the subcontractors. They have to form the first group.

Senator CAMPBELL. They pick their own subcontractors, or do they do that in conjunction with your direction, or how is that done?

Mr. WINWOOD. They pick their own subcontractors, Mr. Chairman, and they brought them on board as a part of the bid. The company has approximately 5 major partners plus probably close to 40 subcontractors from different parts of the country and with different expertise that they will bring on board as necessary as we go through the different development stages. So we are ready to start the process. They are laying out what steps they need to take. They are reviewing the entire project in the next 2 to 3 weeks and then they will start setting up their development office.

Senator CAMPBELL. And it will be in operation by when?

Mr. WINWOOD. Well, if we have continuing funding, our hope was to have the project completed in four to maybe a maximum of 5 years. Right now, we have to readjust the schedule based on the funding. It is looking right now, that it will take approximately 7 years.

Senator CAMPBELL. Seven years from now?

Mr. WINWOOD. Yes, sir.

## ECSTASY

Senator CAMPBELL. Let me ask—in fact, I do not even know actually who to direct this to, but I have been increasingly aware and interested in a drug that youngsters seem to be taking as a matter of choice these days. You know, we go through a cycle. It was marijuana, then it was something else, and then it was cocaine, then it was crack and something else, and now there seems to be a club drug called Ecstasy. Would any of you know something about that and can tell me and the committee something about that?

Mr. WINWOOD. Yes, sir.

Senator CAMPBELL. Go ahead.

Mr. WINWOOD. There has been an explosion of the importation of this so-called club drug since 1997. It was very popular in Europe prior to that, and I think they decided that there was a mass market here, that they could exploit the children in the United States. In 1997, the Customs Service seized approximately 400,000 tablets of Ecstasy.

Senator CAMPBELL. So it is taken in tablet form?

Mr. WINWOOD. Tablet form, yes, sir.

Senator CAMPBELL. Not smoked or—

Mr. WINWOOD. No, sir. It is taken in tablet form, about the size of a small aspirin. In the year 2000, we seized over 9.3 million units, which is a tremendous increase. It is very worrisome, because, first of all, people have associated—they call it the “love drug” or the “friendly drug” and it is not. It is very harmful to people. It is harmful to children.

Senator CAMPBELL. What is it a derivative from? What does it come from, a plant?

Mr. WINWOOD. No, sir. They make it into tablet form. At one time, when it first started, it was used as an appetite suppressant. One of the base elements was used as an appetite suppressant back in the, probably the early 1950s and the 1960s. You add a few more ingredients to it and it gives you this so-called euphoric feeling, lets people’s guard down, makes them relax. So it is very dangerous because it increases the heart beat, it dehydrates people, it overheats them, and it is very dangerous to young people.

Senator CAMPBELL. Does it have the explosive or inflammatory effect that, say, methamphetamines does when this stuff is being made, or contaminative effect?

Mr. WINWOOD. I do not believe so. I am not the expert on the chemical analysis, but it has the same basic elements as some methamphetamines. It is not as dangerous as methamphetamines, but it is certainly not just something that you would want to have lying around for people to use.

Senator CAMPBELL. I see. Senator DeWine, would you like to ask some questions, and I will maybe get back to a few.

Senator DEWINE. Thank you, Mr. Chairman.

## CONTINUED DUMPING AND SUBSIDY ACT

Commissioner Winwood, let me discuss a specific matter of importance to my home State and to the entire country, and that is the implementation of the Continued Dumping and Subsidy Act. As

you know, I wrote this bill, and thanks to the help of a friend, Senator Byrd, the measure is now law.

I understand that Customs has been working on implementation regulations for almost 7 months now. I just wondered when we could expect to see these regulations actually issued.

Mr. WINWOOD. Well, we hope to get them out soon, Senator. There were a couple of issues that we are faced with. It was a challenge to devise the proper regulations to make sure that we met all the requirements of the law to protect not only the revenue, but also the claimants. There are some administrative matters that we had to address, and some accounting issues that we had to address. We also had to make sure that from the standpoint of the payouts for those who are part of the claim or could have been harmed by the claim, that we had the opportunity to make sure that the proper amount of money was redressed to those individuals.

The regulations are presently in draft form and they are going through final review in Customs right now. We hope to get them out in the very near future for Treasury review so that we can get them published as a proposed rule. Then they can be commented on by the public at large.

Senator DEWINE. How long do you think?

Mr. WINWOOD. I hope to have them over at Treasury this month, the month of May.

Senator DEWINE. Well, it is important that it gets done. I understand you are doing things you have not done before, and whenever you are faced with the job of doing something you have not done before, it takes a little time, but we will anxiously await these regulations.

#### NIBIN

Director Buckles, for the last several years, I have been involved in efforts to combine the FBI's Drug Fire System and ATF's Cease Fire System. This has been something that we all know about and we have watched for some time, and I commend everyone for moving forward on this, this new system, this National Integrated Ballistic Information System, this NIBIN system.

In addition, I have supported appropriations for NIBIN. In fact, my Crime Identification and Technology Act of 1998 was the first Justice grant program to help State and local law enforcement obtain NIBIN. Currently, though, I understand that there are 75 NIBIN units deployed and another 150 units scheduled for deployment by the end of next year.

Earlier this year, both the ATF and FBI expressed concern that fiscal year 2001 NIBIN implementation might slip into the next fiscal year because of problems obtaining communication lines. Do you see any impediments to fully implementing phase one of NIBIN this fiscal year, such as may be caused by the blackouts in California, and if so, if you do see a problem, what alternative plan has the Bureau made to assure that we meet the NIBIN distribution time table?

Mr. BUCKLES. Senator, I think that we have solved the problem with the communications. It was an issue at first. In fact, in California, we are trying an alternative form of networking the machines together so that we will actually have a comparison between

using the Criminal Justice Information System (CJIS) which was what we anticipated to use as a network, with one alternative so we can compare the performance and costs of those two systems. But we have been working carefully with the FBI and have been able to turn around some of the issues. It was their vendor who was not able to bring the lines up in time, and I think we have those issues solved.

So we believe that we are going to be able to stay on track here. There are some—

Senator DEWINE. On schedule?

Mr. BUCKLES. Yes, at least because of the communications issues. There may be some other matters that would come up in terms of how we roll things out and what type of equipment is used, but we intend to try to stay on budget here, or on track here.

Now, in next year's budget, part of the absorption that we have been asked to take in non-discretionary costs, we have identified some portion that would come out of the NIBIN program, as well. What we are trying to do in those situations is rather than—

Senator DEWINE. How much out of NIBIN?

Mr. BUCKLES. I believe \$2 million out of about \$24 million.

Senator DEWINE. And what impact is that going to have?

Mr. BUCKLES. Well, what we are trying to do is manage around that impact. We are finding some ways in which we can lower the cost of this program. As with a lot of computer technology, sometimes costs go down as they find new kinds of equipment, and we have found we can use these, rather than the very expensive hubs. In many cases, when we go lay out the equipment, we are able to get by with, and meet everybody's needs, by using less expensive hubs and then networking and pulling people together. So, we are looking for ways like that to make sure we can stay on schedule.

Senator DEWINE. But you do not see any geographical problem anywhere? In other words, uniformity and you are going to stay on schedule?

Mr. BUCKLES. We have got a schedule that goes through next year that we are marching to right now, and unless something happens in the future, we have everything in plans and all of the schedules, now that we have the communications problems out of the way, we would be able to be carried out. Regarding the impact of \$2 million absorption next year, we think that we can probably manage around that.

Senator DEWINE. I appreciate knowing this. As you know, this is a program that I am a big-time supporter of, because I think one of the things that the Federal Government can do for law enforcement and the most effective use of the money is in good technology and good integration nationwide. This system solves crimes every single day, and there are not a lot of headlines about it, but people in law enforcement, I think, appreciate it and understand it and know that it solves crimes and saves lives.

#### WESTERN HEMISPHERE DRUG ELIMINATION ACT

Mr. Chairman, I have one additional question, if I could, for Mr. Winwood. As you know, I have been a supporter of the Customs air interdiction mission. In fact, a couple of years ago, I was one of the lead sponsors in the Senate of the Western Hemisphere Drug



Elimination Act, which included authorization for the procurement of P-3 slicks and other aircraft for detection and monitoring.

I wonder if you could tell us, what is the status of the six aircraft appropriated under that bill and how will these assets contribute to your detection and monitoring mission in the arrival and the transit and the source zones, and an additional question. Are additional P-3 aircraft needed to meet your increasing detection and monitoring mission?

Mr. WINWOOD. First of all, thank you, Senator, for the tremendous support, because it has been very well received, very much appreciated.

As far as the money that was appropriated, I would say, using an average, about 98 percent of the money has been obligated that was authorized and appropriated. Of that money, six additional aircraft are being brought online in the Customs Service, two additional AEWs, which is the domed aircraft, and four of what we call the slick, without the dome.

Starting this summer, we will receive an aircraft approximately every 4 to 6 weeks through January of 2002. So the money has been obligated. The aircraft have been ordered and the delivery schedule is set up and it will start the delivery this summer.

Senator DEWINE. And then how long after delivery will they be put in use?

Mr. WINWOOD. As soon as we can get the pilots up and running and checked out on the aircraft.

Senator DEWINE. How big of a challenge is that? Is that a problem for you?

Mr. WINWOOD. Well, one of the issues with the pilots, Senator, is a tremendous amount of competition right now, as you probably know, for pilots. It is very difficult for the Federal Government to compete with some of the other sources who are competing for these types of personnel. However, we have a very aggressive hiring program going on right now and additional money was supplied through that appropriation and we have hired over 80 pilots so far, both P-3 and fixed-wing and other types. We are on a very aggressive hiring program right now to bring the rest on board. But we should have the equipment up and running within a very short time once it is delivered.

Senator DEWINE. Good. Thank you. Thank you, Mr. Chairman.

#### MAD COW—FOOT AND MOUTH DISEASE

Senator CAMPBELL. Thank you.

To Mr. Winwood, let me just change gears just for a minute. As the Acting Commissioner of Customs, perhaps you noticed that 2 months ago, I introduced, along with Senator Dorgan, S. 700, what is called the Mad Cow-Foot and Mouth Disease Bill. That bill passed by the Senate is now over on the House side. It was passed with a Harkin-Hatch amendment. But that bill primarily sets up a coordinated effort in case we have to face the devastating effects that is happening in Europe right now.

Could you tell me, perhaps, some of the safeguards that the Customs Service is implementing now to help protect the livestock industry from what may appear here?

Mr. WINWOOD. Mr. Chairman, working in conjunction with the Department of Agriculture and the Food and Drug Administration, which are the two primary agencies responsible for monitoring and responding to mad cow and also for the foot and mouth disease epidemic out of Europe, we have done a tremendous amount of coordination with those two agencies. They have supplied to us their list of critical elements, critical items, and the information associated with them that we can put into our automated lookout systems, presently in our ACS, or Automated Commercial System.

We meet with them regularly to make sure that, one, the list is updated; two, that we are following through all the requirements; and three, that we are diligent in not only targeting items that could be addressed but that it is done thoroughly. Nothing gets released if it is on the critical list or on the lookout list until we have coordinated and contacted these two principal agencies to make sure it is a product that they are interested in, something they need to examine, and something they need to approve for release.

Senator CAMPBELL. Well, you lost me a little bit. Does that lookout, include feeds, byproducts—

Mr. WINWOOD. Yes, sir.

Senator CAMPBELL [continuing]. All kinds of stuff, not just livestock?

Mr. WINWOOD. Yes, sir.

Senator CAMPBELL. It is anything that might be a carrier of either one of those?

Mr. WINWOOD. Yes, sir. The two agencies met with us and laid out every item that would be of potential concern, whether it be feed or any type of other product that is brought in, and we have put that by nomenclature into our automated lookout system. So, every time there is information arriving about an importation of such a product, an alert comes up, our officers put it on hold, they get the proper paperwork, and then they notify the appropriate agency for review and examination, as necessary.

Senator CAMPBELL. A lookout system, of course, requires that people are looking out, and I am kind of concerned about what might be slipping in because you do not inspect every case of every cargo on every ship that comes in, do you?

Mr. WINWOOD. No, sir. No, we cannot. Container-wise, we have probably examined by container probably 10 percent of the shipping containers that come into the United States. But I do believe, Mr. Chairman, with the risk analysis approach we use, the risk management, and with the lookout systems, the automated profiling systems, with their automated targeting systems, the lookout for anomalies in shipping, with the random inspections and with the random generated inspections, where nobody knows when it is going to happen except the computer, I think these combination of factors gives us a pretty good handle on looking at the right items, and I think that is what we will continue to do.

Senator CAMPBELL. I see. Thank you. I appreciate it.

I have several more questions that I would like to submit in writing to all four of you, if it is okay, if you could get those back to me. I already have a tight morning and Senator Dorgan has consented to chair the second half of this committee hearing, Senator

Dorgan, if you could take over, I would appreciate it. And with that, thank you for being here.

Senator DORGAN [presiding]. I have a couple of questions. I was over at the Energy Committee and I regret having to be absent for a bit of your testimony. Let me just ask a couple of questions of several members of the panel.

First, Mr. Sloan, my understanding is the request by Customs and some of the other agencies in the Treasury Department was for increased levels of staffing. Something over 1,000 FTEs were requested. None were granted. In the law enforcement functions over in Justice, we have a request for something over 1,000 new positions. Can you tell me, from your perspective, why granting the one and not the other was appropriate?

Mr. SLOAN. Sir, I cannot speak for the Justice side of the equation, but I can tell you that there is a constant concern about disparity between the law enforcement entities in both of the Departments. It is true that there are not additional positions for Treasury law enforcement other than the annualized positions that, I think, amount to 700 in the 2002 budget.

But I can say that in order to address the disparity, which is more than just a perceived disparity, I think one of the important things that the Treasury Department is engaged in as a result of the requirements of the Appropriations Committees is an examination of the law enforcement assets, resources, talents, and requirements of the Treasury law enforcement community across the board. This is a project that has been ongoing for some time. In fact, it is my understanding that the results of this examination have now been concluded, at least the first phase, and I think it is going to provide us with some ammunition that we definitely need to present to decision makers the case necessary for trying to close that disparity gap.

Senator DORGAN. Let me ask about the use of the Counter-Terrorism Fund in the Department of Treasury. That was established for unanticipated contingencies. Obviously, counter-terrorism work is very important. All of us understand this is an unsafe world with terrorists being trained in training camps around the world. They would love nothing better than to commit an act of terrorism in this country. I understand why we would need to be vigilant and concerned about an act of terrorism that would be directed at the Olympic Games.

And yet the Counter-Terrorism Fund was really established for unanticipated contingencies, for unanticipated emergencies of sorts, and yet it is being tapped for the Olympics. I wonder if that is the correct approach. Would it not be a better approach for us to simply provide in the regular appropriations process for those needs that exist to deal with Olympic issues?

Mr. SLOAN. First, you are absolutely correct, and I am very pleased to hear the recognition of Treasury's role in counter-terrorism and anti-terrorism activity. In fact, the Secretary addressed this exact issue, as you may know, on Tuesday in a hearing relative to counter-terrorism activity throughout government. I think his testimony also underscored Treasury's role in these activities.

As far as the Counter-Terrorism Fund is concerned and the fact that there is discussion in the budget of the use of the Counter-Ter-

rorism Fund for the Olympics, which are considered, as you may know, a national special security event, I think that it is safe to say that, and I am quoting, not quoting, but I am sort of paraphrasing the Secretary in this regard, as well, it is his opinion that such events, national special security events, the responsibility that Treasury has through the Secret Service now do need to have a funding mechanism in the future that avoids trying to find the money in a mechanism such as the Counter-Terrorism Fund. So you are absolutely correct in that regard.

G.R.E.A.T.

Senator DORGAN. Mr. Buckles, you and I visited earlier this week about the Gang Resistance Education and Training (GREAT) program, which I think is a very important program, and an attempt to make sure that program is available on Indian reservations. Could you tell me, is your agency looking closely at that and working on trying to do the outreach with respect to Native Americans?

Mr. BUCKLES. Yes, Senator, we have. We have had a very aggressive effort on the part of expanding GREAT into the Native American community. We have done it in a number of ways. First of all, one of our special agents in charge of our Dallas office who sits on the board of the Native American Law Enforcement Officers Association, so we have someone who can participate at that level and make sure everyone knows what is available.

In addition, during this last year, we trained officers from 60 different law enforcement agencies, Native American law enforcement agencies, 136 officers, and that has addressed over 18,000 students.

Senator DORGAN. I appreciate that, and let me again say I think it is an important program and I want to work with you on it.

#### WORKFORCE RETENTION AND WORKLOAD BALANCING

Mr. Stafford, over the years, you have indicated to me and to others that the number of people that need or are required to have Secret Service protection has grown rather substantially and the mission of the Secret Service has grown. Have you been able to keep pace with the number of agents and the FTEs that are needed for in your agency?

Mr. STAFFORD. Senator, as you are aware, we have talked about this a number of times, and since becoming Director about 2 years ago, that has been one of our highest priorities. We are trying to bring on more agents to help with the expanded workload, and particularly to reduce the amount of overtime that our agents are now being required to work and thus improve their quality of life.

I think it is best for me to describe to you the amount of overtime they are working and continue to work. The agents in our field offices continue to work, on average, 90 hours of overtime per month. The agents on our Protective Division work more than that. It is far too much.

For the past 2 years, we have had a very aggressive hiring scheme. We brought on about 70 percent of the numbers that we need to bring on to meet our goal. We went back to 1994, when our agents were working 62 hours of overtime per month, and we think that is reasonable. That is our goal. To do that, we will need a min-

imum of another 200 agents, which is the third phase of our hiring program.

Senator DORGAN. And what was your request in the budget submission from the agency with respect to agents? Did you request additional FTEs?

Mr. STAFFORD. Specifically that. It was a 3-year program of which we are through 2 of the 3 years. The request was for another 204 agents. We have hired about 478 so far. We need in excess of 200 additional, for about \$32 million. That was the request. We are continuing to—

Senator DORGAN. That is not in this budget submission?

Mr. STAFFORD. It is not.

Senator DORGAN. It seems to me that if you have the requirements—I do not think there is a disagreement about that—if you have the requirement, it makes much more sense for the taxpayer and the government to hire the personnel and pay less in overtime. Overtime pay is a fairly expensive component of your budget, is it not?

Mr. STAFFORD. It is, but the problem is also compounded because of the amount we are requiring people to work, and our people, our culture is that we work very hard, but we are losing a lot of them.

Senator DORGAN. I was not ignoring the quality of life issue. I understand that. When you are forcing people to work an enormous amount of overtime, it is difficult on family life and a range of other things. I was not dismissing that, but I was only saying that on the other side of the issue, with respect to the taxpayer and with respect to trying to get the most value for our investment here, it makes a lot more sense to pay less overtime, which is the highest component of compensation, and to hire the people we need.

#### WORKFORCE RETENTION AND WORKLOAD BALANCING

Mr. STAFFORD. Well, you are exactly right, but what I was moving towards is that the people that we are losing. Our attrition rate used to be nothing. Now, we lose on average 55 agents a year because of the quality of life issues. It costs us about \$240,000 to hire those agents and to train them, so it is not a very efficient or fiscally responsible way of doing business. So no, I think we can improve on that and we can improve on the attrition rates if we can continue this hiring that we need to do.

Senator DORGAN. Right. No, I respect the investment needed to hire and train and bring someone up to a level that you want them to. I mean, that is a significant investment, and to lose them because overtime requirements just destroy the quality of life makes no sense at all. It makes a lot more sense for us to increase the FTEs to the level that is necessary.

#### RISK MANAGEMENT

Mr. Winwood, finally, on the issue of the 10 percent that you just described, I have told this story before, but I was in Seattle at the docks one day and your agency was good enough to give me a tour, and because I come from North Dakota, we do not have a lot of docks, as you know.

I mean, we have never actually seen a container ship pull up in North Dakota and begin off-loading, so it was a real education for me. But what I discovered is that we look at just a minuscule percentage of what is coming into this country.

They showed me a container that came off a container ship. They had opened the back door and they had some, I believe, 100-pound bags of frozen broccoli, and they cut one open for me to show me that this indeed was frozen broccoli. It was in a refrigerated container. And so I said, well, where does this come from? They said, Poland. I said, well, how was this produced? Do you have any notion of what chemicals might have been used, or do we have any notion about whether this broccoli is safe to put in somebody's mouth? It was the kind of broccoli that was cut up and going to go to a restaurant someplace or a series of restaurants.

But the fact is, we do not have many answers about any of those things, do we? We have a massive amount of product coming into this country. We look at a very small percentage of that product and probably know very little about that which we look at.

Mr. WINWOOD. The first statement, Senator, about that we do not look at everything, that is correct. And as I mentioned earlier, we examine approximately 10 percent, on average, of all shipping containers, and that is including vessels, and truck. In my view, a 40-foot container, whether it has a truck in front of it or it is being hoisted off a ship, is an importation. We look at about 10 percent.

I think there is a combination of factors that have to be taken into consideration when we do that. First of all, we do know a lot about most of those products based on working with other agencies. For instance, with food, the Department of Agriculture and sometimes the Food and Drug Administration have a pretty good network of international cooperation as to the types of product, et cetera, that keep us informed. They share the information with us, which we put in an automated system for targeting. If we have any question at all, we notify the agency to come in and to take a look at it.

The other issue, I think, is that we try very hard, and I think we have a very good, sound basis of a program we call risk management. It would be impossible to look at everything. We would shut down the commerce of the United States. We would get in the way of the businesses of this country.

But by using risk analysis and risk management and tying that, Senator, with the support we get from the Congress with the right technology, with the proper automation, with well-trained people, I submit that you do not have to look at everything, you just have to look diligently at the right things. It is how you sort, the knowledge that you have, and how you use that knowledge, and share it through the infrastructure, throughout your agency. You target based on the knowns or the anomalies and the unknowns. And pulling those three things together, I think, gives us a pretty good likelihood of discovering problems that are being shipped in.

Senator DORGAN. That is what they told me in Seattle. You have got that Customs line down pretty well.

Mr. WINWOOD. Consistent message, Senator.

Senator DORGAN. That is right. And I appreciate that and understand it and think that it makes a lot of sense. In fact, they de-

scribed to me the risk management approach. I mean, you are dealing with certain importers and other things. I understand that. My only point is that with increasing globalization, this galloping globalization, we just have massive quantities of goods moving back and forth——

Mr. WINWOOD. Yes, sir.

Senator DORGAN [continuing]. Some food, some hardware and other things, and it requires us to be very vigilant, to have the manpower and the technical capability to do what we need to do to safeguard the American people, to make sure that what is coming in is what ought to be allowed in, and so on.

Listen, you all are good to come today. We appreciate the work your agencies do. We will look carefully at the appropriations requests that we have received from the administration for your agencies and we will be submitting additional questions to you. Thank you very much.





FEDERAL LAW ENFORCEMENT TRAINING CENTER

**STATEMENT OF W. RALPH BASHAM, DIRECTOR**

Senator DORGAN. Next, I would like to call to the table the Director of the Federal Law Enforcement Training Center, Mr. W. Ralph Basham; the Deputy Director of the Financial Crimes Enforcement Network, FinCEN, William F. Baity; and the Director of the Office of Foreign Assets Control, R. Richard Newcomb. Please take your seats at the table, and if others would be willing to leave the room if you are not intending to stay.

We would like to proceed, if we might. If you would clear the room if you do not intend to stay.

We have the Director of FLETC, Mr. W. Ralph Basham, the Deputy Director of Financial Crimes Enforcement, William Baity; and the Director of the Office of Foreign Assets Control, Mr. Newcomb. We would also ask that you summarize your remarks in 5 minutes and we will make your full statement a part of the permanent record.

Why do we not proceed with Mr. Basham.

Mr. BASHAM. Thank you, Senator. I am pleased to be here today to present our fiscal year 2002 budget request. As you know, 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 the Secretary of the Treasury and the Under Secretary for Enforcement, we have received strong support and active assistance for carrying out our responsibilities. I would like to especially thank this committee. Throughout our 31 years of service to Federal law enforcement, this committee has been very supportive and most generous in the funding of consolidated training.

The consolidation concept of law enforcement training at the Center continues to be the most efficient and economical means for delivering essential service to the law enforcement community and the nation. Because of the cooperation of its many partners, we believe the FLETC is achieving fully the vision of its founders in this remarkable undertaking.

The Center provides two essential levels of training for Federal law enforcement organizations from all three branches of government. There are entry-level programs and basic law enforcement training for police officers and criminal investigators, along with advanced training programs in areas such as marine law enforcement, anti-terrorism, computer forensics, health care fraud, and international banking and money laundering.

Training is conducted at our Glynco, Georgia, site, as well as in Artesia, New Mexico, and a temporary site in Charleston, South Carolina. In addition to the training conducted at our on-site resident facilities, some advanced training, particularly that for State,

local, and international, is done through export regional sites. In all, we offer approximately 200 separate training programs at the Center.

Last year, Congress provided \$30 million and designated FLETC as the lead for the development of a requalification training site in the metropolitan Washington, DC, area. We are very grateful to this committee and to others in Congress who acted to make this appropriation available to provide mandated short-term requalification training in firearms and driver training. The Washington area has one of the highest concentrations of law enforcement officers and agents in the United States. However, there is a serious short-fall in adequate, environmentally safe facilities to conduct this important training.

FLETC has reviewed a number of surplus properties in this region and determined the former Navy base in Cheltenham, Maryland, is the most suitable location. FLETC has requested that this property be transferred from GSA's to FLETC's inventory, and I am happy to report that we are now moving forward to develop this much-needed facility.

The Center's fiscal year 2002 request is for a total of \$122.6 million. With this funding, we anticipate the training objectives of our partner agencies, as projected, can be completely accomplished.

Our request contains two very important initiatives. One is a port-of-entry training facility in Glynco, which will service our Customs and Immigration Officers' training needs, as well as an accreditation process which will benefit all of Federal law enforcement. The requested funding for the accreditation project is for the development of government-wide training standards and an accreditation process to be used for certification of Federal law enforcement training programs in instructional delivery and academy operations. The FLETC is working cooperatively with other Federal law enforcement agencies to conduct research and establish a training accreditation model, organizational structure, and process.

In previous years' appropriations testimony, Congress requested, and we submitted, a 5-year construction plan to increase facility capabilities at our permanent centers in Glynco, Georgia, and Artesia, New Mexico. Upon completion of this plan, sufficient capacity was projected to meet the fiscal year 2004 date set by Congress for the cessation of that part of the U.S. Border Patrol training being conducted at a temporary site in Charleston, South Carolina.

However, to stay within the administration's efforts to hold down government-wide spending in 2002, the full amount of funding for capital expenditures identified in the original plan for fiscal year 2002 is not being requested. The construction plan will now have to be extended through 2005 or beyond because of the funding and time line changes. However, we will make every effort to minimize any adverse impact this construction delay may cause.

#### PREPARED STATEMENT

In closing, Mr. Chairman, I would just again like to thank this committee for all of your interest and long-time support for Federal law enforcement training and the Federal Law Enforcement Training Center's mission. Thank you very much.

Senator DORGAN. Thank you very much.  
[The statement follows:]

PREPARED STATEMENT OF W. RALPH BASHAM

Mr. Chairman, Senator Dorgan, and Members of the Subcommittee, I am pleased to be here today to report on the current operations and performance of the Federal Law Enforcement Training Center (FLETC) and to support our appropriations request for fiscal year 2002.

OPENING REMARKS

The Center has experienced tremendous growth since its establishment in 1970, when a handful of agencies partnered together and established the Consolidated Federal Law Enforcement Training Center. We expect further growth as more agencies recognize the many benefits of consolidated training both from a cost standpoint and the level of quality of training provided.

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 and the Under Secretary for Enforcement, the FLETC has received strong support and active assistance for carrying out its responsibilities. I want to especially thank this Committee for the trust it has continued to place in the FLETC. Throughout our 31 years of service to Federal law enforcement, this Committee has been especially supportive and most generous in its funding of consolidated training. We extend our appreciation and look forward to working with you in the coming years.

The Administration and Congress can be proud of the quality of training being provided at the FLETC and the savings realized through consolidation. The consolidated concept for law enforcement training at the FLETC continues to be the most efficient and economical means for delivering this essential service to the law enforcement community and the nation. Because of the excellent cooperation of its many partners, we believe the FLETC is achieving fully the vision of its founders in this remarkable undertaking.

FISCAL YEAR 2002 REQUEST

Today, I am prepared to discuss several initiatives in the President's fiscal year 2002 budget. The Center's fiscal year 2002 request is for a Salaries & Expenses (S&E) appropriation of \$100,707,000 and 654 FTE, an increase of \$1,224,000 and 5 FTE above the fiscal year 2001 level. Our request for the Acquisition, Construction, Improvements & Related Expense (ACI&RE) appropriation is for \$21,895,000, a decrease of \$32,310,000 below the fiscal year 2001 appropriation. Most of this decrease relates to one-time construction appropriations, which do not recur in fiscal year 2002. FLETC supports the President's fiscal year 2002 request and we anticipate that the training objectives of our partner agencies, as projected, can be completely accomplished. The funding and FTE requested in this budget proposal will support two important initiatives: \$2,000,000 will be used to construct a "Port of Entry" training facility at Glynco and \$650,000 and 3 FTE to establish a training accreditation process to benefit all Federal law enforcement.

Together, the S&E and ACI&RE request totals of \$122,602,000 for fiscal year 2002. Coupled with an estimated \$37,000,000 in funds to be reimbursed to the FLETC for training related services by our partner agencies, the total budget for fiscal year 2002 is \$159,602,000.

GOVERNMENT PERFORMANCE AND RESULTS ACT (GPRA)

Before providing this Committee with an overview of our operations and discussing each of the initiatives in more detail, I would like to take a moment to address the 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 after the year is completed. These performance plans are now an integral part of the budget documents sent to you each year.

There are a total of seven performance measures to report on in our budget request for this year. The performance measures used for the Law Enforcement Training activity in fiscal year 2000 included: (1) results of the student quality of training survey, (2) actual percentage of basic training requested that was delivered, (3) variable unit cost per basic student-week of training funded, (4) number of personnel input forums conducted, and (5) number of training partnership organization meet-

ings. The performance measures for the Plant Operations activity included: (1) student quality of services survey and (2) finalizing the comprehensive development plan.

The student quality of services survey and student quality of training survey performance measures are outcome measures. The student quality of training survey and the student quality of services survey are based on a percentage of students who answer satisfactory or better to the questions presented in the survey. Both were computed using evaluations completed by students attending FLETC programs. The percentage of basic training actually conducted is based on whether the FLETC conducts 100 percent of the basic training requested by its partner agencies. The variable unit cost per basic student-week of training funded is also an efficiency measure and is based on training dollars divided by funded student-weeks of training. Finally, the plan called for the FLETC to conduct four personnel input forums and 10 partnership organization meetings per year.

I am pleased to report that the Center's overall performance against established target goals for fiscal year 2000 was very good. The most critical performance measure in our plan, the student quality of training survey measure, was 99.2 percent. This exceeded the Center's performance plan target goal of 80 percent. The Center conducted 100 percent of the actual basic training requested. 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 \$149 and the actual cost was \$146. All other measures in the Law Enforcement Training activity were either met or exceeded. In the Plant Operations activity, all performance measures were either met or exceeded.

As stated in the FLETC's testimony last fiscal year, we have revised our strategic plan and performance measures in an effort to more accurately reflect performance indicators and to better align them with the organization's mission. The revision is now complete and the plan has been provided to this Committee and to our other stakeholders.

#### FISCAL YEAR 2001 ACHIEVEMENTS

Finally, before I discuss operational areas, I would like also to report on some of the Center's other specific achievements.

In fiscal year 2001, the Center had a complete audit of its financial records and systems for the first time in its history and received an "unqualified opinion" for its operations. Also, FLETC has completely revised one of its flagship basic programs, The Criminal Investigator Training Program. This was the first significant major revision to this program, which has over 45 agency customers, in over two decades. The revised program involves more student centered learning and is oriented toward practical exercises and problem solving.

At the request of the Department of the Treasury, FLETC has assumed the lead for the establishment of a United States International Law Enforcement Academy (ILEA) operation in Gaborone, Botswana, the first of its kind on the African continent. The academy under the joint direction of the Departments of State, Justice and Treasury, will provide training to law enforcement officers from nations throughout that region. Finally, I want to mention that the FLETC also has been proactive in the use of non-toxic ammunition for its firing ranges. Over 13.2 million rounds of ammunition are now fired annually on FLETC's ranges. Significant progress has been made and FLETC is encouraged by this development, which could result in eliminating or reducing lead hazards and other environmental concerns.

#### OVERVIEW OF OPERATIONS

Now Mr. Chairman, I would like to provide the Committee with a brief overview of the operations of the Federal Law Enforcement Training Center.

The FLETC has experienced tremendous growth over the years. With few exceptions, the FLETC conducts basic and advanced training for the vast majority of the Federal government's law enforcement personnel. We also provide training for state, local and international law enforcement personnel in specialized areas and support the training provided by our partner agencies that is specific to their individual mission needs. In all, there are now more than 200 separate training programs offered through the FLETC and its partners.

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, computer forensics and health care fraud, and international banking and money laundering. Training is conducted at the Glynco, Georgia center, the Artesia, New Mexico center, and at a temporary training site in Charleston, South Carolina.

The temporary training site in Charleston was established in fiscal year 1996 to accommodate an unprecedented increase in the demand for basic training by our partner agencies, particularly, the Immigration and Naturalization Service (INS) and U.S. Border Patrol (USBP). The training workload increase is the direct result of prior Administration and Congressional initiatives to control illegal immigration along the United States borders.

In addition to the training conducted on-site at one of the FLETC's residential facilities, some advanced training, particularly that for state, local and international law enforcement, is exported to regional sites to make it more convenient and/or affordable for our customers. At a time when the FLETC residential sites have been stretched to capacity limits to meet increased Federal training requirements, the use of export sites for other types of training has proved highly successful. In utilizing export sites, most of which are local police academies, the FLETC does not incur any capital expenditure obligations.

#### WASHINGTON, DC AREA SITE PROGRESS

Public Law 106-346 enacted by Congress in fiscal year 2001 provides \$30,000,000 for the development of a firearms and driver training requalification site in the metropolitan Washington, DC area. This project came about as a result of a serious shortfall in adequate firearms and driver skills training capabilities in this region, which has one of the highest concentrations of Federal law enforcement officers in the United States. These officers have mandated short-term requalification training on a periodic basis to refresh perishable skill areas that left unaddressed can lead to liability issues. The initial working group established by the Under Secretary for Enforcement to review available options included the Treasury Enforcement bureaus—Internal Revenue Service, Criminal Investigation Division; U.S. Secret Service; U.S. Customs Service; Alcohol, Tobacco and Firearms; Financial Crimes Enforcement Network, and FLETC. This later was expanded to include the U.S. Capitol Police; U.S. Park Police and the Washington, DC Metropolitan Police Department. FLETC was designated as the lead for this endeavor and, after consideration of several surplus Federal properties, determined that a former Naval communications site in Cheltenham, Maryland was the most suitable location. FLETC has requested that this property be transferred by GSA to the FLETC's inventory, but a protracted legal suit filed prior to the requested transfer is still under review by a U.S. District Court. Due to this pending legal action, FLETC has not pursued any construction or developmental activity. However, FLETC has taken a number of measures to expedite the site conversion to a requalification training site should the legal suit be resolved favorably for the government. We are deeply indebted to this Committee and to others in the Congress who acted to make this appropriation available and we will keep the Congress apprised of developments. Over the years, the FLETC has acquired a reputation as an organization with a "can do" attitude that provides high quality, cost efficient training and state-of-the-art programs and facilities. I have come to realize and have seen first-hand the many advantages of consolidated training for Federal law enforcement personnel, not the least of which is an enormous cost savings to the government. Consolidated training avoids the duplication of overhead costs that would be incurred by the simultaneous operation of multiple agency training sites. Consolidation also ensures consistent high quality training and fosters interagency cooperation and camaraderie in Federal law enforcement.

Quality, standardized, cost-effective training in state-of-the-art facilities, interagency cooperation, and networking are indisputable positive results of consolidation. However, the concept of consolidated training is fragile and must be constantly nourished, supported and protected, if it is to remain viable.

#### WORKLOAD

During fiscal year 2000, the Center graduated 23,326 students, representing 97,336 student-weeks of training. This total included 16,635 students who were trained at Glynco, GA; 2,553 students trained at Artesia, NM; 639 students trained at the temporary training site in Charleston, SC; and 3,499 students trained in export programs. There were 8,635 basic students; 10,985 advanced students; 3,383 state and local students, and 323 international students trained providing for an average resident student population (ARSP) of 1,872. The April 2000 partner agency workload projections, upon which our fiscal year 2002 budget requests are based, indicate that during fiscal year 2002, the Center will train 32,973 students representing 145,463 student-weeks of training. This total includes 22,448 students to be trained at Glynco; 5,412 students at Artesia; 1,350 students at the temporary site in Charleston; and 3,763 students in export programs. A total of 12,536 basic stu-

dents; 13,897 advanced students; 6,303 state and local students; and 237 international students are projected for a total ARSP of 2,797.

#### GROWTH TRENDS

The Center has experienced sustained growth in the training demanded by its partner agencies and we have been able to accommodate many of these increased training requirements by being innovative and undertaking extraordinary measures.

To accommodate substantial training increases 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 short-term facilities for peak periods. Further too, the Center has not always had sufficient dormitories to accommodate all of our students in on-Center housing and has used contractual arrangements with local motels. While necessary, many of the temporary measures taken to meet these training demands were costly and disruptive to the on-going training operations and efficiencies.

#### TEMPORARY SITE FOR THE U.S. BORDER PATROL TRAINING

Beginning in 1996, the Center again had to resort to using a temporary accommodation to meet the extraordinary training needs of one of our partner agencies, the U.S. Border Patrol. As I mentioned earlier, a temporary training site was established in Charleston, South Carolina during 1996 because our existing FLETC facilities did not have sufficient, sustained capacity to accommodate all of the training being requested. This site is a FLETC-U.S. Border Patrol collaborative effort, but facility operations are being funded through the U.S. Border Patrol's appropriations.

In previous fiscal year appropriations testimony, the FLETC submitted a five-year construction plan to increase capabilities at our permanent centers in Glynco, GA and Artesia, NM. Upon completion of this plan, sufficient capacity was projected to meet the fiscal year 2004 date set by Congress for the cessation of U.S. Border Patrol training at the Charleston site. In order to stay within the Administration's efforts to hold down government-wide spending in fiscal year 2002, the full amount of funding for capital expenditures, as identified in the original plan for fiscal year 2002, is not being requested. The FLETC construction plan now will have to be extended to fiscal year 2005 because of funding and time-line changes. We support the Administration's goals and FLETC will make every effort to minimize any adverse impact this construction delay may cause. The FLETC is actively pursuing discussions with appropriate Department of Justice and INS officials on feasible options to bring about the relocation of U.S. Border Patrol training as quickly as possible. We will continue to keep this Committee apprised of developments.

#### FACILITIES MASTER PLAN/FIVE YEAR CONSTRUCTION PLAN

Now, Mr. Chairman, I would like to brief you and the Committee on the sufficient progress that has been made in expanding the FLETC's facilities. The Master Plan, first presented to Congress in June 1989, was intended to provide for efficient and orderly development of the Center's land and facility resources to meet anticipated workload needs through fiscal year 1998. It was a comprehensive blueprint and orderly guide for expansion of the Center's capacities to meet all of requirements justified to accomplish multi-agency law enforcement training.

Over the years, the original Master Plan was updated to refine earlier estimates and incorporate changes necessary to meet the evolving training needs of our customers.

In fiscal year 1999, due to the U.S. Border Patrol and INS projected multi-year hiring and advanced training buildup, the FLETC Master Plan was changed to a five-year plan to focus exclusively on addressing the FLETC facility capacity constraints to allow for the closure of the Charleston site. In fiscal year 2000, the five-year planning estimates for new construction were reduced from \$128,000,000 to \$83,000,000. A study developed by FLETC and submitted to the Congress in May 2000 reflected that significant cost avoidance in new construction could be achieved by realigning all U.S. Border Patrol training to the Artesia, NM center and consolidating other training into the Glynco, GA center. As mentioned earlier, assuming there is fiscal year 2003 funding approval, this plan will be delayed one year.

Since 1999, Congress has appropriated approximately \$40,000,000 of the current \$83,000,000 five-year plan. Of this amount, \$10,000,000 was for Glynco projects, and \$30,000,000 was for Artesia projects. I am pleased to report that we have obligated approximately \$32,000,000 through September 30, 2000. By the end of this fiscal year we expect to obligate most of the remaining funds. Also, since the beginning of fiscal year 1999 we have been partnering with the General Services Administra-

tion on the assignment of construction projects and, thus far, this is proving to work exceedingly well.

#### CONSTRUCTION REQUEST

The FLETC's fiscal year 2002 ACI&RE request of \$21,895,000 will provide funding for all of the cyclical maintenance and up-keep of our two permanent sites. The fiscal year 2002 request also includes \$2,000,000 for partial funding for construction of a "Port of Entry" training facility in Glynco to accommodate the training provided to U.S. Customs Service, INS and Department of Agriculture personnel. The remaining funding to construct this facility will be reallocated from other available resources. This construction initiative supports goal two in FLETC's strategic plan to significantly expand the access to, and availability of, quality law enforcement training. The Center continues to coordinate closely with its partner agencies so that the design features of each training construction project will meet current and future needs. This close consultation sometimes prolongs the period it takes to design and construct facilities; however, the time and effort are well spent because this ensures that the funds are more efficiently and wisely used.

Mr. Chairman, I now would like to take this opportunity to briefly discuss our funding request for the remaining initiative in the FLETC's fiscal year 2002 budget request that I referred to earlier in my testimony.

#### ACCREDITATION PROJECT

The fiscal year 2002 S&E request is for an increase of \$650,000 and 3 FTE to support the development of government-wide training standards and an accreditation process to be used for certification of Federal law enforcement training programs, instructional delivery, and academy operations. For many years the challenges for advancement of law enforcement have been reviewed and discussed in numerous forums and reports. The establishment, publication, and adherence to professionally developed, recognized, and coordinated training standards for Federal law enforcement will assist in maintaining public confidence in the integrity, professionalism, and accountability of law enforcement agencies.

The FLETC is working cooperatively with other Federal law enforcement agencies to conduct research and establish a training accreditation model, organizational structure, and processes. The model would be used to establish Federal law enforcement training standards and evaluate the facilities, associated policies, and procedures by which these standards are met.

#### FIREARMS RANGES/ENVIRONMENTAL CLEANUP

Finally, I want to note that great progress in the construction of new firearms ranges has been made over the last couple of years to permit the closing and environmental clean up required for several ranges acquired, and in use, since FLETC relocated to Glynco in 1975. However, the requirements for intensive firearms and tactical training for our customer agencies has continued to grow. Indications are that one additional multi-purpose firearms range will be needed prior to our closing the last existing earth berm firearms range. The FLETC plans to use existing funding this Committee has been providing for this purpose over the past several years. Both the additional range and the cleanup of the old ranges can be accomplished without any increases in the current annual appropriation.

#### CLOSING

Mr. Chairman, I am committed to the mission of the Center to provide the highest quality law enforcement training at the lowest possible cost. Substantial savings are being realized through the operation of the Center as a consolidated training facility. I look forward to your continued support as the FLETC strives to remain a partnership committed to excellence. I am available to answer any questions you may have concerning this appropriation request.





## FINANCIAL CRIMES ENFORCEMENT NETWORK

### STATEMENT OF WILLIAM F. BAITY, DEPUTY DIRECTOR

Senator DORGAN. Mr. Baity, you may proceed.

Mr. BAITY. Mr. Chairman, thank you very much for the opportunity today to discuss FinCEN's fiscal year 2002 appropriation request of \$45.1 million.

Last year, this committee was critical in helping FinCEN meet the growing demands for its services. This year, we seek your support for a budget increase of \$7.7 million. This increase includes \$2.2 million to annualize our core programs and \$5.5 million toward the successful implementation of our regulatory programs relating to a core group of financial service providers, over 160,000 strong, that are known as money service businesses, or MSBs.

Through innovative use of technology and analytical expertise, FinCEN helps law enforcement build its investigations and plan new strategies to combat financial crimes. Our request is premised in three areas of priority for fiscal year 2002. They are, first, to enhance the quality and the delivery of information to our customers; second, to assess our current and future administration of the Bank Secrecy Act, or BSA; and third, to strengthen FinCEN's infrastructure.

FinCEN's flagship program is its direct support for investigations carried out by law enforcement agencies. Each year, FinCEN works with over 165 different agencies on about 6,500 cases that involve well over 32,000 subjects of inquiry. The experience we have gained in adding value through analytical techniques to support these criminal investigations, combined with improved outreach efforts, have resulted in even greater demands for our support services. We look forward to demonstrating one of these analytical case support processes at the law enforcement trade show on May 24.

To improve the quality of delivery of information to our customers, we are using technology such as secure connectivity to enable customers to more efficiently access our data. In our Gateway system, we have made a number of technological upgrades which are now allowing customers at the Federal level, such as the FBI and the DEA, to use this particular system. Moreover, we are improving our customers' investigative efforts by providing strategic analysis, such as trends and patterns, as a complementary service to our case support.

A second priority is our complete assessment of how we are administering the provisions of the Bank Secrecy Act, both currently and prospectively. Effective administration of the BSA is at the core of our mission to support law enforcement. We realize that our ability to support law enforcement is directly related to the quality of the information reported by the financial community. Our challenge is to ensure that this information provides law enforcement the highest quality of data possible, but in proper balance with the

burdens that recordkeeping and reporting place on financial institutions. In that regard, the implementation of the MSB program represents one of our greatest challenges over the next several years.

Unlike depository institutions or banks that have financial regulators overseeing their operations, MSBs constitute a multi-billion-dollar collection of businesses that have been largely unregulated at the Federal level and previously uncatalogued. Our request will provide funding to continue the efforts that began in fiscal year 2001 to develop and implement a national education campaign to ensure that MSBs clearly understand their registration and reporting requirements.

Since last year's hearing, we have awarded a multi-year contract to a public relations firm to help us shape this campaign. Through the contractor, we have conducted focus groups around the country which are proving to be of great value in understanding the needs of these MSBs. And, of course, we are consulting extensively with industry representatives in this process.

Also, this year's request would enable us to provide funding to the IRS to begin the process of building the human resources needed for effective examination and enforcement once the regulations are implemented. Our partnership and reliance on the IRS is a critical component of our MSB program. Further, because the success of the MSB program overall is so heavily dependent upon our education and outreach efforts now, we are continually reassessing those efforts to help guide us as we move beyond registration to the requirement that MSBs report suspicious activity or SARs.

In addition to the December 31 registration requirements, MSBs are scheduled to begin filing suspicious activity reports, or SARs, at the beginning of 2002. We believe it is vital, however, to review all of the SAR protocols. With that in mind, we are reexamining the MSB implementation schedule for SAR reporting.

Our third priority, which I know is not unique to FinCEN, involves obtaining and maintaining the human talent and skills in conjunction with the cutting-edge information technology that will allow our networking capabilities to grow. In that regard, we are exploring creative ways to leverage these talents.

#### PREPARED STATEMENT

In closing, let me reiterate that we regard this subcommittee as one of the most valued partners in our efforts to achieve our objectives. Again, thank you for your guidance and support to FinCEN, and I look forward to answering any questions you may have. Thank you.

Senator DORGAN. Mr. Baity, thank you very much.  
[The statement follows:]

#### PREPARED STATEMENT OF WILLIAM F. BAITY

Mr. Chairman, Senator Dorgan, and members of the Subcommittee, thank you for this opportunity to discuss with you our fiscal year 2002 appropriation request of \$45.1 million for the Financial Crimes Enforcement Network (FinCEN). I am Bill Baity, Deputy Director of FinCEN, and I am testifying today on behalf of our Director, Mr. Sloan, who is the Acting Under Secretary for Enforcement.

We appreciate your ongoing responsiveness to our needs. Last year, you provided funding to help us meet the growing demands for our services. This year, we are

asking for your support for a budget increase of \$7.7 million. It includes \$5.5 million for the Money Services Businesses (MSB) Regulatory Program and \$2.2 million for FinCEN's core programs that are essential in America's fight against money laundering and financial crime.

FinCEN was created in 1990 to support law enforcement by analyzing the information required by the Bank Secrecy Act (BSA), one of the nation's most important tools in the fight against money laundering. The BSA's recordkeeping and reporting requirements establish a financial trail for investigators to follow as they track criminals, their activities, and their assets. Over the years, FinCEN has developed its expertise in adding value to the information collected under the BSA by uncovering leads and exposing unknown pieces of information contained in the complexities of money laundering schemes. This information also is invaluable to investigations of terrorist fundraising—by tracking terrorists through their financial transactions and their assets.

We effectively link law enforcement, regulatory and financial communities together for the common purpose of preventing and detecting financial crimes. Because of this subcommittee's past support, we have been able to construct a cost-effective technological infrastructure. This fact, coupled with a continual refinement of the network concept, allows the agency to remain modest in size and budget while increasing the services we provide to our many customers.

Your support of our appropriation request is essential to FinCEN's ability to succeed in our three areas of priority for fiscal year 2002. They are:

- Enhancing the quality and delivery of information to our customers;
- Assessing our administration of the BSA; and
- Strengthening FinCEN's administrative infrastructure.

#### ENHANCING THE QUALITY AND DELIVERY OF INFORMATION TO OUR CUSTOMERS

##### *Providing Investigative Case Support*

###### *Direct Case Support*

FinCEN's flagship program is its direct case support to Federal law enforcement agencies. Each year, FinCEN works with approximately 150 different agencies and state and local law enforcement investigators in all 50 states. We answer an average of 6,800 requests for investigative information. To respond to these requests, FinCEN intelligence analysts use advanced technology and countless data sources to link together various aspects of a case and add value to what is already known by investigators. The experience we have gained in analyzing and disseminating financial and other data to support criminal investigations, combined with improved outreach efforts, have resulted in greater demands for our case support services. I'd like to mention several of our efforts during this past year to enhance the quality and delivery of information to our customers.

###### *Analytical System for Investigative Support (ASIS)*

ASIS is a case management software system developed by FinCEN that gives Federal, State and local law enforcement officials the ability to make sense of the information they gather through their investigations. This application helps those in law enforcement unravel the web of deception woven by criminals. It provides a user-friendly tool to organize and link their complex investigations, greatly advancing their ability to bring successful prosecutions.

In the past year, we began a new partnership with the National Drug Intelligence Center (NDIC) combining their data with our software resulting in improved and more complete pictures of criminal organizational activities and ties. The software enhancements are quick and convenient. FinCEN's ASIS converts large volumes of data from NDIC's Real-time Analytical Intelligence Database (RAID) for processing and presentation in ways that are useful to investigators in the field. For example, ASIS enables our analysts to create link charts and geographical mapping as visual representations of the RAID data. The charts and maps show subjects, places and activities. Additionally, ASIS enables the analysts to link FinCEN's other databases to RAID data. This linkage reveals connections to other information from financial records, such as suspicious activity reports (SARs).

ASIS can convert data quickly into usable bits. For example, in two hours and 40 minutes, ASIS converted the data of a large RAID case involving over 6,800 subjects. Analysis of the converted data revealed links to 4,700 activities; 5,200 addresses; 5,700 associations; and 5,200 subject activities. Also, ASIS enabled our analysts to provide new information for the case through its links to BSA data. The new information included 680 currency transaction reports (CTRs), 59 SARs, and one Currency or Monetary Instrument Report (CMIR). Additionally, using ASIS, our analysts linked information from RAID to 110 rows of records in FinCEN's database.

In a smaller case, with only 38 subjects in RAID, our analysts used ASIS to expand the number of subjects to over 70 through analysis and linking. The conversion took one minute and 20 seconds.

The ASIS program is also portable—it can be loaded onto a lap-top thus allowing our analysts to use it to provide on-site support to multi-agency task forces, High Intensity Financial Crime Areas (HIFCAs), and High Intensity Drug Trafficking Areas (HIDTAs).

#### *Gateway Process*

We are also using technology to provide our customers with direct electronic access to the BSA information. Using the Gateway process, state, local, and, more recently, Federal law enforcement agencies can directly access BSA information. This year, we made technological upgrades to Gateway, enhancing security and monitoring processes. The upgrades have attracted new users such as the Federal Bureau of Investigation and the Drug Enforcement Administration. The information is delivered through a secure and carefully monitored system. FinCEN's managers audit the Gateway process through both record reviews and on-site visits to ensure that all inquiries are connected to actual or potential criminal violations.

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 is able to assist Federal, State, and local law enforcement agencies in coordinating their investigations among themselves.

#### *Secure Communications*

FinCEN's secure communications program is the key to its long-range objective to offer secure direct access through the Gateway process. With more of our customers able to access our databases directly, our analysts will have more time to spend on supporting complex case analysis. We are customizing on-line protected access to information at FinCEN according to clients' needs and in keeping with applicable law and our internal data protection policies regarding information sharing and e-government security standards. FinCEN has worked, since its beginning, to protect access to the information it holds, to oversee the activities of its employees and, above all, to prevent misuse of the information with which it is entrusted.

#### *Identifying Financial Crime Trends and Patterns*

One of the critical ways of adding value to the information we provide to our law enforcement customers is strategic analysis. As you know, we have been engaged in an effort to build up our Office of Strategic Analysis in order to improve our capacity to identify trends and patterns in financial crime. We believe the products FinCEN has produced over the past year illustrate the progress we are making. For example, our strategic analysts have produced threat assessment products to assist the Departments of Treasury and Justice in making designations of High Intensity Financial Crimes Areas (HIFCAs). As you are aware, the HIFCA Program focuses Federal, State, and local law enforcement efforts on areas in which money laundering and related financial crimes are extensive or present a substantial risk. The areas at risk may be actual locations, industries, sectors, or institutions. FinCEN conducts analyses and assists in coordinating efforts to provide Treasury and Justice with geographic and systemic assessments for designating high-risk areas.

Another product, which has proven to be helpful to both law enforcement and financial institutions is FinCEN's published reviews of Suspicious Activity Reports (SARs). Over the past three years, as directed by Congress, FinCEN has published reviews of SARs in order to demonstrate their value to law enforcement and provide feedback to financial institutions. The most recent review, The SAR Activity Review, was released in October 2000. FinCEN is committed to providing this publication semi-annually. Our analysts, in conjunction with representatives of the financial services industry and the regulatory and law enforcement communities, are preparing to publish the second issue in May. Also, FinCEN produces the SAR Bulletin, a series of bulletins containing information and guidance for the financial industry and law enforcement. The bulletins cover money laundering methodologies identified through analysis of SAR information.

Additionally, FinCEN employees worked on two initiatives critical to the nation's efforts to combat money laundering and financial crime. They are the U.S. Department of State's International Narcotics Control Strategy Report and the 15 FinCEN advisories issued against non-cooperative jurisdictions in conjunction with the Financial Action Task Force and the G-7. Both initiatives required meticulous research and involved highly technical and legal information. Our reports had to be thorough and accurate because they have significant United States policy implications, as well as consequences for the countries involved. Also, this year FinCEN

has published a number of reports, some of which are law enforcement sensitive, and specific to law enforcement investigative concerns.

*High Intensity Financial Crimes Areas (HIFCAs)*

Earlier in my testimony, I mentioned how FinCEN provided expert analyses to help Treasury and Justice make HIFCA designations and how we use our software program, ASIS, to assist law enforcement efforts in the HIFCAs. But our support for HIFCAs extends beyond our analytic capabilities and our software. FinCEN is committed to providing the HIFCAs with on-site analysts and, if needed, other analytical research support from our office in Vienna, Virginia. The HIFCAs have been established in the four regions designated in the National Money Laundering Strategy of 2000. The four regions are three geographical areas, New York/Northern New Jersey, Los Angeles, and San Juan, and one money laundering system, bulk cash smuggling across the Southwest border. FinCEN already has one on-site analyst in place and the remaining analysts are coming on-board in the near future. Our analysts will focus on collaborative investigative techniques, both within the HIFCA and between the HIFCA and other areas. We will also facilitate a more systemic exchange of information on money laundering between HIFCA participants.

*Fostering International Cooperation*

The growing sophistication and expertise of money launderers, coupled with the tremendous increase in the volume and scale of international trade and business transactions, has made international cooperation essential. No nation, acting alone, can address the transnational crime and money-laundering problem. Recognizing the global nature of financial crimes, FinCEN has been a key player in encouraging and working with other governments to develop effective standards and build the necessary institutions in the fight against money laundering. FinCEN's efforts to build effective international cooperation encompass two major areas of activity: (1) establishing or strengthening our Financial Intelligence Unit (FIU) counterparts, and (2) facilitating the exchange of information among these institutions in support of anti-money laundering investigations. The network of FIUs we have promoted has caught on dramatically. Just six years ago, there were less than a handful of FIUs. Today there are over 53 such units with additional units anticipated. Additionally, FinCEN administers a common web system for the FIUs, which provides a way for them to communicate in a secure manner. With the hook-up of Luxembourg, Belgium to the common secure web system, the number of FIUs participating now totals 36. Also, with this secure international network, FinCEN is better able to assist domestic law enforcement in acquiring critical information to help in U.S. anti-money laundering investigations.

*Magnitude of Money Laundering*

The activities I've just described are key to FinCEN's goal of leveraging its resources to create a network for prompt and efficient delivery of information to its customers. But as we have discussed before, it is difficult to gauge the success in the nation's battle against financial crime until we can estimate the magnitude of money laundering. We recognize the great support you have provided in the past for this study. It is a difficult tasking, but we are confident that in the end it will help our customers and us direct resources in the most efficient way.

Since we came before the committee last year, we have awarded a contract to a vendor to develop our methodology. The analytic approach proposed by the vendor will use multiple methods, including direct estimates for money laundering (drug trafficking and bank fraud), indirect estimates for other predicate crimes, trend indicators and economic modeling. In addition to examining the proceeds of crime from a microeconomic approach, we will also develop a macroeconomic approach based on analysis of underground economic activity. In its Phase I Stage, the contractor is seeking to identify data sources in select Federal agencies to examine a representative sample of "cleansed" data (i.e., containing no sensitive identifiers) so that parameters can be identified to develop an estimation model. Extraction of a fuller data set will not be necessary until Phase II. While FinCEN has provided a sample of sanitized SARs for examination, other targeted law enforcement agencies have not yet provided access. This is delaying progress at this time. We believe that our contract provides sufficient protection for sensitive law enforcement information and have also adapted strict contract requirements for the protection of information.

ASSESSING OUR ADMINISTRATION OF THE BSA

Another priority for fiscal year 2002 is our assessment of how we administer the BSA. FinCEN's regulatory program—which stresses the effective administration of the Bank Secrecy Act (BSA)—is at the core of our mission to support law enforce-

ment investigations. FinCEN's ability to support law enforcement is directly dependent on the quality of the information we receive from industry under the BSA regulatory structure. Our continuing challenge is to ensure that this information provides law enforcement with the highest quality of data possible without placing undue burden on the financial industry.

To achieve these dual objectives, FinCEN continues to reassess its administration of the BSA. We work in partnership with the regulatory and law enforcement communities to recommend and implement policies designed to effectively administer the BSA. For example, in 1996, SAR reporting was required of depository institutions and we are working to extend this reporting requirement to the Money Services Businesses (MSBs) industry. Currently, FinCEN is developing proposed rules requiring SAR reporting for the casino industry and the security broker/dealer industry.

The passage of the Financial Services Modernization Act has changed the structure of financial regulation in the United States by providing for functional regulation of financial conglomerates and has impacted the additional development of rules within the regulatory structure of the BSA. Because of the authority granted by the Act, the traditional lines of distinction among the financial service providers is disappearing, requiring FinCEN to take into account the ability to conduct disparate financial transactions within the same institution. At the same time, FinCEN will continue to improve the timeliness of processing cases of non-compliance for monetary penalties and other regulatory sanctions and also provide guidance to improve and facilitate BSA compliance.

#### *Money Services Business (MSB) Program*

The term "MSB" is used to define over 160,000 businesses that provide a spectrum of products and services including money transmissions, issue, sale and redemption of money orders and traveler's checks, check cashing and currency exchange. Unlike banks and similar depository institutions that have five Federal financial regulators overseeing their operations, MSBs constitute a multi-billion industry that has been largely unregulated at the Federal level. FinCEN and the Internal Revenue Service (IRS) will fill that role. As you know, by December 31, 2001, MSBs are required to register with the Department of Treasury. Also, they are required to maintain a current list of their agents for examination, on request, by any appropriate law enforcement agency.

Our fiscal year 2002 budget request continues the efforts that began in fiscal year 2001, providing a comprehensive national education campaign geared to this industry by assuring that MSBs clearly understand their registration and reporting requirements. Since we came before this subcommittee last year, we have awarded a multi-year contract to a public relations firm to help us shape our campaign. Through the contractor, we have already conducted a number of focus groups around the country, which are proving to be of great value to us in understanding the needs of the MSBs. Additionally, we have consulted extensively with industry representatives.

Our budget request would enable FinCEN to provide funding to the IRS to hire personnel to extend outreach to the MSBs and respond to public inquiries about the new requirements. Our partnership with the IRS is a major component of our effort to administer the MSB program in an effective and efficient manner.

#### *Extending Suspicious Activity Reporting (SAR)*

In addition to the new registration requirements, MSBs are scheduled to begin filing suspicious activity reports in 2002. Suspicious activity reporting by all classes of financial institutions covered by the Bank Secrecy Act is an essential part of the government's counter-money laundering efforts. Law enforcement investigations have shown that money launderers move their illicit proceeds into financial institutions where they believe they will more easily be able to evade enforcement and regulatory efforts to detect and deter money laundering.

It is vital, however, that we first ensure that the MSBs are knowledgeable about these new requirements. FinCEN is committed to producing the most cost-effective reporting regime, for both law enforcement and the industries involved. We want to make sure we have covered the needs of the MSBs first with registration, then with SARs. For these reasons, we are extending the effective date of the SAR rule to allow additional time to identify and educate this diverse business community.

### STRENGTHENING FINCEN'S ADMINISTRATIVE INFRASTRUCTURE

#### *Leveraging Resources*

FinCEN's effectiveness is based on our emphasis on networking. We combine talents and abilities, information and technology, government agencies and financial

institutions to form a united force against financial crime. But in spite of our flexibility to leverage talents from a variety of sources, we, like other government agencies, are struggling to recruit and retain specialized personnel. This fact, coupled with the intensely competitive nature of today's information technology marketplace, could impact the timely completion of planned technology innovations.

To help obtain the skills we need, FinCEN is beginning new endeavors to further leverage resources. We have begun a partnership with Mercyhurst College in Erie, Pennsylvania, to both encourage and benefit from the college's pioneering efforts in establishing a degree program in intelligence analysis.

For example, our partnership with the college includes mentoring seniors in the completion of their Senior Research Papers on money laundering/financial crime topics, which have been identified by FinCEN. The finished papers will fulfill a graduation requirement and be useful to us in expanding our knowledge base. Also, FinCEN is actively involved in recruiting degree program participants and graduates through summer internships and permanent employment. Two graduates from this degree program are currently applicants for analytical positions at FinCEN.

Finally, FinCEN is an active participant in the Partnership in Education initiative, which is a U.S. Treasury organization that has partnered with public schools to assist in preparing high-school students in the transition to college and career. Clearly, we have a vital stake in the economic future of our youth in encouraging public service.

#### *Lease Renewal*

FinCEN is also facing facility issues in the near future. We have advised both the Subcommittee staff and the Department that our lease expires in 2003, and have been engaged in discussions with the General Services Administration (GSA) to move through the lengthy process of lease renewal or relocating to a new facility. GSA will have the solicitation by fall of this year with the award expected sometime in early 2002. We will continue to keep you apprised of the developments as they occur.

#### CONCLUSION

In summary, FinCEN's primary functions are to support law enforcement efforts that counter money laundering and other financial crimes, and maintain an effective regulatory program for that purpose. We regard this subcommittee as one of the most valued partners in our network. Thank you for your support of FinCEN.





OFFICE OF FOREIGN ASSETS CONTROL

**STATEMENT OF R. RICHARD NEWCOMB, DIRECTOR**

Senator DORGAN. Next, we will hear from Mr. Newcomb.

Mr. NEWCOMB. Thank you, Senator Dorgan. I am particularly pleased to have the opportunity to be with you today to talk about Treasury's Office of Foreign Assets Control, or OFAC, as we are commonly called.

OFAC administers economic sanctions programs against foreign countries, entities, and individuals to further U.S. foreign policy and national security objectives. These sanctions programs are normally imposed pursuant to a declaration of national emergency by the President under specific statutory authority, but may also be imposed directly by the Congress, as in the case of legislation pertaining to foreign terrorist organizations and narcotics kingpins.

I would like to focus my oral remarks today on these last two items, particularly the establishment of the Foreign Terrorist Asset Tracking Center and the implementation of the Foreign Narcotics Kingpin Designation Act, or what we refer to as the Kingpin Act.

OFAC has historically been responsible for compiling available evidence establishing that certain foreign entities or individuals are owned or controlled or acting for or on behalf of foreign governments subject to an economic sanctions program. These entities and individuals have become so-called specially designated nationals and are subject to the same sanctions as the foreign government to which they are related.

In 1995, the President used his authority under the International Emergency Economic Powers Act to declare national emergencies with respect to both terrorists who threaten to disrupt the Middle East peace process and significant narcotics traffickers centered in Colombia. These declarations of national emergency marked the first occasion that this statutory authority had been invoked to directly target organizations and individuals rather than hostile foreign regimes.

In December 1999, the Congress passed the Kingpin Act, which is modeled after OFAC's Colombian Narcotics Traffickers program. The Kingpin Act provides a statutory framework for the President to impose sanctions against foreign drug kingpins and their organizations on a worldwide scale. Like the Colombia program, the Kingpin Act is designed to deny those significant foreign narcotics traffickers and their organizations, including their related businesses and operatives, access to the U.S. financial system and to all trade and transactions involving U.S. companies and individuals.

The President named the first 12 kingpins, the so-called tier one designations, on June 1, 2000. That was the first such designation under the Act. The President plans to take the next list of kingpins public by June 1 of 2001. OFAC also has authority under the King-

pin Act to make derivative, or so-called tier two designations, of the kingpin businesses and agents. These tier two designations are very important to the long-term practical impact and effectiveness of the Kingpin Act, since they target entities through which kingpins penetrate legitimate commerce.

OFAC sanctions programs against foreign narcotics traffickers and foreign terrorists expose and impede money laundering activities, terrorist fundraising and financial flows. While these activities continue to be coordinated with traditional law enforcement agencies, we believe that counter-terrorism activities against foreign terrorists will be greatly enhanced by the establishment of the new Foreign Terrorist Asset Tracking Center.

Last year, the report from the National Commission on Terrorism, the so-called Bremer report, recognized the potential for more effectively employing the broad sanctions authorities delegated to the Office of Foreign Assets Control and recommended development of a joint task force of relevant U.S. Government agencies to develop strategies to counter-terrorist fundraising. This report also recommended that the Secretary of Treasury create a unit within the Office of Foreign Assets Control dedicated to the issue of terrorist fundraising. The Congress subsequently provided funding to Treasury for fiscal year 2001 to develop this center in coordination with other relevant U.S. Government agencies.

The Center's mission is to gather information from all sources relating to terrorist groups, organizations, affiliations, and sources and methods of fundraising and funds movement. The Center will use this information to conceptualize, coordinate, and implement strategies within the U.S. Government that ultimately could lead to denying these target groups access to the international financial system, impair their fundraising abilities, expose, isolate, and where appropriate, block their financial transactions, and work with other friendly governments to take similar measures.

OFAC is currently in the process of establishing this Center, and other U.S. Government agencies with counter-terrorism responsibilities have committed to participate in this center by, for example, providing the Center with all relevant information, detailing specialists to analyze the data and appointing special liaisons to cement the constant interaction of the member organizations.

It is currently anticipated that the departments and agencies that will participate in or work with the Center are the Department of Treasury—of course, us—the Customs Service, the Internal Revenue Service, the Secret Service, Alcohol, Tobacco and Firearms, and, of course, FinCEN; the Department of Justice in the form of the FBI, the INS; the CIA, the Office of Transnational Issues and the DCI's Counter-Terrorism Center; the National Security Agency; and the Department of State's Office of Counter-Terrorism Coordinator, also called SCT.

The role of each agency would, of course, depend on the target and the circumstances of each target's fundraising, money movements, and modus operandi. Some terrorist groups are involved in multiple activities to produce income. These activities would also be covered under the Center's mission.

OFAC is currently hiring staff to implement the Kingpin Act, establish the Terrorist Asset Tracking Center, and make certain

other improvements to our other sanctions programs. We currently have 77 staff members on board, 21 position offers outstanding, and expect to hire an additional 36 positions, 8 of which are reimbursable from those agencies I mentioned, by the end of fiscal year 2001.

Crucial to the successful administration of these priorities, of course, is enhanced customer service, particularly with regard to the pending implementation of the Trade Reform and Export Enhancement Act of 2000. Your continuing support of our mission is crucial.

Thank you very much for the opportunity to discuss these matters of concern to the Congress as well as the executive branch. I look forward to working with you and your staff and in keeping you posted on our progress. Thank you, Mr. Chairman.

PREPARED STATEMENT

Senator DORGAN. Mr. Newcomb, thank you very much.  
[The statement follows:]

PREPARED STATEMENT OF R. RICHARD NEWCOMB

Chairman Campbell, Senator Dorgan, and Members of the Subcommittee, I am pleased to have the opportunity to speak to you today about the work of the Treasury Department's Office of Foreign Assets Control, or "OFAC," as we are commonly called. OFAC administers economic sanctions against foreign countries, entities and individuals to further U.S. foreign policy and national security objectives. These sanctions programs are normally imposed pursuant to a declaration of national emergency by the President under specific statutory authority, but may also be imposed directly by the Congress, as in the case of legislation pertaining to foreign terrorist organizations and narcotics kingpins.

OFAC currently administers twenty-one economic sanctions programs involving assets freezes and/or trade embargoes, including programs directed against Angola (UNITA), Burma, Cuba, Iran, Iraq, Libya, North Korea, Sierra Leone, the Taliban in Afghanistan, foreign terrorists and foreign narcotics traffickers. (See the attached chart for a complete list of OFAC programs.) In performing its mission, OFAC relies principally on the President's broad powers under the Trading With the Enemy Act ("TWEA"), the International Emergency Economic Powers Act ("IEEPA"), and on occasion, the United Nations Participation Act ("UNPA"), to prohibit or regulate commercial or financial transactions involving specific foreign countries, entities and individuals. These powers are employed to freeze, or block, foreign assets by prohibiting transfers of those assets which are located in the United States or in the possession or control of U.S. persons, as well as to prohibit financial transactions (such as bank lending), imports, exports and related transactions. These sanctions programs may be either selective, prohibiting a specific class of economic transactions (such as transactions with the government of the target country), or comprehensive, prohibiting all unlicensed economic transactions involving the designated country or its nationals. OFAC's blocking authority has also been employed to protect classes of assets, as in the case of the 1990 freeze of Kuwaiti assets after Iraq's invasion of Kuwait, or in the case of assets pertaining to the implementation of agreements between the United States and the Russian Federation relating to the disposition of highly enriched uranium.

Organizationally, OFAC is composed of the following components:

*Licensing Division.*—Makes determinations on requests for specific licenses—processing more than 18,000 such requests during the past twelve-month period—and provides guidance to the public with respect to interpretive rulings and transactions authorized by general license. The influx of requests for licenses and interpretive rulings under the twenty-one separate programs OFAC administers has increased dramatically. In an effort to meet this demand and provide responsive and thorough customer service, OFAC is instituting measures to: process licenses within two weeks absent the need for interagency consultation; hire additional personnel to respond to phone inquiries; promote transparency of agency action by publishing interpretive rulings on its website; and issue implementing regulations within sixty

days of the issuance of an Executive order or enactment of legislation with an opportunity for public comment.

*Compliance Division.*—Serves as the primary point of contact for the financial community, fielding more than 45,000 “hotline” calls per year to provide guidance on in-process transactions. Last year, the calls resulted in denying access to the U.S. banking system to more than 5,500 items that were contrary to U.S. sanctions and the blocking of more than 2,000 transactions. As a result of regulatory audits which it conducts, the Compliance Division opened 1,000 cases in fiscal year 2000 and issued more than 1,000 “administrative demands for information,” culminating in 205 referrals to either the Civil Penalties or Enforcement Divisions and the issuance of more than 500 Warning Letters. This OFAC Division also monitors adherence to the terms of licenses and requirements regarding blocked property; conducts public and private sector awareness programs to assure familiarity with requirements for compliance with regulations; and maintains and updates OFAC’s public informational material, website, and fax-on-demand service.

*Blocked Assets/Information Technology Division.*—Maintains OFAC’s aggregate database of blocked assets; coordinates multilateral sanctions implementation with foreign governments; and develops and implements information technology systems in OFAC.

*International Programs Division.*—Administers the Specially Designated National, Specially Designated Terrorist, Specially Designated Narcotics Trafficker, and Foreign Terrorist Organization programs, as well as designations under the Foreign Narcotics Kingpin Designation Act, including the preparation of two annual Presidential reports to the Congress and an annual report to the Congress on blocked terrorist assets; and coordinates certain multilateral enforcement matters with foreign governments.

*Enforcement Division.*—Coordinates overall enforcement of sanctions programs by making referrals to Customs and other law enforcement agencies for criminal investigations, opening sixty investigations during 2000; provides technical advice and assistance to Customs agents and inspectors and Assistant U.S. Attorneys concerning suspected violations, with six criminal prosecutions brought in 2000; and administratively pursues non-criminal cases for civil penalty consideration, opening 1,544 new civil cases for investigation with 515 referrals for civil penalty consideration during 2000 (see attached chart).

*Civil Penalties Division.*—Administers the civil penalties program for violation of sanctions laws administered by OFAC, processing more than 2,000 cases and collecting more than \$3.2 million in fines over the course of the past year (see attached chart).

*Policy Planning and Program Management Division.*—Performs policy analysis; coordinates interoffice and interagency program implementation and regulatory issues; and currently prepares thirty-five statutorily required Presidential reports and fourteen Notices of Continuation of emergency authorities per year to the Congress.

Other components of OFAC include the Miami Office, which coordinates certain Cuba licensing, compliance and enforcement matters, and the Bogota Office, which coordinates the Colombian narcotics traffickers program and conducts research on specially designated narcotics traffickers. Offices are also being established in Mexico City and Bangkok in support of OFAC’s implementation of the Foreign Narcotics Kingpin Designation Act. A ninth division within OFAC is also being organized to establish the Foreign Terrorist Assets Tracking Center. In addition, while not organizationally part of OFAC, Treasury’s Office of the General Counsel devotes a complement of attorneys to providing OFAC legal support in the administration of its programs.

I would like to focus the remainder of my remarks today on OFAC’s increasing responsibilities to administer economic sanctions with respect to foreign terrorists, particularly with regard to the establishment of the Foreign Terrorist Asset Tracking Center, as well as economic sanctions programs targeting foreign narcotics traffickers.

OFAC’s International Programs Division has historically been responsible for compiling available evidence establishing that certain foreign entities or individuals are owned or controlled by or acting for or on behalf of a foreign government subject to an economic sanctions program. These entities and individuals then become “specially designated nationals,” and are subject to the same sanctions as the foreign government to which they are related. In 1995, the President used his authority under IEEPA to declare national emergencies with respect both to terrorists who threaten to disrupt the Middle East Peace Process and significant narcotics traffickers centered in Colombia. These declarations of national emergency marked the

first occasion that this statutory authority had been invoked to directly target organizations and individuals, rather than hostile foreign regimes.

Since the inception of the Colombia program in 1995, OFAC has identified 578 businesses and individuals as specially designated narcotics traffickers ("SDNTs"), consisting of ten cartel leaders of the Cali, North Valle, and North Coast drug cartels, 231 of their businesses and 337 other individuals. Four of the most notorious Colombian drug kingpins were identified in the Executive order itself. OFAC has added six more Colombian drug cartel leaders since 1998, including four leaders of Colombia's powerful North Valle drug cartel named in 2000 and 2001. United States persons are prohibited from engaging in financial or business dealings with the ten drug kingpins and the 568 other SDNTs.

As a result of the SDNT program against Colombian drug cartels, traffickers' companies have been forced out of business, are suffering financially, and have been isolated both financially and commercially. By May 2001, more than sixty SDNT companies, with an estimated annual aggregate income of more than U.S. \$230 million, have been liquidated or are in the process of liquidation. SDNTs are denied access to banking services in the United States and Colombia and have been denied access to the benefits of trade and transactions involving U.S. businesses. SDNT individuals have been denied U.S. visas or had their visas revoked. OFAC will continue to identify businesses of the Colombian drug cartels and to expand the SDNT list to include additional drug traffickers and their organizations.

Economic sanctions were imposed by the President pursuant to IEEPA in 1995 against terrorists who threaten to disrupt the Middle East Peace Process. This action was taken to combat fundraising in the United States on behalf of foreign terrorist organizations identified in an annex to the implementing Executive order. In August 1998, a second Executive order was issued expanding the list of foreign terrorists to include Usama bin Ladin, his organization (Al-Qaeda), and two other individuals. In addition to the thirteen terrorists and terrorist entities identified by Executive order, OFAC has authority to designate organizations or individuals, known as "specially designated terrorists" or "SDTs," that are owned or controlled by, act for or on behalf of, or that provide material or financial support to these terrorists. As a result of these sanctions, a number of individuals acting on behalf of the Middle East terrorists have been subjected to sanctions, and financial assets of some of these groups have been blocked.

We believe that the sanctions have had a deterrent effect on fundraising in the United States and have impeded terrorists' use of the U.S. financial system. OFAC continues to work closely with Justice, State, the FBI, and other Federal agencies in implementing the two Middle East terrorist Executive orders against identified or potential SDTs.

In April 1996, Congress passed the Antiterrorism and Effective Death Penalty Act ("Antiterrorism Act"), in part to prevent U.S. persons from providing material support or resources to Foreign Terrorist Organizations ("FTOs") throughout the world. Currently, twenty-nine FTOs are subject to OFAC-administered sanctions, having been designated by the Secretary of State in consultation with the Secretary of the Treasury and the Attorney General. Under the Antiterrorism Act and OFAC's implementing regulations, U.S. financial institutions must maintain control over all funds in which an FTO has an interest, block financial transactions involving FTO assets, and report those actions to OFAC. OFAC is the coordination point with State and Justice on FTO designations and also has responsibility for coordinating with the financial community, the FBI, State, and other Federal agencies in implementing the prohibitions of the Antiterrorism Act.

In December 1999, the Congress also passed the Foreign Narcotics Kingpin Designation Act (the "Kingpin Act"), which is modeled after OFAC's Colombia narcotics traffickers program. The Kingpin Act provides a statutory framework for the President to impose sanctions against foreign drug kingpins and their organizations on a worldwide scale. Like the Colombia program, the Kingpin Act is designed to deny these significant foreign narcotics traffickers and their organizations, including their related businesses and operatives, access to the U.S. financial system and to all trade and transactions involving U.S. companies and individuals. The President named the first twelve kingpins ("tier one designations") on June 1, 2000. The President plans to make the next list of kingpins public by June 1, 2001. OFAC also has authority under the Kingpin Act to make derivative ("tier two") designations of the kingpins' businesses and agents. These tier two designations are very important to the long-term practical impact and effectiveness of the Kingpin Act, since they target entities through which the kingpins penetrate legitimate commerce.

OFAC's sanctions programs against foreign narcotics traffickers and foreign terrorists expose and impede money laundering activities, terrorist fundraising and financial flows. While these activities continue to be coordinated with traditional law

enforcement agencies, we believe that counter-terrorism activities against foreign terrorists will be greatly enhanced by the establishment of the Foreign Terrorist Asset Tracking Center (the "Center"). Last year, the Report from the National Commission on Terrorism (the "Bremer Report") recognized the potential for more effectively employing the broad sanctions authorities delegated to OFAC and recommended the development of a joint task force of relevant U.S. government agencies to develop strategies to counter terrorist fundraising. The Bremer Report also recommended that the Secretary of the Treasury create a unit within OFAC, dedicated to the issue of terrorist fundraising. The Congress subsequently provided funding to Treasury for fiscal year 2001 to develop the Center, in coordination with the relevant USG agencies.

The Center's mission is to gather information from all sources relating to terrorist groups' sources and methods of fundraising and funds movement. The Center will use this information to conceptualize, coordinate, and implement strategies within the US government that could ultimately lead to denying these target groups access to the international financial system; impair their fund-raising abilities; expose, isolate, and, where appropriate, block their financial transactions; and work with other friendly governments to take similar measures. The Center will accomplish this mission by:

- gathering information from all sources relating to terrorist groups' sources and methods of fundraising and funds movement;
- reviewing data regarding the fundraising activities and funds of terrorist groups that threaten the US national security;
- assessing the sources and methods of fundraising and funds movement of each targeted foreign terrorist group, and of their operatives and terrorist-owned entities;
- tracking all information about the nature, operations, goals, and methods of each terrorist group, related especially to the movement and placement of their assets;
- sharing all relevant information and analysis, as appropriate, with U.S. regulatory, diplomatic, defense, intelligence and enforcement communities;
- conceptualizing and developing implementation strategies to deny targeted terrorist groups access to the international financial system, and whenever possible, to expose, isolate and incapacitate their financial holdings within the United States and in other countries;
- developing strategies to deny these targets the ability to conduct financial transactions with U.S. entities and individuals and impair their fundraising abilities; and
- persuading foreign governments to take similar measures.

Such strategies would bring to bear the full weight and influence of the Federal government relating to financial matters—regulatory, diplomatic, defense, intelligence and enforcement communities—and involve foreign and domestic actions.

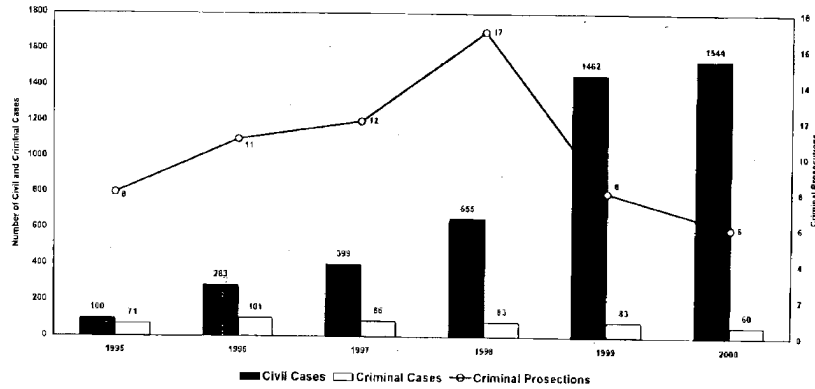
OFAC is currently in the process of establishing the Center and USG agencies with counter-terrorism responsibilities have committed to participate in the Center by: (1) providing the Center with all relevant information; (2) detailing specialists to analyze the data; and (3) appointing special liaisons to cement the constant interaction of the member organizations. It is anticipated that the departments and agencies that will participate in or work with the Center are: (1) the Department of Treasury—OFAC, Customs, IRS, USSS, ATF, and FinCEN; (2) the Department of Justice, FBI, INS; (3) the CIA—Office of Transnational Issues and the DCI's Counter-Terrorism Center; (4) the National Security Agency; (5) the Department of State—Office of the Counter-Terrorism Coordinator (S/CT); and (6) the Department of Defense.

The role of each agency would depend upon the target, and the circumstances of each target's fundraising, money movements, and placements *modus operandi*. Some terrorist groups are involved in multiple activities to produce income. These activities would also be covered under the Center's mission.

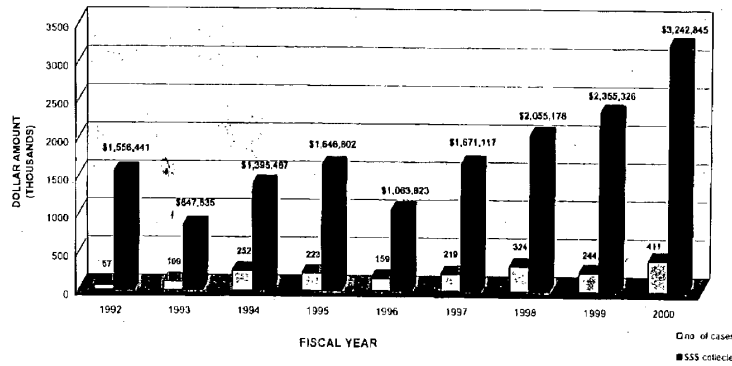
OFAC is currently hiring staff to implement the Kingpin Act, establish the Foreign Terrorist Assets Tracking Center and make the other improvements I've discussed. We currently have seventy-seven staff members on board, twenty-one position offers outstanding, and expect to hire an additional thirty-six positions—eight of which involve reimbursable agreements with other agencies—by the end of fiscal year 2001. Crucial to the successful administration of these priorities is enhanced customer service, particularly with regard to the pending implementation of the Trade Reform and Export Enhancement Act of 2000. Your continuing support of our mission is critical.

Thank you very much for the opportunity to discuss these matters of grave concern to the Congress as well as the Executive Branch. I look forward to keeping you posted of our progress.

**OFAC Enforcement Cases**



**CIVIL PENALTIES COLLECTIONS  
FY 92 - FY 2000**



Senator DORGAN. Just a couple of questions. First, to Mr. Newcomb and Mr. Baity, there are a number of very complicated areas in government, but the areas in which you work and your employees work are extraordinarily complicated and I know that you work in consultation and cooperation with a wide range of other agencies, and for that we are appreciative. I think a number of circumstances would require other agencies to reach out for the kind of expertise only you have in dealing with white collar financial crime and other related issues, so we appreciate your work.

**CONSTRUCTION COST DELAYS**

I do want to ask a couple of questions of Mr. Sloan and Mr. Basham. Mr. Basham, you have indicated that this budget, in order to save some money, is causing you to push back the construction schedule on the consolidation of the FLETC facility. What will that end up costing us? I assume it is going to cost us extra money by not proceeding with the intent we had previously expressed.

Mr. BASHAM. Well, the ongoing cost of running the Charleston facility, of course, is going to be a factor, as well as when the time lines slide, it is obviously going to create additional cost just from inflation alone in construction of the facilities that will have to be put in place. Depending on how long that time line is pushed back will determine—it could be several millions of dollars that is going to be an additional cost in order for us to provide those facilities.

Senator DORGAN. I am going to ask if you would send me some information telling me what we would save if we just proceed to do what we have been planning to do regarding the consolidation, do the construction, and close the facility, as opposed to this approach, where we push it back and end up costing more money to do the same thing. If you would give me some estimate of that in writing, I would appreciate that.

Mr. BASHAM. I will provide that to you, sir.

#### TRADE POLICY AND SANCTIONS

Senator DORGAN. This would probably be a question for Mr. Sloan and Mr. Newcomb. We have been scrapping here in Congress for some while about the sale of food and medicine to Cuba, changing the regulations that have previously prohibited that. I have introduced legislation on appropriations bills the last 2 years, actually got them passed, went to conference. In the first case, it got dropped. The second year, it got mangled some, but nonetheless, it is now the law in kind of a perverted form.

But it is the law that we are attempting to change and Congress, by a wide vote, expressed an intention to attempt to relax the circumstances under which we might do business with Cuba dealing with food and medicine. The administration has yet to publish regulations to implement the legislation that was passed last year, and I do not know whether Mr. Sloan or Mr. Newcomb would be the appropriate one to answer when we might see those regulations.

Mr. NEWCOMB. Mr. Chairman, we have been working since the passage of that legislation, along with the Commerce Department, the State Department, and the White House to get these regulations issued. I can tell you, I believe it is imminent. I received a call just yesterday that a meeting would be held again this week to coordinate those activities.

By way of clarification, the way this seems to be going at this time is that Commerce has, by delegation going back some 30 years or so from the Office of Foreign Assets Control, exports from the United States directly to Cuba have traditionally been the jurisdiction of the Commerce Department, and it has been the current intention up until this time that that should remain. So with regard to implementation of this Act, Commerce will issue those regulations.

We plan on issuing regulations affecting Iran, Libya, and Sudan, which are the three countries currently where exports are permitted, and in doing so anticipate an enhanced, expedited export licensing regime.

Senator DORGAN. Let me just say that this is an important area. We are not yet finished legislating on this. We will legislate again this year and we will straighten out the bend that occurred last



year in a kind of a surreptitious way at the end of the last session. So as you consider these regulations, understand there is a desire for many of us in Congress to see that you do this as quickly as possible and be prepared to redo it at the end of this legislative session, because we will have more to say on it.

#### ADDITIONAL COMMITTEE QUESTIONS

Mr. Sloan, thank you for being here with the agencies that are involved in these issues. They are, as I indicated, in many areas complex, in virtually all areas vitally important, and we on the subcommittee want to provide appropriate and adequate funding to make sure that we meet our obligations, and Senator Campbell and I and the other subcommittee colleagues will work diligently to try to do that.

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

#### QUESTIONS SUBMITTED TO THE DEPARTMENT OF THE TREASURY

##### QUESTION SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

##### SOUTHEAST EUROPEAN COOPERATIVE INITIATIVE (SECI)

*Question.* Please describe some of Treasury's ongoing work within the Southeast European Cooperative Initiative (SECI) framework and the potential benefits derived from U.S. participation.

*Answer.* SECI is an important initiative to Treasury law enforcement due to the alarming increase in crime throughout the Balkan Peninsula. The U.S. Secret Service and the U.S. Customs Service are the lead agencies for Treasury involvement. The Secret Service is focused on financial crime where American financial and Internet companies are, by far, the largest percentage of victims. Customs work is related to border control, international trade, and trans-border crime.

The physical location of the SECI in Bucharest and its regional structure allows us to maintain convenient contact with the eleven member country representatives. The Secret Service has observer status through the Rome Field Office. The Special Agent in Charge has frequent and personal contact with SECI management in Bucharest. The Secret Service has now received approval for an office in Bucharest, which will allow even closer contact.

The Secret Service partnerships with the credit card industry have contributed to the development of training and other initiatives to support the SECI member nations. In March 2001, the Secret Service hosted SECI staff executives at a seminar in Washington, D.C. The seminar focused on Secret Service investigative responsibilities with an emphasis on financial crimes in Eastern Europe. Additionally, the Secret Service and the credit card industry will conduct a six-day seminar in June 2001. Specialized training in financial fraud will be provided to SECI officials. Also addressed will be specific trends in their region and suggested cooperative solutions.

SECI officials are examining the concept of a financial fraud task force in which the Secret Service would act in an observer and advisory capacity. This is an important initiative as we believe that most of the financial fraud in this region has a strong connection to the United States.

The U.S. Customs Service operates Border Advisory Teams in five SECI countries (Bulgaria, Croatia, Macedonia, Moldova, and Romania) with a total of 12 advisors. The teams focus on improved border operations and increased effectiveness in enforcement through risk management and selectivity. The teams also assist the host countries with complying with the requirements of a World Bank Loan Program, the Trade and Transportation Facilitation in Southeast Europe (TTFSE). This leverages approximately \$3 million in USG funding for over \$68 Million in World Bank Loans for the countries. The loans will be used to repair border sites, purchase inspection equipment and update automation. In turn, the countries are required to streamline their customs and border operations, reduce wait times and most importantly, increase enforcement.

These operations bring twofold benefits for the United States. First, improving border operations promotes foreign investment in the local economy. Secondly, im-

proving enforcement effectiveness reduces smuggling and revenue loss and helps to stabilize the local government for which customs duties are a major source of revenues. The reduction of smuggling also helps to cut off the flow of illicit drugs and weapons and promotes stability, economic growth and democratization.

Secondly, Customs has supported the SECI Anti-Crime Center in Bucharest since its inception. In fact, a Customs advisory team helped to draft the Center's original charter and international Memorandum of Understanding. Customs has personnel permanently detailed to the Center and other SECI member countries. At this time, the region is not a major source for narcotics. However, the growing strength of organized crime in the area needs to be addressed or it will become a threat to U.S. interests.

In addition to Customs and Secret Service involvement, FinCEN supports SECI related requests for training, technical assistance and/or requests for information through established law enforcement channels, as well as the Egmont System of financial intelligence units existing in SECI countries. Treasury Department law enforcement plans to continue its support and assistance to the SECI.

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#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### U.S. CUSTOMS STAFFING

*Question.* We understand from testimony at the House hearing last week, that Customs originally requested 1,000 new agents and inspectors to better manage its awesome dual responsibility of protecting the Nations borders from transnational crime, while at the same time fostering trade and trade compliance. Yet the Administration denied the request for funding. Concurrently, the Administration chose to fund the Department of Justice bureaus, specifically INS and the Border Patrol to obtain 1,140 additional agents over the next two years, bringing them to the authorized level of 5,000 new agents.

Did Customs originally request new Agents and Inspectors for fiscal year 2002? Was this request denied? If there is a critical need for staffing in the Customs Service, why was this request denied? Does the need still exist?

*Answer.* Under the current Administration, there was no fiscal year 2002 budget request process from bureau to Department, or from Department to OMB. The current Administration has not validated the previous Administration's estimate.

##### ROLE OF TREASURY IN COUNTER-TERRORISM

*Question.* The Administration announced that Vice President Cheney will oversee development of a plan for responding to terrorist attacks in the United States. As a part of that plan, a new office within FEMA will coordinate the terrorist response efforts by more than 40 agencies. Treasury Secretary O'Neill testified on May 8, 2001, that the Customs Service is the Nation's "first line of border defense but he failed to mention that the Secret Service is the lead agency for National Special Security Events under PDD-62, and only briefly mentioned ATF and your other law enforcement agencies.

What is Treasury's role in Counter-Terrorism?

*Answer.* In his brief oral statement, Secretary O'Neill was able to provide only highlights of Treasury's counter-terrorism efforts. His statement for the record more fully outlined the roles each of Treasury's enforcement bureaus play in combating terrorism. Briefly, those roles are as follows.

*Bureau of Alcohol, Tobacco and Firearms (ATF).*—ATF enforces Federal laws relating to firearms, explosives, and arson, and regulates the firearms and explosives industries. Its resources include personnel specializing in responding to explosives and arson incidents, specialized data resources, including an Arson and Explosives National Repository database, and the only Federally trained and certified fire investigators.

*U.S. Customs Service.*—With its unique border search authority, Customs investigates a range of crimes linked to terrorism, including smuggling, illegal exports of licensable technologies and arms, violations of international sanctions, and money laundering. Its mission includes preventing the importation of weapons of mass destruction (WMD) and investigating the exportation of WMD materials and technologies, arms, funds and other support to terrorists abroad.

*U.S. Secret Service.*—The Secret Service protects the President and first family, the Vice President, former Presidents, visiting foreign heads of state, the White House complex, and foreign embassies in the United States. It coordinates security at designated National Special Security Events. It also conducts financial crimes in-

vestigations designed to ensure the integrity of the critical financial, payment, and telecommunications infrastructures.

*Internal Revenue Service—Criminal Investigation (IRS-CI).*—IRS-CI investigates domestic extremist groups using tax fraud and money laundering as a funding mechanism. Also targeted are international terrorist financing activities, particularly if tax exempt organizations are involved.

*Federal Law Enforcement Training Center (FLETC).*—FLETC offers a number of training programs for Federal, State, local and foreign law enforcement personnel from over fifty countries. FLETC also provides training to our foreign law enforcement partners on both an ongoing basis as well as in response to emerging high threat areas.

*Financial Crimes Enforcement Network (FinCEN).*—FinCEN is charged with administering the Bank Secrecy Act (BSA), which imposes certain transaction reporting and record-keeping requirements on financial institutions that are designed to protect those institutions from money laundering and to provide a paper trail for investigators. As the central point for collection and analysis of BSA data, FinCEN provides case support to law enforcement investigations, including terrorism investigations.

*Office of Foreign Assets Control (OFAC).*—OFAC administers Presidentially imposed economic sanctions against terrorist sponsoring countries and Middle East terrorist organizations. It also administers the sanctions program established by the Antiterrorism and Effective Death Penalty Act to prevent persons within the United States or under U.S. jurisdiction from providing material support or resources to Foreign Terrorist Organizations (“FTOs”) throughout the world. In addition, OFAC is in the process of establishing a Foreign Terrorist Asset Tracking Center (FTAT).

During recent Hearings on U.S. efforts in counter-terrorism, a “top off” exercise was ordered by Congress to demonstrate U.S. capabilities in a domestic terrorist event. The last exercise occurred last Summer, and the next is planned in 2002. Secretary Thompson stated that this is predominantly a Department of Justice Exercise.

*Question.* What role do the Treasury Law Enforcement agencies have in the next topoff exercise?

*Answer.* In Topoff 2000, Treasury’s law enforcement bureaus attended pre-exercise briefings and were prepared to respond/assist within the scope of our respective missions. The Bureau of Alcohol, Tobacco and Firearms (ATF), assumed a major role in the Portsmouth, NH scenario, which involved a car bomb and chemical agent. ATF also provided investigative assistance in the Denver scenario and simulated a response to the nuclear, chemical, radiological (NCR) scenarios in Washington D.C. Like Topoff 2000, Treasury’s law enforcement bureau will be ready to respond within the scope of their respective missions. Treasury law enforcement’s participation in future Topoff exercises will be dependent upon the exercise scenarios chosen by the co-sponsors.

#### COUNTER-TERRORISM FUND

*Question.* The Counter-Terrorism Fund was established to address the Department of the Treasury’s needs for unanticipated contingencies. The Office of Management and Budget wants to tap into this to pay “other agencies.”

Which Treasury agencies will be reimbursed from the fund in support of the Winter Olympics in Salt Lake City?

*Answer.* The fiscal year 2002 Budget submitted by the President adds \$45 million to the Treasury Counter-Terrorism Fund. This fund is set up to reimburse Treasury bureaus for costs incurred in fulfilling important counter-terrorism related responsibilities.

—Treasury is planning to reimburse the following agencies from the Counter-Terrorism Fund:

Bureau of Alcohol, Tobacco and Firearms; United States Customs Service; United States Secret Service; Financial Crimes Enforcement Network; Internal Revenue Service; United States Mint; and Treasury Inspector General for Tax Administration.

*Question.* Are there non-Treasury agencies being reimbursed from the fund?

*Answer.* No. There are no current plans to reimburse the non-Treasury agencies from this fund.

*Question.* What is your position on this?

*Answer.* The Treasury Counter-Terrorism Fund was created to reimburse Treasury agencies for counter-terrorism activities. We believe that non-Treasury agencies need to explore a separate and distinct funding mechanism to ensure proper agency

funding in support of the fiscal year 2002 Winter Olympics, that does not include the Treasury Counter-Terrorism Fund.

*Question.* Why are we using this fund for a NSSE that we know about years in advance?

Answer. The use of the Counter-Terrorism Fund is consistent with what has been done in the recent past; the budget assumes that Treasury bureaus will be reimbursed for Olympics-related costs from the Counter-Terrorism Fund.

*Question.* Will this be the future avenue for funding for NSSEs?

Answer. There are no existing plans to use the Counter-Terrorism Fund to fund Treasury bureaus for future NSSEs. The Administration is currently reviewing alternative funding mechanisms for National Special Security Events. We support this effort.

*Question.* The fund was also established for unanticipated emergencies, but you are tapping it for Olympics. What of actual terrorist incidents?

Answer. Yes, we concur that the fund was established for unanticipated emergencies and we believe there will still be sufficient money in the fund to reimburse Treasury agencies in the tragic event a terrorist incident occurs.

*Question.* What justification?

Answer. Justification is that these funds will reimburse Treasury bureaus for counter-terrorism activities, i.e., designing and implementing security at NSSEs, such as the 2002 Winter Olympics. This specific purpose is expressly stated in the fiscal year 2001 appropriation for the Treasury Counter-Terrorism Fund.

#### PROGRAM ABSORPTIONS

*Question.* We received information from the various agencies under your aegis, particularly the Secret Service and U.S. Customs, that they will have to find significant savings for program absorption. The amounts offset projected inflation for non-pay expenditures, as well as a variety of other non-discretionary cost increases. Customs must find approximately \$35 million in savings, and the Secret Service must find approximately \$14 million. Both agencies have suggested that they will realize these absorption's through improved resource management and by exploring potential efficiencies.

What if the required absorptions cannot be realized through these methods?

Answer. It is our view that the absorption's can and will be realized through the proposed efficiencies.

*Question.* Can you guarantee that the critical missions performed by this agency for the health and security of the United States will not be denigrated?

Answer. We do not believe the absorptions will cause any denigration to the critical missions of Treasury's law enforcement bureaus.

#### TREASURY IG

*Question.* We have been briefed that the Treasury IG is conducting more investigations than audits, and that it wants to charge agencies for those audits. For example, the Customs Service recently had an audit for which Treasury IG wants to charge them \$1.5 million in costs. Yet the Treasury IG was funded \$33 million for these audits.

What is the current status?

Answer. In addressing this question, we wish to clarify two points. First, the \$33 million represents our fiscal year 2001 appropriation to fund the entire Treasury Office of Inspector General (OIG) including both our investigative and audit operations.

Secondly, with regard to the recently completed audit of the U.S. Customs Services (Customs) fiscal year 2000 financial statements, we are not attempting to charge Customs \$1.5 million for the cost of this audit. This audit is final and we issued an unqualified opinion on Customs fiscal year 2000 financial statements on February 23, 2001. The only cost to Customs was \$180,000 for a contract to perform Electronic Data Processing (EDP) general control work and approximately \$95,000 to reimburse the OIG for travel costs related directly to the conduct of this audit.

We have advised Customs, however, that we will no longer be able to perform the financial statement audit of Customs with OIG staff and that the estimated cost to use a contractor will be \$1.5 million for the fiscal year 2001 audit.

As a matter of background, the Office of Management and Budget designated Customs for annual entity financial statement audits pursuant to the Government Management Reform Act (GMRA) of 1994. OIG auditors have performed this annual audit since fiscal year 1994 with limited contractor support for things like EDP general and application control reviews and statistical analyses. While Customs has

funded the costs of contractor support and travel by OIG staff, OIG has absorbed all other costs of the audit over the last seven years.

During this time, we have dedicated significant staff, to meet the statutory requirements for financial statement audits. We have worked extensively with Customs during the conduct of these audits to help them overcome the serious weaknesses in their financial controls that prevented them from receiving an unqualified opinion. As a result Customs has received an unqualified opinion on their financial statement for the third consecutive year.

*Question.* Also, why are there more investigations than audits?

*Answer.* There has not been a significant increase in investigations relative to audits. During fiscal years 1999 and 2000, the total number of investigative cases closed by our office was 156 and 104, respectively. The numbers of audits completed during these fiscal years totaled 134 and 125, respectively.

Two things should be noted, however, that make comparisons between numbers of investigations and audits difficult. First, investigations are typically of short duration and are conducted by an individual investigator. On the other hand, audits are typically conducted by a team of three auditors over a longer period of time and are oftentimes nationwide in scope to determine whether a particular Treasury program or activity is being operated in an economical, efficient, and effective manner.

Secondly, since fiscal year 1998 we have significantly increased the size of our investigative staff relative to the audit staff primarily in response to concerns by the Senate Finance Committee as well as other congressional committees that we needed to provide more oversight over the Office of Internal Affairs at Customs and Offices of Inspection at the Bureau of Alcohol, Tobacco and Firearms and the United States Secret Service. For example, in fiscal year 1999 we reviewed a total of 510 closed cases in the three law enforcement bureau's internal affairs units. In fiscal year 2000, we reviewed an additional 438 closed cases. The increase in our investigative operations has also permitted our office to conduct investigations into matters that we would have previously turned over to the bureau Offices of Internal Affairs and Inspection due to the lack of staff.

*Question.* What do you see as the primary function of the OIG?

*Answer.* As prescribed in the Inspector General Act of 1978, as amended, the primary function of the OIG is to: (1) conduct and supervise audits and investigations relating to programs and operations of the Department of the Treasury except for the Internal Revenue Service which is the responsibility of the Treasury Inspector General for Tax Administration; (2) provide leadership and coordination and recommend policies for activities designed to promote economy, efficiency, and effectiveness in the administration of, and to prevent and detect fraud and abuse in such programs and operations; and (3) keep the Secretary of the Treasury and the Congress fully and currently informed about problems and deficiencies relating to the administration of such programs and operations and the necessity for and progress of corrective action.

We have focused on these core mission activities since we became a statutory Inspector General with the passage of the 1988 amendments. The only things that vary are the activities that we audit and investigate. A number of factors can drive this including risk, new legislative requirements, and new areas of emphasis by the Congress and the Administration. For example, the passage of the CFO Act in 1990 and subsequently the GMRA in 1994 resulted in us shifting a significant portion of our audit resources from program audits to financial audits. Likewise, based on Congressional committee concerns, we have reallocated OIG resources to increase our oversight of the internal affairs functions in the law enforcement bureaus.

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QUESTIONS SUBMITTED TO THE BUREAU OF ALCOHOL, TOBACCO AND FIREARMS

QUESTION SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

FIREARMS TECHNOLOGICAL ENHANCEMENTS

*Question.* As a direct result of complaints from legitimate firearms importers, \$2 million was provided last year for management and technological enhancements to assist these law-abiding firearms dealers and collectors as they work through the regulatory process at ATF. ATF has developed a plan to use that money for information technology to streamline the process at ATF. I am told that you are also planning to implement management process changes which should have a more immediate positive impact.

I would appreciate it if you could outline exactly what steps you are taking on the management side to make the firearms regulatory process more customer friendly.

Answer. A number of significant management initiatives are being implemented, along with technological enhancements, to improve service to our customers. Specifically, we have signed a contract to hire two contract employees to perform data entry for the Firearms and Explosives Imports Branch. This will have an immediate impact on the length of time it takes to process an Import permit. By removing data entry responsibilities from the examiners, they can dedicate their time to researching and identifying the articles to be imported, and more quickly make a decision on the importability of goods. The contract has been signed, application packets for the contract employees have been submitted, and background investigations on the applicants are being conducted. In addition, we have forwarded to the FBI a request to electronically transmit fingerprints to the FBI. Currently, both the National Licensing Center (NLC) and the National Firearms Act (NFA) Branch submit fingerprint cards to the FBI. Paper submission of fingerprints results in a delay of over two weeks before a response is received. Electronic submission will decrease the time to a matter of days, thus greatly decreasing the time it takes to process a firearms license application or an NFA registration. Further, we are making improvements to the Imports, Licensing and NFA websites, providing greater access to forms, frequently asked questions, and links to other ATF sites.

A significant management initiative is the inclusion of performance measures and customer service standards in every employee's performance critical elements. By identifying customer service standards and defining performance measures, management will have the ability to analyze performance, provide additional training where necessary, and ensure management and employees alike meet the standards we will have communicated to our customers. These are the significant management initiatives, along with others, that coupled with technological enhancements, will provide our customers with a more streamlined processing system, assuring their permits and applications will be processed not only timely, but inquiries will be handled by a professional and courteous staff.

#### FISCAL YEAR 2002 BUDGET REQUEST

*Question.* Congress provided significant funds in fiscal year 2001 for expansion of several programs within ATF such as the Youth Crime Gun Interdiction Initiative and the Integrated Violence Reduction Strategy. Does the proposed fiscal year 2002 budget request allow you to continue those initiatives?

Answer. The fiscal year 2002 President's budget request contains sufficient funds to allow for annualization of the previous year's initiatives.

#### WINTER OLYMPICS

*Question.* I noted that ATF has certain responsibilities for the 2002 Winter Olympic Games, as well as providing staffing support for the Secret Service's security plan. However, there does not appear to be additional funding requested in the ATF budget for this purpose.

How do you plan to pay for your Olympic Games responsibilities?

Answer. ATF is working with Treasury to identify funding sources to fulfill ATF's responsibilities at the Olympics. Currently, the Treasury Counter-Terrorism Fund is being considered as potential source of funding.

*Question.* Will this hurt ongoing programs?

Answer. As noted above, a potential funding source has been identified and ongoing programs should not be adversely affected. However, should circumstances change, we will promptly inform the Committee.

#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### GANG RESISTANCE EDUCATION AND TRAINING PROGRAM (GREAT)

*Question.* In my meeting with you this week, you stated that ATF has received \$20 million in requests from law enforcement agencies through the GREAT program, yet the fiscal year 2002 budget only provides \$13 million.

Can you absorb the difference, and if not how will you determine who receives funding?

Answer. ATF employs a rigorous and systemic approach to determining the distribution of GREAT cooperative agreement funds. As noted in your question, we routinely receive requests for funding that exceed the amount available in our appropriation. Since we are not able to offset these additional requirements from within

our existing funding, we utilize a balanced distribution approach to ensure that all localities that request and qualify for funding receive some level of funding. However, this approach does result in localities receiving less funding than they request.

The distribution methodology has been published in the Federal Register, and copies will be provided if requested. It essentially divides the requesting localities into five categories based on population, so that their requests are evaluated against other localities of similar size. The available funding is segmented by population category, with a maximum award amount established within each category for a single locality.

A rating system is employed which assigns points to each locality based on how they score in a number of different areas. Based upon the scores, the funding available for that population category is distributed among the localities.

As noted, this process allows us to provide funding to all localities that request and qualify for it. However, we are not able to fully fund each localities' request.

#### WINTER OLYMPICS

*Question.* The projected costs for ATF's support of the 2002 Winter Olympics in Salt Lake City is projected to be \$10.523 million.

Where will this funding come from and how will it affect your current program and staffing obligations?

*Answer.* ATF is working with Treasury to identify funding sources to fulfill ATF's responsibilities at the Olympics. Currently, the Treasury Counter-Terrorism Fund is being considered as potential source of funding. Therefore, current program and staffing obligations should not be affected.

#### COST OF PERSONNEL ANNUALIZATIONS

*Question.* According to the fiscal year 2002 budget, ATF could be directed to absorb funding for the Olympics, construction projects, and a number of other programs.

How will this affect funding and support for the new hires and the annualization of the new initiatives?

*Answer.* As mentioned above, there should be no affect on annualizations or hiring. Should circumstances change, the Committee will be promptly notified.

### QUESTIONS SUBMITTED TO THE U.S. CUSTOMS SERVICE

#### QUESTIONS SUBMITTED BY SENATOR BEN NIGHORSE CAMPBELL

##### AUTOMATION MODERNIZATION—ACE

*Question.* Some concern has been expressed about the current rate of appropriations for the ACE project and the ongoing maintenance of the existing ACS system. I am told that the original plan was to develop and implement ACE within four years with increasing amounts of appropriated funds each year. Last year Congress was able to provide \$130 million, and that same amount has been requested for fiscal year 2002.

If the Customs Service were to receive \$130 million each year for the ACE project, how long would it take to complete?

*Answer.* If Customs continues to receive \$130 million each year, the ACE Trade Modernization initiative will take 14 years to complete.

*Question.* How much funding is required once the service and its prime contractor are in a position to actually start building this new system?

*Answer.* The prime contract was awarded on April 27, 2001. In fiscal year 2001, Customs received \$130 million to begin work on ACE; to date, \$50 million of this \$130 million has been released. In January 2002, we plan to begin building ACE based upon the requirements work we complete this year (contingent on \$80 million being approved for release in the fall of 2001). The funding provided and requested, and the schedule defined in fiscal year 2001 and fiscal year 2002, will provide the foundation for a development effort in the future.

##### AIR AND MARINE PROGRAM STRATEGIC PLAN/SPENDING

*Question.* Members of the Senate are becoming increasingly concerned about the age of the existing aircraft and vessel fleets. Buying new planes and boats is an expensive proposition.

Does the Customs Service plan to develop a multi-year plan for the systematic replacement of its aging fleets?

Answer. Customs has a 5-year Air and Marine Modernization Plan that outlines systematic replacement of the fleet. It provides a current description, status of assets, and identifies the mission requirements of a consolidated Air and Marine interdiction program.

The first publication of the Customs Air and Marine Interdiction Division Modernization Plan was released in August 2000. The second publication is currently being reviewed within the Administration.

Priorities for the plan begin with safety but also look at overcoming obsolescence to improve operational effectiveness and reduce operations and maintenance costs.

Priorities for the plan focus on providing safe, effective air and marine operations and reduced operating and maintenance costs.

The technological improvements will pay for themselves within 3–5 years through reduced operations and maintenance costs.

Under the nation's drug strategy, the Customs Service has responsibility in all three interdiction zones—the source zone, the transit zone, and the arrival zone. It is an understatement to say that this is a huge task.

*Question.* Can Customs do it all?

Answer. Customs has the core competencies to accomplish its currently assigned missions in accordance with the National Drug Control Strategy.

Customs core competencies include conducting detection and monitoring operations as well as interception and apprehension missions.

The depth and breadth to which Customs can perform these missions is commensurate with the resources available.

*Question.* What resources are necessary for this responsibility?

Answer. For increased effectiveness and long-term sustainability of assigned missions, the Customs air and marine fleet requires modernization.

The Air and Marine Modernization Plan (January 22, 2001) provides a “blue print” to effectively accomplish currently assigned missions in accordance with the National Drug Strategy.

Customs believes that the Department of Defense's unique expertise in providing logistical, intelligence, and communication infrastructure remains critical to the overall effort.

#### INVESTIGATIVE EFFORTS

*Question.* On March 26, the Customs Service announced the take-down of a global child pornography web site based in Russia which resulted in arrests and search warrants in this country. This case is a prime example of the need for international cooperation among law enforcement entities. It also shows the insidious side of the Internet.

What is the current Customs Service budget for child pornography investigations?

Answer. Operations like the one in Russia highlight the success achieved by our CyberSmuggling Center in targeting international child pornography traffickers and individuals who exploit children in the cyber environment. These operations are made possible by the work performed at the Customs CyberSmuggling Center, which coordinates Customs efforts against child pornography.

The Center's budget is approximately \$5 million. About 65 percent of work performed at the Center is directed toward combating the exploitation of children.

Violations identified and developed at the Center are then referred to field offices for further investigation and law enforcement action. Therefore, about \$3.25 million is used to combat child pornography and other child exploitation at the Center.

#### AIR AND MARINE PROGRAM STRATEGIC PLAN/SPENDING

*Question.* The only new fiscal year 2002 initiative for Customs is funding to support the Western Hemisphere Drug Elimination Act. I note that \$35 million has been requested for a new airplane, several boats, infrared sensors, as well as safety enhancements for flight crews. There has been a tremendous amount of public criticism of U.S. anti-drug activities in other regions as a result of the shoot-down in Peru.

What exactly is the Customs responsibility under the Western Hemisphere Drug Elimination Act?

Answer. Customs will increase Detection and Monitoring mission support in the Source and Transit Zones.

Under the Western Hemisphere Drug Elimination Act, Customs P-3 fleet will grow to 16 aircraft (8 airborne early warning and 8 tracker/interceptor aircraft).

This increased operational support will provide: 8 hours per day of airborne early warning (AEW) and 8 hours per day of tracker/interceptor (slick) aircraft coverage in the source zone, for a total of 16 hours of flight time per day. 8 hours per day



of AEW and 8 hours per day of slick aircraft coverage in the transit zone, for a total of 16 hours of flight time per day.

Customs will keep operational a minimum of three AEW and two slick aircraft at forward operating locations.

QUESTIONS SUBMITTED BY SENATOR MIKE DEWINE  
AIR AND MARINE PROGRAM

*Question.* Before the recent accidental shoot down in Peru, how many P-3 aircraft were assigned specifically for the source zone?

*Answer.* Since January 7, 2001, Customs has provided a minimum of one airborne early warning P-3 mission per day in the source zone. We have met this commitment by providing enough back-up P-3 aircraft to ensure one would be available every day. The exact number of aircraft dedicated to this mission varies based upon the maintenance requirements.

*Question.* In the 6 months prior to the Manta forward operating location in Ecuador closing down for runway upgrades, how many total P-3 flights did Customs fly?

*Answer.* One deployment occurred in the 6 months prior to Manta's closure. Due to maintenance complications, only one mission was flown during this deployment.

*Question.* With the expected closure of Manta, what alternative locations were developed to sustain source zone flights? Have you flown from any of those locations prior to the shoot down in Peru?

*Answer.* Alternative operational locations for Manta, Ecuador are as follows:  
Piura, Peru—Missions flown prior to Peru incident; Panama City, Panama—Missions flown prior to Peru incident; Apiay, Colombia—Missions flown prior to Peru incident; Barranquilla, Colombia—Missions flown prior to Peru incident; Cartagena, Colombia—Not used for missions prior to Peru incident; Palanquero, Colombia—Not used for missions prior to Peru incident.

*Question.* Finally, how many counter-drug end game operations have Customs P-3 aircraft been involved in during the past 3 years in the source zone?

*Answer.* Customs assets normally perform as a team with other law enforcement entities. The below successes are overall results from this team effort. P-3 aircraft were involved in the majority of these events.

	Noncommercial mari- time movement events interdicted	Noncommercial air movement events interdicted
1999 Overall Total .....	118	48
1999 USCS Participation .....	19	32
2000 Overall Total .....	80	28
2000 USCS Participation .....	19	21
2001 Overall Total <sup>1</sup> .....	38	15
2001 USCS Participation <sup>1</sup> .....	9	14

<sup>1</sup>Data through 1st Quarter 2001.

*Question.* With the implementation of Plan Colombia and a greater emphasis on the source zone, do you expect the number of P-3 aircraft allocated flight hours to increase?

*Answer.* Joint Interagency Task Force (JIATF)—EAST schedules Customs assets according to mission priorities and asset availability.

Plan Colombia directs resources and priorities to the source zone, and Customs expects JIATF—EAST to schedule our assets accordingly.

In accordance with the Interagency Planning Guide and U.S. Interdiction Coordinator guidance, Customs will continue to increase coverage of source zone as we bring on board two more P-3 airborne early warning aircraft and four P-3 "slicks."

RECRUITMENT/RETAINING

*Question.* I understand that like the military services, Customs has experienced problems retaining and recruiting pilots? What is the status of this situation? What steps have you took to address this problem?

*Answer.* As of May 14, 2001, Customs has 26 Branch Fixed/Rotary Wing Pilot vacancies; 24 offers were extended to pilot applicants, and 24 applicants accepted these offers. All are in the various stages of the pre-employment process. Recently approved retention initiatives such as the 10 percent group retention bonus, as well as a streamlined recruitment and selection process, have been designed to maximize

pilot hiring. These changes have been initiated to ensure that the pilot "pipe-line" consists of a well-qualified pool of applicants and is adequate to fill the remaining 2 vacancies. Further, these changes will also ensure that there is an ample number of qualified applicants to accommodate vacancies as they occur in the future.

As of May 14, 2001, Customs has 18 P-3 pilot vacancies; 3 offers were extended to pilot applicants, and 3 have accepted these offers. All are in the various stages of the pre-employment process. Five additional pilot recommendations have been forwarded for management review and approval. We anticipate filling the remaining positions, as well as establishing a "pipe-line" for future vacancies, by issuing a merit promotion vacancy announcement to entice current Customs pilots to "cross-over" to become P-3 pilots. The inducement to these pilots is the accretion of the grade from its current GS-13 to a GS-13/14. Additionally, a new public notice vacancy announcement has been prepared with entry grade increase from GS-13 to GS-13/14. Customs has implemented the following recruitment and retention incentives:

- Increase of P-3 pilot career ladder to GS-14.
- Identification of non-P-3 Customs pilots who can be trained to fly P-3s.
- Continuation of retention pay at the rate of 10 percent for all pilots through fiscal year 2002.
- Streamlining of the recruitment, selection, and background investigation clearance processes.

#### AIR AND MARINE PROGRAM

*Question.* I understand that Customs has developed a modernization plan for its air and marine resources to improve its ability to stem the flow of illicit drugs into the United States now and in the future?

*Answer.* Customs has developed a 5-year fleet modernization plan, incorporating innovative technology and multi-mission equipment, to improve its ability to stem the current flow of illicit drugs into the U.S. and enable the flexibility to respond to future threats.

*Question.* How important is the modernization plan to your long-term efforts and how do you foresee the plan enhancing your counter drug efforts?

*Answer.* The Customs Air and Marine Modernization Plan is extremely important to its long-term efforts because it establishes a baseline for over \$2 billion in assets and develops a business plan that includes the following enhancements:

- Improved safety, standardization and interoperability
- Maintained base mission capabilities
- Increased mission effectiveness by infusing new equipment and technology into the fleet
- Reduced operations, crew training costs, and maintenance costs
- Improved program efficiency by consolidating a fleet of diversified mission-specific platforms into a standardized fleet of a select number of multi-mission platforms
- Replacement of obsolete equipment

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#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### STAFFING

*Question.* House testimony reflects you requested 1000 additional agents/inspectors, which OMB denied.

Can you accomplish your enforcement and trade facilitation goals without these additional hires?

*Answer.* The fiscal year 2002 staffing level will provide sufficient resources to allow Customs to meet its highest priority mission requirements.

The fiscal year 2002 President's Budget limited overall Federal spending increases to four percent over fiscal year 2001 enactment levels. Increases to Customs staffing as might be indicated by the Resource Allocation Model could not be accommodated within this constraint.

*Question.* What part of your mission is compromised without these added personnel?

*Answer.* Customs received a level of resources that will allow it to meet its highest priority mission requirements.

## AUTOMATION MODERNIZATION—ACE

*Question.* With the \$130 million Administration request this year in the fiscal year 2002 budget, how long will it be until ACE becomes operational?

*Answer.* ACE development will be modular, and the first module will be operational in late fiscal year 2002 (dependent on the release of \$80 million appropriated in fiscal year 2001). If Customs continues to receive \$130 million each year, the ACE Trade Modernization initiative will take 14 years to complete.

*Question.* With further delays in the program, is there concern that the system will become obsolete before it becomes operational?

*Answer.* We plan to build ACE in a modular fashion allowing technology insertion and refresh to occur throughout the development life cycle.

Further delays will increase the cost due to prolonged software development activities, increased hardware and software license costs while the system is being developed, extended operation of the Modernization office, and extended operation of the Prime integration contractor's management office.

In addition, the Prime integration contractor team, as well as Customs, will have difficulty maintaining continuity of staff during the development process and staff turnover will increase the time spent understanding the import problems and will reduce the time spent developing solutions. In addition, the number of task orders will increase, causing an increase in the cost of oversight and integration.

*Question.* What would the funding be for fiscal year 2002 to stay on track (\$308 million)?

*Answer.* All funding scenarios will be revised to reflect the Prime contractor's input. The Prime will assess reallocation and sequencing of the software development increments, and the overall enterprise system architecture for implementing ACE, in concert with other enterprise IT requirements. Initial Prime replanning results are expected at the end of the summer.

## TRADE ISSUES

*Question.* What are the current wait times at the Southwest Border (SWB)?

*Answer.* Currently, SWB wait times vary, and Customs is committed to reducing excessive wait times.

Recent data reveal that the overall average wait time for passenger vehicles is less than 20 minutes. However, at some of the busier ports of entry such as El Paso, Texas, and San Ysidro, California, wait times can be one hour or more during peak periods such as rush hour, weekends and holidays. However, no wait periods frequently occur during off peak hours.

The average wait time for commercial traffic is normally less than 30 minutes. This can also increase to over one hour during peak, rush periods at some of the busier and more congested facilities, including Otay Mesa, California. However, at the new World Trade Bridge in Laredo, Texas commercial traffic seldom experiences wait times in excess of 30 minutes.

*Question.* Are the wait times a function of staffing shortfalls or infrastructure or both?

*Answer.* As stated above, current SWB wait times vary, and Customs is committed to reducing excessive wait times. We are aligning the staff to address peak periods of traffic when wait times increase. There are some infrastructure limitations that hamper our efforts, for instance the need for a new commercial crossing at San Luis, Arizona to separate the commercial vehicles from the passenger vehicles; thereby, avoiding the gridlock situation that currently exists.

Through recent Congressional funding we are in the process of hiring 228 Inspectors and Canine Enforcement Handlers at SWB ports of entry. These officers are being deployed at key locations to address the workload demands and enforcement threat.

Customs is also committed to addressing the workload and enforcement threat at the Northern Border ports of entry. We are continuing to monitor the traffic patterns to determine appropriate staffing levels. Furthermore, as a result of recent appropriation of over \$28 million, we are in the process of protecting and enhancing the security of the Northern Border ports of entry with additional Agents, deployment of technology, and infrastructure improvements.

My staff has been to the SWB and notes it was chaotic even on a weekend. They have also been to the Northern Border, which is grossly understaffed. We need to do more and this budget does not do it.

*Question.* With spiraling trade increases and shortfalls in staffing, can you adequately maintain your trade facilitation mission?

*Answer.* The tremendous growth in international trade places great demands upon the Customs Service to facilitate legitimate trade while protecting the public

and industry from unsafe and illegal goods, and unfair trade practices. In the past four years alone, Customs workload has increased 46 percent as measured by the number of entries processed and by 35 percent as measured by the value of U.S. imports for consumption. In the same time period, commercial staffing levels have remained stagnant.

To manage trade in this environment, Customs is utilizing risk management, a data driven process that identifies and defines levels of risk for non-compliance associated with specific importers and industries. By prioritizing these levels of risk by importer and industry, Customs is able to direct its limited resources accordingly, while facilitating the transit of goods posing a low risk for non-compliance.

#### FOREIGN OFFICES/ATTACHÉ

*Question.* The U.S. Customs Service Office of International Affairs has numerous overseas offices which play a critical role in trade compliance, trade enforcement, and international training.

How does this mission foster U.S. Trade programs?

*Answer.* The Office of International Affairs has become a leader in developing more efficient and transparent import and export procedures throughout the world. Streamlining procedures and making customs operations more predictable in other countries is a primary focus in supporting U.S. trade policy and opening markets to U.S. exporters. Training and technical assistance provided by the Office of International Affairs addresses the implementation of international conventions and agreements, including the World Trade Organization Valuation Agreement, the Harmonized System Convention for classification of goods, the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPS) and the revised International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto Convention).

In addition, the Office of International Affairs provides technical support to U.S. negotiators on customs-related issues during trade negotiations to ensure that such arrangements facilitate the flow of legitimate trade and provide preferential treatment to goods qualifying under the terms of the agreement while maintaining the appropriate level of enforcement. The office participates in the Free Trade Area of the Americas negotiations, as well as the development of arrangements with Chile and Singapore.

*Question.* How do they support your international law enforcement mission?

*Answer.* The U.S. Customs Service currently has 25 offices located at strategic locations around the world. Customs investigative priorities are aligned with the International Crime Control Strategy. Customs foreign offices conduct complex criminal investigations in the following priority enforcement program areas:

- Trade Fraud (intellectual property, forced labor, revenue protection, etc.)
- Smuggling (narcotics, merchandise, cargo theft, cultural property, etc.)
- Financial (international money laundering)
- Strategic (export violations, weapons & related dual-use technology)
- Cybersmuggling (child pornography/sexual exploitation, computer forensics)

Attaché offices are comprised primarily of special agents. They support the investigations of domestic offices and initiate investigations from foreign sources. The investigators work with foreign law enforcement counterparts to obtain information, evidence and testimony for presentation in U.S. Federal courts.

The U.S. Customs Service has foreign offices at the following locations:

*Americas.*—Bogota, Colombia; Caracas, Venezuela; Mexico City, Mexico; Hermosillo, Mexico; Monterrey, Mexico; Tijuana, Mexico; Montevideo, Uruguay; Ottawa, Canada; Panama City, Panama.

*Asia.*—Bangkok, Thailand; Beijing, China; Hong Kong, China; Seoul, Korea; Singapore; Tokyo, Japan.

*Europe/Africa.*—Berlin, Germany; Frankfurt, Germany; Brussels, Belgium (WCO); London, England; Moscow, Russia; Paris, France; Lyon, France (Interpol); Pretoria, South Africa; Rome, Italy; Vienna, Austria.

*Offices to be Opened in 2001.*—Manila, Philippines; Sao Paulo, Brazil; Toronto, Canada; Vancouver, Canada.

*Proposed Office.*—New Delhi, India (pending Government of India approval).

*Question.* Are you focusing enough attention on your overseas mission?

*Answer.* Customs does the best job possible, given the always competing demands for available resources.

*Question.* Given staffing constraints, is one part of your mission neglected vis-a-vis the other?

*Answer.* The Office of International Affairs employs an integrated strategy to deliver law enforcement expertise, training and modernization to our trading partners.

Through these efforts, the foreign offices develop effective partnerships to combat transnational crime, money laundering and trade fraud while facilitating international trade. The integrated strategy provides Customs with unique access and influence with our foreign partners, which leads to a positive impact on foreign legislation, trade practices and international law enforcement.

#### PROGRAM ABSORPTIONS

*Question.* You recently briefed the Treasury Appropriations staff that you plan to realize \$35 million in program absorptions in your fiscal year 2002 budget.

Can you state that savings realized through management efficiencies will not effect service to the Nation?

*Answer.* The absorption of \$35 million in inflationary cost increases will be accomplished through an enterprise approach toward administrative services and functions. For example, Customs will work with main Treasury and our sister bureaus to identify areas where economies of scale can produce cost savings. These areas include, but are not limited to, national contracts for a variety of communications and business travel services. In addition, Customs will take a very hard look at "mission critical" requirements and meet only those that are truly critical.

*Question.* What if you can not achieve \$35 million in savings through program absorptions?

*Answer.* Regardless of the types of management efficiencies and how they are achieved, Customs will not compromise the security of the United States.

#### NATIVE AMERICAN TRACKERS

*Question.* Native American Patrol Officers (CPOs) from the Tohono O'odham reservation are being used to track and apprehend drug smugglers in Arizona. The program is a resounding success. Last year the CPOs were responsible for interdicting 58,000 pounds of narcotics, almost a third of the drugs seized in Arizona. They have seized 40,000 pounds in the last six months alone. We learned that via section 213.3105(b)(9) of Schedule A, the SecTreas limits the number of CPOs to a certain number (25). That sections reads, "(9) Not to exceed 25 positions of Customs Patrol Officers in the Papago Indian Agency in the State of Arizona when filled by the appointment of persons of one-fourth or more Indian blood," . . .

Why is there a limit on the positions?

*Answer.* Schedule A authority for CPOs in the Tohono O'odham Nation is currently limited to 25 positions, to be filled by persons with one-fourth or more Indian blood. The original Schedule A authority was granted in 1974 and authorized 7 CPOs. In order to maintain an effective operation on the reservation territory, in 1975 the Customs Service requested an additional 18 positions. OPM granted our request and increased our authorized Schedule A positions to 25.

*Question.* If you were authorized to expand the program, would you try?

*Answer.* Yes. An expanded number of CPOs would provide an increased enforcement presence along the border.

Expansion of the program would also depend upon our ability to recruit a sufficient number of applicants who are qualified and certified as persons of one-fourth or more Indian blood.

#### SAN YSIDRO OUTBOUND LICENSE PLATE READERS

*Question.* The layout of the Southbound lanes of I-5 into Mexico have little capacity to slow traffic as vehicles depart the United States. The license plate readers are technically capable of identifying stolen vehicles, but it is virtually impossible to identify or stop the actual vehicle before it departs the United States. There was an April 19, 2001 meeting with CALTRANS, Sen. Feinstein, Customs, FBI and CHP.

What was the outcome of that meeting?

*Answer.* Attendees at the April 19, 2001 meeting were apprised that Customs was initiating operation "Hot Wheels" to address the issue of outbound stolen vehicles and the effectiveness of outbound License Plate Readers (LPRs) along the Southwest border. The operation was held April 24-May 8, 2001, at San Ysidro and Otay Mesa, California. Operation "Hot Wheels" allowed Customs to:

- Validate outbound License Plate Reader information;
- Validate the effectiveness of using the "pulse and surge" enforcement method to interdict stolen vehicles;
- Determine minimum staffing levels needed to effectively interdict stolen vehicles; and
- Measure the impact of traffic flow when vehicle speeds are reduced so that safe enforcement operations can be performed.

Customs attended a meeting on May 16, 2001, with California, Arizona, New Mexico, and Texas law enforcement officials and explored enhanced interdiction methods for outbound stolen vehicles. Representatives from the National Insurance Crime Bureau (NICB) were also in attendance. Discussion included the possibility of establishing a committee to develop the intelligence gathering and enforcement capabilities associated with the LPRs. The proposed committee is tentatively scheduled to meet July 10, 2001. Senior Executives of U.S. Customs expect to meet with Mexican officials by the end of May to discuss various issues, one of which will be stolen vehicles. The feasibility of exchanging LPR data with Mexican Customs will be raised.

#### SAN YSIDRO DETENTION CELLS

*Question.* A serious problem exists with the location of the detention cells used to detain, interview and process individuals apprehended at that border facility. As it stands, prisoners/suspects must be led through public space and use a public elevator to access the cells. This presents an obvious security risk to the public, as well as to Customs and INS employees.

What is needed to remedy this dangerous situation?

*Answer.* Currently, violators are led from the secure detention area through a public elevator to the designated interview, processing, and fingerprinting area. To remedy this situation, a project was developed with the General Services Administration (GSA) to construct a holding and processing area at an estimated cost of \$1.3 million. This processing center would be located at the existing West Headhouse in the secondary area and would consist of 13 cells. The project is currently in the design phase. Customs and GSA are awaiting the final blueprints of a modified plan. The plan was modified to provide for 9 holding cells and interview rooms based on available funding.

#### CONSOLIDATED OMNIBUS BUDGET RECONCILIATION ACT OF 1985 (COBRA)

*Question.* Customs is responsible for collecting nine different user fees covering various services to the traveling public and trade community. (They are collected in part from commercial vessels, vehicles, rail cars, private aircraft, brokers, air/sea passengers, etc). These fees are deposited into an account which is used to reimburse the Salaries and Expense account in the following order: Overtime, premium pay, benefits on overtime, and salaries for full time and part-time inspectors and equipment that enhance Customs services for those persons and entities required to pay fees. The authorization to collect COBRA user fees expires (sunsets) on September 30, 2003. Critically, COBRA enables Customs to pay for overtime and the funds were used to hire an additional 1,400 inspectors and K-9 officers. Due to the enormous growth in workload and service demands, combined with shrinking appropriated base budget, these 1,400 positions are in jeopardy, as is the \$119 million in overtime needed each year resulting from staffing limits.

How close is Customs to drying up the reserve fund?

*Answer.* The COBRA reserve fund is available for unanticipated expenditures, this money is only used after all other funds have been exhausted. The COBRA statute requires that a \$30 million contingency fund be maintained in addition to the \$39 million carryover. The COBRA expenses have been increasing at a greater rate than collections. As a result, Customs has exhausted all but \$39 million of the available COBRA balances accumulated from prior years and must now manage spending within estimated annual collections. Since 1995, the Customs Service has faced enormous growth in workload and service demands as well as higher position costs.

*Question.* Are you actively pursuing extension of COBRA?

*Answer.* Legislative proposals for extending the COBRA statute have been under consideration.

*Question.* If COBRA sunsets in September 2003 without extension, what will happen to the 1,400 positions funded by those fees?

*Answer.* If COBRA sunsets in September 2003 the 1,400 positions funded by COBRA fees would either be absorbed in the Salaries and Expenses Appropriation if there were additional appropriation resources or eliminated through attrition over a three-year span. In addition, COBRA funds the equivalent of more than 1,150 FTE through overtime.

## QUESTIONS SUBMITTED TO THE U.S. SECRET SERVICE

## QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

## SECURITY FOR THE 2002 WINTER OLYMPIC GAMES

*Question.* As you know, I am the only member of the Senate who was on an Olympic team so I have a personal interest in making sure that the 2002 Winter Olympic Games run smoothly. The Secret Service is responsible for site security—and it must be a huge undertaking to secure a ski mountain! Without going into any security-related details, do you believe you have the resources necessary to do the job properly?

*Answer.* The Service has put together a security plan that it believes will prevent terrorist incidents at the 2002 Winter Olympic Games. The source of the funding needed in fiscal year 2002 to implement this security plan has not yet been identified; however, the Administration is currently reviewing various possible funding mechanisms.

*Question.* During a recent staff oversight trip to Salt Lake City, your staff provided briefings on the extensive preparations your agency has made thus far. As a result of that trip, a number of issues came to my attention that I would like to address:

What costs are the Secret Service contractually obligated to pay, and when must they be paid. Do you have the necessary funding?

*Answer.* In order to secure hotel rooms for large protective events, where rooms will be in short supply and demand will be high, the Service must book hotel rooms months or even years in advance of the event.

For the 2002 Olympics, the Service is under contract with the Salt Lake City Organizing Committee (SLOC) for rooms costing \$4.1 million. The Service will be obligated to pay, subject to the availability of funds, for these rooms in fiscal year 2002. The Administration is currently reviewing various possible funding mechanisms to cover the costs associated with the protective security activities for the Olympics.

Payments to SLOC are due in full by October 31, 2002. In the event the Service has not received its fiscal year 2002 appropriation by October 31, 2002, payment is due within 14 days of receipt of an invoice or the date the Service receives its fiscal year 2002 appropriation, whichever is later.

The Service has also contracted for rooms independently of the SLOC for a total of \$6.8 million.

Payments to these various lodging establishments follow a number of payment plans ranging from full payment within 10 days of receipt of our fiscal year 2002 appropriation, to full payment within 30 days after the event or receipt of a correct invoice whichever is later.

For office space the Service has established leases with the General Services Administration (GSA) and the Veterans Administration (VA) in Salt Lake City for five (5) separate locations to support its operational requirements.

The rent for the GSA leases will total approximately \$214,000 over the entire period of use, and will be paid on a monthly basis.

The Department of Veterans Affairs, VA Salt Lake City Healthcare System (VASLCHCS), Salt Lake City, Utah, and the Service have entered into an agreement for the temporary use of their Building 4, designated parking areas, and access to and use of selected VASLCHS facilities. The Service will use this facility as its Coordination Center for the 2002 Winter Olympics.

Usage of these facilities began March 1, 2001 and will continue through March 31, 2002. The Service will reimburse VASLCHCS a total of \$136,000, and payments will be made on a quarterly basis.

Through a joint effort with several Federal agencies, an Air Space Operations Center ("ASOC") is being established at Hill Air Force Base, Salt Lake City, Utah. Renovations are required to accommodate the necessary equipment and personnel which will be installed at the location. The U.S. Secret Service has reimbursed the Utah Air National Guard for materials only for these renovations. Cost of materials for this project totaled \$10,000.

*Question.* We were informed that some 2,100 agents would be required to implement the security plan. Where will these agents come from? Are you "borrowing" personnel from other agencies?

*Answer.* Yes, the personnel required to implement the Service's security plan will come from other agencies, both within and outside the Department of the Treasury. However, following additional review, the number of law enforcement personnel required to implement the security plan has been reduced to just under 1,700.

*Question.* If so, from whom?

Answer. We are currently engaged in discussions with several agencies and departments regarding support for the Olympics, to include the following:

Department of the Treasury: Bureau of Alcohol, Tobacco and Firearms; U.S. Customs Service; Internal Revenue Service; U.S. Mint; Inspector General for Tax Administration.

Department of Justice.

Department of Agriculture: USDA Forest Service.

Department of the Interior: National Park Service; U.S. Bureau of Land Management; U.S. Fish and Wildlife Service.

*Question.* To your knowledge, have these agencies received funding for their participation?

Answer. Currently, these agencies have not received funding for their support of the Secret Service Security plan, however, the Administration is currently reviewing various possible funding mechanisms to cover the costs associated with the protective security activities for the Olympics.

*Question.* If not, how does that impact your security plan?

Answer. The Administration is currently reviewing various possible funding mechanisms to cover the costs associated with the protective security activities for the Olympics.

*Question.* How many military personnel will be utilized in your security plan?

Answer. We respectfully suggest that information regarding the numbers and purpose of Military assets needed to implement our security plan be given in an executive session.

*Question.* Has DOD committed the required resources?

Answer. Again, the Service would prefer to discuss this in an executive session.

*Question.* Besides funding, what else can Congress provide to assist your efforts regarding the Olympics?

Answer. Aside from funding, at this time, we don't believe there is anything the Congress can provide to assist us.

#### WORKFORCE RETENTION/WORKLOAD BALANCING

*Question.* In fiscal year 2000, Congress directed you to submit a summary of workload trends for field agents including average overtime and early separations. You were also directed to provide quarterly reports to the Committee on workforce retention and workload balance, including investigative and protection workloads, recruitment, and staffing by field offices. Have you seen a decrease in the amount of overtime worked by field agents since the beginning of the fiscal year?

Answer. No. There has actually been a small increase in overtime during the first quarter of fiscal year 2001 compared to fiscal year 2000. Average overtime per month increased from 80 hours in fiscal year 2000 to 83 hours in fiscal year 2001 (through December). This was to be expected given the Presidential Campaign.

A considerable decline in overtime is expected to occur during the remaining months of fiscal year 2001 and carry over into fiscal year 2002. Current projections for fiscal year 2001 put the average overtime estimate between 67 hours and 73 hours of overtime per month for field agents. The average number of hours of overtime per month is expected to move toward the lower number during the remaining months of fiscal year 2001, as the additional special agents hired to date through our Workforce Retention and Workload Balancing effort complete training and the first year of employment.

Field agents should begin to approach the target overtime figure of 62 hours per month during fiscal year 2002. Current projections put the average number of overtime hours per month for field special agents at between 64 and 69 hours by the end of fiscal year 2002.

*Question.* Have you seen a decrease in the amount of early separations of special agents since the beginning of the fiscal year?

Answer. During fiscal years 1999 and 2000, 52 and 53 special agents respectively, separated early. The Service expects this number to drop during fiscal years 2001 and 2002, as the additional special agent hiring accomplished during the past two years begins to significantly address the problems we believe have led to a higher than usual number of early separations.

*Question.* Considerable funding increases have been provided to the Secret Service for the purpose of hiring more special agents in order to reduce the workload and decrease attrition. I know you are aware that some members of the Committee had some doubts that you would be able to hire the full number requested. What efforts have you made in hiring since the beginning of the fiscal year?

Answer. In addition to our aggressive and innovative approach of sponsoring our own nationwide Secret Service specific recruitment events with diverse radio, news-



paper and television advertising, we participate in a host of nationwide job fairs. The Secret Service advertises in culturally diverse magazines and publications, military publications and Internet law enforcement sites. The Secret Service also has its own web site at [www.treas.gov/usss](http://www.treas.gov/usss) where our duties, positions, field offices and job fairs are outlined and updated on a monthly basis to keep interested applicants aware of new information.

Every two years, we provide each of our employees with updated Employee Recruiter Handbooks outlining each position for which applicants are being sought. We ask each of our employees to actively recruit qualified applicants for the special agent, Uniformed Division and administrative, support and technical positions.

The Secret Service keeps up with state of the art recruitment methods and means. As the sophistication of job seekers and our need for technological skills increase, technology has become an integral part of our overall recruitment strategy. Also, the Secret Service uses several special employment programs to bring well-educated graduates into its workforce. Efforts include:

- Utilizing the Office of Personnel Management’s USA Job Web site “What’s Hot” feature. This feature is a direct link to targeted Secret Service vacancies.
- Posting a national listing of Secret Service recruitment events on the Secret Service web site
- Making application forms accessible via the Internet
- Participating in various career/job fairs nationwide
- On a case-by-case basis, advertising in local newspapers to recruit hard to fill positions
- Maintaining an ongoing relationship with Historically Black Colleges and Universities, Hispanic Serving Institutions, and other minority organizations, to encourage the recruitment of a diverse workforce
- Hosting college groups at Secret Service Headquarters to provide employment opportunity briefings

*Question.* Are your hiring efforts meeting your goals? Will you hire the full number of full-time equivalents (FTE) you requested for fiscal years 2000 and 2001?

Answer. Yes, these efforts are meeting our goals. During fiscal year 2000 the Service achieved 98 percent of its authorized FTE level, and it is currently estimated that we will achieve 99.6 percent of our authorized FTE in fiscal year 2001.

*Question.* I would appreciate it if you could break down the total number of special agents, uniformed division, and administrative personnel for fiscal years 1999, 2000, and 2001.

Answer. See below.

DETAIL OF FULL-TIME EQUIVALENT POSITIONS BY CATEGORY

	Fiscal year 1999	Fiscal year 2000	Estimated fiscal year 2001
Special Agents .....	2,300	2,637	2,861
Uniformed Division Officers .....	1,039	1,009	1,044
Administrative Personnel .....	1,602	1,599	1,652
<b>Total .....</b>	<b>4,941</b>	<b>5,245</b>	<b>5,557</b>

*Question.* What impact has the increase in personnel had on work space requirements?

Answer. The infusion of additional staff into the Service’s facilities infrastructure has caused some growing pains. The Service is incorporating the new personnel into its existing offices. While working toward these interim accommodations, the Service has computed the costs of necessary facilities, security, and information technology infrastructure needs to total \$5.1 million. The effect has been a \$6.1 million increase in our annual costs for workspace rental. It should be noted that these increases in personnel often require the relocation of entire offices rather than adding space to existing office sites. The relocations are costly compared to the presumed costs of incremental increases to existing offices.

*Question.* Your budget request does not include additional funding for the third year of the workforce re-balancing and workforce retention initiative which this Committee supported in the last two years. What will be the impact of delaying the third year of this initiative on quality of life, retention, and hiring issues?

Answer. Following an interagency study involving the Department of the Treasury and the Secret Service, a Workforce Retention/Workload Balancing effort was undertaken. This effort has two main objectives. First is the objective of stemming

the loss through resignation of young field special agents—special agents with less than 6–10 years on the job. To achieve this objective will require restoring the quality of work and personal life for the younger field special agent that existed during the early 1990's. Currently, field special agents are working approximately 83 hours of overtime per month (we expect overtime to drop to 67–73 hours by the end of fiscal year 2001). They are also spending over one-quarter of their time each month on the road and away from their families. The targeted level for overtime is 62 hours per month, and for time out of district no more than 16 percent of the time. Longer hours, more time on the road, and less time with their families is causing increased numbers of younger special agents to reconsider their situations and conclude that there are more attractive law enforcement careers elsewhere.

Second, the balance of work between the Service's protective and investigative missions has been shifted toward protection, to the point where it not only jeopardizes the success of the protective mission, but also lessens the overall attractiveness of working for the Secret Service. At the time of the study 53 percent of a field special agent's time was being devoted to the protective mission, and only 29 percent of his/her time was devoted to the investigative mission. A better balance, the balance sought with this Workforce Retention/Workload Balancing initiative, would reverse these percentages. However, not being able to complete the recommended staffing relative to this initiative will mean only an improvement toward an equal balance between protective and investigative work and could result in pressure to again increase overtime worked by field agents. The balance is improving and we will continue to strive towards our desired balance and to work at improving the quality of life for those in our workforce.

The 1999 Working Group on U.S. Secret Service Workforce Retention and Workload Balancing reviewed an analysis of the Service's historical workload mix and supported a level of field investigative staff consistent with the workload mix ratio in fiscal year 1994. Further, the Working Group's report included a critical recommendation to increase field staffing to achieve an appropriate workload balance in the protective/investigative mix, as well as to reduce overtime and protection-related travel, in order to address agent retention and quality of life issues.

#### COUNTERFEITING

*Question.* Although Colombia has been a major source of counterfeit U.S. currency, I understand that other countries are also involved. How extensive is the counterfeiting threat?

*Answer.* Colombia produces approximately 33 percent of all counterfeit U.S. currency passed in the United States, and is the primary overseas producer of counterfeit. With the dollarization of many Latin American countries, the Secret Service is seeing an increase in counterfeiting activity. For example, after Ecuador and El Salvador chose the dollar as their currency, production of counterfeit U.S. currency in Colombia has grown. An increase is also being seen in the smuggling of counterfeit U.S. currency into these newly emerging markets. Recent printing plant seizures in Colombia have revealed that some Colombian counterfeiters are now producing lower denomination counterfeit U.S. currency for distribution in these new markets.

The Secret Service believes the threat of counterfeiting activities will increase in Latin America as organized crime in Colombia and others take advantage of the opportunity presented by dollarization. The Secret Service is also seeing an increase in counterfeit U.S. currency being produced in Europe and Asia. Although the amount of counterfeit appears nominal, the counterfeit U.S. currency is of a very high quality. During previous years, a number of significant plants producing counterfeit U. S. currency have been suppressed throughout the world by local authorities assisted by the U.S. Secret Service. For example, in November 2000, local authorities in Holland seized one plant that was preparing to distribute approximately \$100 million in counterfeit U.S. currency and 390 million in counterfeit Deutsche Marks. However, while a number of seizures are reported, the full extent of counterfeiting activity is difficult to ascertain due to various factors. Improved reporting from these countries and a permanent Secret Service presence could help us attain better estimates of counterfeiting activity.

*Question.* What impact does this threat have on the U.S. economy?

*Answer.* Counterfeit U.S. currency produced in foreign countries, including Colombia, had the potential to result in losses totaling \$250 million during fiscal year 2000. It is noted that accurate reporting of counterfeiting activities, from many overseas sources, is believed to be sporadic and not representative of the true counterfeit problem.

During fiscal year 2000, over 13 million in counterfeit U.S. currency produced in Colombia was circulated in the United States, resulting in a direct loss to U.S. citi-

zens. Citizens of Latin American countries were also victimized by counterfeit United States currency distributed in their countries.

For the past 10 years, U.S. citizens have incurred a loss of over \$102 million due to Colombian produced counterfeit currency, alone. Over \$67 million in counterfeit U.S. currency has been seized in Colombia prior to circulation.

The above numbers are expected to increase with the dollarization of Latin America. This may result in a loss of faith in the U.S. dollar and diminish seigniorage payments to the U.S. Federal Reserve.

Colombian counterfeiters are expanding their distribution networks of counterfeit U.S. currency to these impoverished countries, causing the further erosion of already substantially weakened economies.

#### OVERSEAS OFFICES

*Question.* Does the Secret Service have adequate resources to police counterfeiting overseas?

*Answer.* No. The Secret service does not have sufficient representation overseas. The Bogota Resident Office, for example, is responsible for the entire country of Colombia which produces over 60 percent of all offset manufactured counterfeit U.S. currency. The Bogota resident special agent in charge is attempting to meet this challenge with limited resources, having only three agents permanently assigned to that office. The Secret Service has established task forces within the different Colombian law enforcement entities in an attempt to supplement and project Secret Service manpower.

With the dollarization of Latin America, the U.S. Secret Service is receiving an overwhelming number of requests for investigative assistance and training. These countries are asking for investigative support as well as training in the detection and identification of counterfeit and genuine U.S. currency. The Secret Service is seeing an increased need to establish anti-counterfeiting task forces in these countries as well as others, possibly leading to the establishment of permanent offices where warranted. The establishment of anti-counterfeiting task forces and a permanent presence in some of these countries will give the Secret Service first hand intelligence on these criminal activities and counterfeiting trends. This will also enable the Secret Service to establish a close working relationship with officials and further the Secret Service mission of protecting the integrity of our nation's currency.

*Question.* Your budget request represents a 2.4 percent increase from fiscal year 2001, on target with the President's commitment to hold down spending government-wide. Although I am sure you would have liked to see more initiatives included in your request—everyone wants more money to do more things—I hope you would agree that this is a responsible budget submission. Does your fiscal year 2002 budget request allow the Secret Service to carry out its core mission?

*Answer.* Yes, the fiscal year 2002 budget will be adequate to fund our mission-critical programs and obligations. We expect to attain our three mission goals: to reduce crimes against our nation's currency and financial systems; to protect our national's leaders, visiting world leaders, and other protectees, as well as, reduce threats posed by global terrorists and other adversaries; and to provide a responsive support infrastructure to meet the needs of both the protective and investigative mission. We will continue to develop our aggressive and innovative approach to combating emerging forms of computer crime, and continue to foster our effective partnerships with local law enforcement agencies, private industry, and community organizations.

*Question.* During an overseas oversight trip with the Secret Service a couple of years ago, my staff noted that the Service is in need of more personnel overseas. We note that the establishment of a permanent post overseas is an expensive and laborious process. In many instances, with an immediate response and the use of recurring temporary assignments, the Service has rectified a fraud problem in the time it would have taken to administratively open a foreign post and get an agent on the ground to assess the problem. What were your costs in fiscal year 2000 for the numerous overseas temporary assignments?

*Answer.* The USSS spent \$438,000 in expenditures for three (3) Financial Crime-related overseas initiatives (City of London, England Initiative; the Lagos, Nigeria Task Force; and the Wiesbaden, Germany Initiative).

There is no means to calculate additional expenditures related to overseas temporary investigative assignments such as the procurement of "assignment specific" equipment. Also, this figure is specific to temporary investigative assignments, and does not include the expenditures related to overseas temporary protective assignments.

*Question.* How many foreign offices does the Secret Service have now?

Answer. The Secret Service currently has 18 foreign offices, plus a presence at INTERPOL—Lyon, France.

*Question.* How many agents are assigned overseas?

Answer. The Secret Service currently has 44 special agents assigned to our foreign offices and 2 agents to INTERPOL—Lyon, France.

*Question.* Have you submitted a foreign office and staffing initiative? If so, what offices and FTE levels did you request?

Answer. Our baseline request under the previous Administration was \$888.4 million. Under the current Administration, there was no fiscal year 2002 budget request process from bureau to Department, or from Department to OMB, and the current Administration has not validated the previous Administration's baseline estimate.

*Question.* What percentage of your investigative caseload involves interactions overseas?

Answer. It is estimated that approximately one-third of all U.S. Secret Service investigative criminal cases have a foreign nexus.

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#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### WINTER OLYMPICS

*Question.* Pursuant to PDD-62 you have the lead for security at the 2002 Winter Olympics at Salt Lake City. Are you having any difficulty in finding volunteers from your sister law enforcement agencies to assist in staffing for the games themselves?

Answer. The planning process that the Secret Service currently has underway includes canvassing all appropriate Federal law enforcement agencies to determine their interest and availability in participating in the operational security portion of the Federal counter-terrorism plan. Presently, the Secret Service intends to use Federal law enforcement personnel from eleven other agencies to supplement its own personnel in effecting perimeter security at the 2002 Winter Olympics. Participating agencies have been supportive of this mission, but have concerns relative to the costs that they might have to bear if a funding source is not identified.

*Question.* Additionally, the cost estimates for the games continues to be a moving target. At this point in time what is your best guess as to the total costs to be borne by your agency?

Answer. For fiscal year 2002, the Service estimates that it will require \$19,530,000 to implement its security plan.

*Question.* By all participating agencies?

Answer. To support the Secret Service's security plan, it is estimated that \$33,068,000 will be required by other agencies within the Department of the Treasury, including \$4,931,000 for air security, and an additional \$8,003,000 is needed by agencies outside the Department of the Treasury.

##### STAFFING AND OVERTIME CONCERNS

*Question.* In the 2001 cycle you testified that the average overtime worked per agent was approximately 85 hours per month in the protective divisions, and about 78 hours per month in the investigative divisions. This places an obvious burden on your agents and has led to retention and morale problems. Has the overtime burden been reduced with the additional FTEs you were able to hire from funds provided by this Subcommittee in Phase I and Phase II? Are more needed?

Answer. As the additional special agents hired complete their training and are assigned to field offices, this overtime burden is expected to decline. Current projections for fiscal year 2001 put the average overtime estimate between 67 hours and 73 hours of overtime per month for field agents. The fiscal year 2001 projection is somewhat higher than that which would be expected due to the impact of the Presidential Campaign activities from October 2000 through January 2001. A considerable decline in overtime is expected to occur during the remaining months of fiscal year 2001 and carry over into fiscal year 2002.

Hiring 70 percent of the agents recommended by the Workforce Retention and Workload Balancing initiative will go a long way in reducing the extreme amounts of overtime worked by field agents. Field agents should begin to approach our target average overtime figure of 62 hours per month during fiscal year 2002. Current projections put the average overtime per month for field agents between 64 and 69 hours by the end of fiscal year 2002. However, the impact of not funding the third year of this initiative will make it more difficult to reach the final target of 62 hours of overtime per month for field agents.

## IDENTITY THEFT

*Question.* Identify theft is the illegal use of another person's financial identity to commit fraud. It is usually one component of other financial crimes, such as bank fraud, credit card or access device fraud, or issuing counter financial instruments. Identity theft is an enormous concern to the average person and most people aren't aware just how easy it is to accomplish, as consumers have little control over who has access to their personal identifiers. It is relatively simple for criminals to obtain personal information on individuals through public sources, particularly the Internet. Given the expertise of the Secret Service in this area, where do you think our State and local law enforcement agencies are on countering these crimes?

*Answer.* Numerous metropolitan police departments are taking a proactive approach to the problem of identity theft. One example is the Los Angeles County Sheriff's Department, which initiated a multi-agency identity theft task force to combat identity theft in the Los Angeles metropolitan area. Additionally, the Los Angeles County Sheriff's Department was exclusively responsible for designing, producing and distributing a pocket guide on identity theft to all of its deputies. This guide ensures that deputies deal appropriately and uniformly with victims, and provide them with information on resources they will need in their efforts to restore their credit history, and rectify any damage done to their existing accounts.

However, not all police departments and sheriff's offices are this aggressive concerning these types of crimes. Many do not have sufficient resources to thoroughly investigate identity theft crimes, and jurisdictional issues often hamper the efforts of those that do.

In order for law enforcement to properly combat identity theft, steps must be taken to ensure that local, State and Federal agencies are addressing victim concerns in a consistent manner. All levels of law enforcement need to be familiar with the resources available to combat identity theft and to assist victims in rectifying damage done to their credit. It is essential that law enforcement recognize that identity theft must be combated on all fronts, from the officer who receives a victim's complaint, to the detective or special agent investigating an organized identity theft ring. The Secret Service has already undertaken a number of initiatives aimed at increasing awareness and providing the training necessary to address these issues, but other similar steps could be taken to try to reach a still larger audience.

*Question.* What resources are being devoted to training and providing support to them?

*Answer.* The Secret Service has tried to increase awareness and provide training on the relevant issues to state and local law enforcement agencies through a variety of partnerships and initiatives:

- Criminals increasingly employ technology as a means of communication, a tool for theft and extortion, and a repository for incriminating information. As a result, the investigation of all types of criminal activity, including identity theft, now routinely involve the seizure and analysis of electronic evidence. In response to this trend, the Secret Service developed, in conjunction with the International Association of Chiefs of Police (IACP), the "Best Practices for Seizing Electronic Evidence Manual", to assist law enforcement officers in recognizing, protecting, seizing and searching electronic devices in accordance with applicable statutes and policies.
- As a follow-up to the "Best Practices" guide, the Secret Service and the IACP developed "Forward Edge", a computer-based training application (CBT) designed to allow officers to seize in a virtual environment different types of evidence, including electronic evidence, at various crime scenes.
- In December of 2000, the Secret Service coordinated an Identity Theft Workshop in Washington, DC. This workshop was designed for the criminal investigator and was attended by investigators from agencies throughout the nation. The workshop provided investigators with a detailed explanation of how identity theft can occur, as well as an explanation of what tools are available to investigators.
- In May of 2001, the Secret Service made an identity theft presentation to the International Chiefs of Police, Advisory Committee for Police Investigation Operations. During this presentation, the Secret Service proposed the production of an identity theft video geared toward police officers throughout the nation. The purpose of this video will be to emphasize the need for police to document a citizen's complaint of identity theft, regardless of the location of the suspects (if any). In addition, the video and its companion reference card will provide officers with phone numbers that will assist victims with remediation efforts. The Advisory Committee is supportive of this effort, and is considering providing

funding for it, and pursuing it jointly with the Secret Service, as was done with the "Best Practices" initiative.

—Also in May of 2001, the Secret Service detailed a Special Agent to the Federal Trade Commission (FTC) to assist them in funneling information developed through their database of victim complaints to the appropriate law enforcement entities. This agent is also involved in supporting ongoing FTC initiatives aimed at educating state and local law enforcement agencies concerning identity theft issues.

The Secret Service is also actively involved with a number of government-sponsored initiatives. At the request of the Attorney General, the Secret Service joined an inter-agency identity theft subcommittee that was established by the Department of Justice. This group which is made up of Federal, State, and local law enforcement agencies, regulatory agencies, and professional agencies meets regularly to discuss and coordinate strategies for investigation and prosecution, as well as consumer education programs.

*Question.* What additional Federal resources may be needed to move these agencies along with the ever increasing technology available for these types of crimes?

*Answer.* It is the responsibility of government regulators, law enforcement agencies, financial institutions, and other private sector entities to work together to identify, investigate, and prosecute those individuals responsible for perpetrating identity theft schemes. It is the belief of the Secret Service that the successful investigation of identity theft and identity fraud, including the compromise of consumers' identities through electronic means, can best be accomplished through a task force approach. Accordingly, the Secret Service would like to implement five Financial Crimes Task Forces, and five Electronic Crimes Cooperatives, in major cities to decrease the incidence of identity theft and other financial and electronic crimes. Through the strategic placement of these specialized task forces, the Secret Service, working in conjunction with other Federal, State and local law enforcement entities, would decrease the incidence of identity theft and other financial and electronic crimes in the targeted cities through the arrest and prosecution of individuals and organized criminal enterprises involved in the commission of financial crimes.

*Question.* What can we do to further educate American citizens to protect themselves against these crimes?

*Answer.* The Identity Theft and Assumption Deterrence Act established the Federal Trade Commission (FTC) as the central point of contact for identity theft victims to report all instances of identity theft. The FTC has done an excellent job of providing people with the information and assistance they need in order to take the steps necessary to correct their credit records, as well as undertaking a variety of "consumer awareness" initiatives regarding identity theft. As mentioned previously, the Secret Service has detailed a special agent to the FTC on a permanent basis to support their public education and liaison initiatives. The Secret Service also continues to be involved in a variety of public education efforts:

—The Secret Service, in conjunction with the U.S. Postal Inspection Service, and the Federal Reserve Bank System, produced an identity theft awareness video. The video, which explains how easily one can become a victim and what steps should be taken to minimize damage, has been made available to Secret Service offices for use in public education efforts.

—In April of 2001, the Secret Service designed an identity theft brochure, containing information to assist victims on how to restore their "good name", as well as how to prevent becoming a victim. Upon its completion, the brochure will be shipped to Secret Service offices for distribution in public education efforts.

However, it is important to recognize that public education efforts can only go so far in combating the problem of identity theft. Because Social Security numbers, in conjunction with other personal identifiers, are used for such a wide variety of record keeping and credit-related applications, even a consumer who takes appropriate precautions to safeguard such information is not immune from becoming a victim.

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QUESTIONS SUBMITTED TO THE FEDERAL LAW ENFORCEMENT TRAINING CENTER

QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

WORKLOAD CAPACITY

*Question.* I am told that you have agreed to take on the responsibility for training employees of the Air Force Office of Special Investigations. This will mean the inte-

gration of 25–30 instructors and somewhere between 500 and 800 new students per year.

Does FLETC have the capacity to handle this new workload and house these new students?

Answer. Based on the current fiscal year 2003 workload projected by our partner organizations, the Center has the capability to meet the training requirements of the Air Force Office of Special Investigations (OSI) and house their students on Center or in Center contracted housing. OSI students will participate in the Center's Criminal Investigator Training Program (CITP). Following graduation from the CITP, they will participate in a three-week, OSI agency specific, follow-on basic program. Currently, there are five of these follow-on programs projected consisting of 48 students. These follow-on programs are not facility intensive, and will be primarily taught by OSI personnel. OSI currently projects that, beginning in fiscal year 2003, they will train 250 students annually. These same 250 students will attend the OSI follow-on program. OSI advanced programs have not been projected at this time, however, their advanced training requirements are not expected to be facility intensive.

#### BORDER PATROL

*Question.* The Border Patrol currently maintains a temporary training facility in Charleston, South Carolina while FLETC builds up the necessary infrastructure to meet their training needs.

What is the status of the Charleston facility?

Answer. The Charleston site has been in operation since 1996. Facility infrastructure and operational costs are being borne by the U.S. Border Patrol. The FLETC is providing staff support, which includes an on-site program coordinator and instructor detailees for those portions of the U.S. Border Patrol basic training program that are FLETC's responsibility. FLETC also pays the direct costs of basic training from its appropriation in the same manner as if the training were incorporated into one of FLETC's permanent sites. The assignment of FLETC staff instructors, who regularly drive the six hours roundtrip from Glynco to Charleston to conduct their training responsibilities, is a strain on the FLETC and presents numerous scheduling difficulties for programs conducted at Glynco. FLETC has worked closely with the U.S. Border Patrol and its parent organization, the Immigration Naturalization Service (INS), to identify facility and related requirements and to reabsorb all the U.S. Border Patrol training into a FLETC permanent site.

A multi-year construction plan has been developed and, to date, more than \$39 million has been appropriated by Congress to expand FLETC facilities. A recently updated business case study completed by FLETC last fiscal year, suggests that millions of dollars in cost avoidance for new construction and per diem savings can be realized by consolidating all U.S. Border Patrol training, now conducted at three sites, into FLETC's Artesia center. INS officials have indicated that they are not supportive of this FLETC plan and they have commissioned an independent study to review it and other possible options. President Bush has announced that INS will undergo a significant reorganization, which may also impact the decision on the future siting of U.S. Border Patrol training. In the meantime, FLETC will continue to work with the INS and the U.S. Border Patrol to adopt a plan that can be jointly supported.

*Question.* When will FLETC be able to integrate this training responsibility back into permanent facilities?

Answer. The FLETC submitted a modified five-year construction plan to the Congress last fiscal year. It called for the expansion of facilities in Glynco, Georgia and Artesia, New Mexico, to be completed by fiscal year 2004, to reintegrate U.S. Border Patrol training. Only one new construction project is being requested for funding in the President's fiscal year 2002 budget. Other planned project funding is not being requested for fiscal year 2002 and there may be a delay in the construction completion timetable to fiscal year 2005. However, depending upon the expected U.S. Border Patrol training requirements, and their willingness to consolidate training into FLETC's Artesia center, the timeline to begin reabsorbing U.S. Border Patrol training into FLETC could be moved forward. We will continue to keep the Committee advised of developments on this matter.

## QUESTIONS SUBMITTED BY SENATOR BRYON L. DORGAN

## RURAL LAW ENFORCEMENT TRAINING

*Question.* FLETC and Minot State University jointly continue to work on research to determine which training, education and prevention strategies are required to best address problems specific to the Northern Plains states and rural areas. Minot is creating a clearinghouse for its research findings, and serves as a key export training site for FLETC. Minot also coordinates distance-learning telecasts and provides other services for the region. Minot State is interested in expanding its work with FLETC to deliver more needed training and to strengthen relationships with communities and schools in the region.

What is the status of the FLETC/Minot State University relationship?

*Answer.* The FLETC and Minot State University (MSU) relationship began in fiscal year 2000, when FLETC contracted with MSU to conduct a Northern Plains States (NPS) Law Enforcement Training Needs Assessment and measure the effect of the Drug Law Enforcement School for Patrol Officers (DLESP) on officers, supervisors, and their respective agencies. The MSU research methodologies, surveys, and reports have been professional, timely, relevant, and concise. The results of the research have been instrumental in developing and delivering training that meets the needs of the NPS officers and agencies. Through frequent and constant interaction, the staffs of MSU and FLETC have developed a professional and complementary relationship. MSU produces quality and useful research and data which FLETC uses to make sound and professional decisions that positively impact the Northern Plains States.

In fiscal year 2001, the MSU/FLETC relationship expanded significantly. Several training programs will be delivered in fiscal year 2001 in the NPS region with each state receiving a fair distribution of training. The FLETC staff will coordinate the delivery of each program while MSU staff conduct surveys, pre- and post-tests, and longitudinal studies to measure the effect of classroom and distributed learning.

*Question.* How well is it working?

*Answer.* The FLETC/MSU relationship is working very well. It is an example of cooperation at its best. The balance between academia and law enforcement is helping FLETC to succinctly meet law enforcement training needs as a result of sound and professional research.

## LAW ENFORCEMENT VEHICLE PURSUIT

*Question.* FLETC led an Internet/satellite symposium in March that reached 14,000 participants. Topics included the future of technology in pursuits, the psychology of officers under stress, and the legal, moral, and ethical dynamics of law enforcement officers in "hot pursuit" situations. FLETC proposes to develop a multi-faceted approach, utilizing classroom training, Internet simulcasts and CD-Rom courses to raise awareness to alter current practices of conducting pursuits. They are developing curricula with the input from Federal, state, and local resources.

What methods will be used to validate the effectiveness of the program?

*Answer.* Training validation and measurement are important components of this effort. Through research and data, training programs are developed and modified to meet the changing and contemporary needs of law enforcement. The National Center for State and Local Law Enforcement Training (NC) intends to partner with academia to conduct professional research effectiveness.

*Question.* What are the estimated costs for implementing and possibly expanding the program?

*Answer.* To develop the pursuit driving related training, adequately deliver the training programs, and validate the effectiveness of the training, the National Center for State and Local Law Enforcement Training, Federal Law Enforcement Training Center would need approximately \$3 million and three FTE. These positions should include two program specialists and one training technician. They will develop and review training programs and coordinate training delivery throughout the United States. The National Center for State and Local Law Enforcement Training will develop and deliver pursuit driving related training programs using a standard process and contracting the services of subject matter experts from state and local law enforcement around the country.

## ACCREDITATION INITIATIVE

*Question.* The Administration has requested \$650,000 and 3 FTE for FLETC to lead a collaborative project with the DEA, FBI, and other Treasury Law Enforcement agencies to establish government-wide law enforcement training standards. It



is anticipated this will be a two to three year project. When completed, FLETC's proposal will strengthen accountability in Federal agencies.

How will these funds be used?

Answer. A program manager with two support staff will manage and administer the funds to implement the accreditation process. These funds will be used to enhance the quality of Federal law enforcement by establishing and maintaining a body of standards for Federal law enforcement training, to administer an accreditation process based on those standards, and to ensure compliance with the process in order to maintain public confidence in Federal law enforcement. These standards will be developed under the oversight of a task force comprised of Federal law enforcement training officials by bringing together subject-matter experts to develop training standards, accreditation procedures, assessor criteria and training, accreditation manager guidelines, policies and directives, self assessment criteria, curriculum assessment criteria, instructor certification procedures and on-site assessment responsibilities.

In addition, an accreditation board will be formed to provide policy, direction, and oversight of the accreditation process. The board members will be a representative group of Federal law enforcement agencies. Members of the board will be Federal law enforcement officials at the policy level with senior oversight for training within their respective agencies. The board shall provide direction and oversight for all accreditation activities. It will have approval authority for policies of operation, training standards, procedures for accreditation of academies and programs having met the accreditation criteria and the certification of instructors.

The training standards, approved by the Board, will serve as the measurement or model for all aspects of training at the Federal law enforcement level. The training standards will address training academies, training programs, both basic and advanced, and instructor certification requirements. Accreditation will be awarded in two areas—training academy accreditation and training program accreditation.

#### FLETC GS-1811 POSITION RECLASSIFICATION

*Question.* As a result of Congressional action, Federal employees with a GS-1811 (Criminal Investigator) position classification were granted Law Enforcement Availability Pay (LEAP) (a 25 percent premium over basic pay) was awarded to GS-1811s based on the expectation that they would work, or be able to work, an additional two hours per day on average during the year.

FLETC employs GS-1811s, both temporary and permanent, who perform the same duties as non-criminal investigator instructors (GS-1712, Training Instructor, and GS-1801, Law Enforcement Specialist-Instructor). After LEAP legislation was enacted, non-GS-1811 instructors perceived that they were not receiving "equal pay for equal work." After a number of instructors filed position classification appeals with the Office of Personnel Management (OPM), OPM directed a consistency review of all instructor positions. It was determined that all permanent FLETC instructors should be properly classified in the GS-1801 series (who do not receive the 25 percent premium). Director Basham announced this policy in a memorandum, dated October 27, 1998, to all FLETC personnel. Although the policy became effective January 1, 1999, permanent GS-1811 personnel already on faculty had a 3-year period to seed or convert to the GS-1801 series.

FLETC expects to hire the necessary number of persons with GS-1811, Criminal Investigator, experience into FLETC GS-1801 positions. If unsuccessful, the Center will make arrangements to detail experienced GS-1811s from other agencies. Detailed Criminal Investigators from partner organizations will not be adversely impacted by FLETC's classification policy for permanent faculty. This policy was implemented with the concurrence of OPM and Treasury.

What is the status of instructors with actual 1811 experience?

Answer. FLETC's long established practice has been to maintain a 50-50 ratio of permanent to detail faculty. The permanent staff provides continuity in program development and delivery methodology, while the agency detailees bring current field operations experience. We have been successful in continuing to attract experienced law enforcement personnel—both criminal investigator and police—through position advertisements in the 1801 classification series since this practice was initiated in 1999. About 20 percent of the 50 percent permanent faculty and supervisory staff currently have prior 1811 criminal investigative experience. These personnel are principally assigned to subject matter areas requiring this background experience. FLETC does not expect to have difficulty in maintaining 1811 background experienced staff on its faculty. However, when there is a shortfall in permanent hires in this category, FLETC will increase its detailee strength with 1811 experience.

*Question.* What is the number of detailees?

Answer. Currently, FLETC has 49 1811 detailed investigators on its faculty. This represents about 30 percent of the 50 percent compliment of detail instructors. These personnel have been assigned by 12 different agencies. Recently, too, three reemployed annuitants with 1811 experience were hired to teach in areas requiring their expertise.

*Question.* Does this not detract from the quality of the instruction for 1811 students, in that they are not receiving the practical experience if trained by other than actual 1811s who have been "on the street?"

Answer. There has been no perceived diminution in the quality of training provided to FLETC students. All of our agencies have supported our approach and both student and agency surveys on the quality of training conducted have been high. FLETC management understands and endorses the notion of maintaining field experienced criminal investigative personnel as a continuous requirement of conducting training for Federal investigative agencies.

#### CHARLESTON ISSUES

*Question.* In your opening statement you refer to the number of Border Patrol trainees at the three location GLYNCO, 16,635; ARTESIA, 2,553; and TEMP SITE CHARLESTON, 639. For fiscal year 2002 (projected) the Charleston numbers go to 1,350.

Is this based on hypothetical projected numbers at 100 percent capacity, or on actual reserved slots for this coming year?

Answer. The projection of 1,350 students for fiscal year 2002 at the temporary Charleston facility was provided by the U.S. Border Patrol. The current average student capacity of the Charleston facility is approximately 700 students. The annual projection of 1,350 students equates to an average student resident population of approximately 473 students. Therefore, the projection is approximately 68 percent of capacity.

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#### QUESTIONS SUBMITTED TO THE FINANCIAL CRIMES ENFORCEMENT NETWORK

##### QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

*Question.* Mr. Baity, FinCEN is responsible for the registration of about 160,000 money service businesses across the country, and explaining the requirement that they start filing suspicious activity reports and currency transaction reports—just like banks are required to do. These MSBs are supposed to register by the end of this year, and start filing these reports in January 2002.

What are you doing to make these businesses aware of the requirement?

Answer. FinCEN has undertaken a multi-year outreach and education campaign that is designed to reach across a set of diverse and expansive MSB industries in order to ensure a full understanding of their obligations under the new regulations. This campaign includes, among other aspects, a significant effort to prepare educational materials that will be made available to the industry for training purposes.

In addition, FinCEN will design a website devoted to the MSBs by the end of this summer. The site will contain relevant information, including guidance and frequently asked questions and answers.

Finally, FinCEN is working on creating a database of businesses, that will be used to make direct contact, beginning this fall. That database will also be used for a baseline survey of the state of knowledge of the industry. This is being done to test the effectiveness of our campaign and will be repeated at certain intervals to provide us with appropriate feedback.

*Question.* How are you dealing with the language problems of businesses located in ethnic communities?

Answer. In conducting the outreach campaign, FinCEN is very conscious of the potential language barriers. Initially, the education materials will be prepared and distributed in both English and Spanish. As the outreach campaign progresses, a further determination will be made as to the necessity for the translation of materials into other languages.

*Question.* Do you think they will be ready to start reporting in January?

Answer. FinCEN fully anticipates that the registration deadline of December 31, 2001 will be met. Our initial findings from the outreach campaign, suggest that the second portion of the rule requiring suspicious reporting by these businesses, will be an even greater challenge. As I mentioned during testimony, we want to make sure that MSBs are knowledgeable about these new requirements. For these reasons, we believe it will be more effective to extend the implementation date of the

suspicious reporting requirements. We are currently reviewing an appropriate extension period and will keep the committee informed of our decision.

*Question.* When the Bank Secrecy Act was made applicable to tribal gaming operations I understand that FinCEN did significant outreach to tribes to educate them on the compliance rules under the statute. First, I commend you on this outreach and urge you to “keep it up” to ensure tribal compliance with the Bank Secrecy Act.

Can you explain to me what constitutes “suspicious activities” that would require filing under the Act?

Answer. Treasury’s suspicious activity reporting rules require the filing of a suspicious activity report (SAR) when a financial institution knows, suspects or has reason to suspect that financial activity occurring through the financial institution (a) involves funds that are derived from illegal activity or are to be used for illegal purposes; (b) is intended to evade Bank Secrecy Act requirements, such as the “structuring” of currency deposits to avoid the filing of a currency transaction report; or (c) serves no apparent lawful purpose and for which the financial institution cannot determine a legitimate reason for the financial activity to occur.

Whether activity is suspicious activity depends upon a variety of factors. These include, most importantly, a financial institution’s knowledge of its products, services, and expected transaction patterns and the degree to which a particular transaction or set of transactions is inconsistent with that knowledge in a way that can’t be explained after inquiry. Thus, transaction activity that is not consistent with normal business activity or that is consistent with certain patterns of transactions that may be associated with money laundering activity, may be reportable, if the institution knows of no reason that would explain the transaction.

In August 2000, FinCEN issued a SAR Bulletin (Issue 2) on patterns of suspicious activity reported by casinos. Over a one-year period, casinos located in five states filed more than 40 casino SARs indicating that wire transfers and cashier’s checks were being used to deposit funds in casino accounts as “front money” for use by the customer for subsequent gaming activity at the casino. This Bulletin is available on FinCEN’s website at [www.treas.gov/fincen](http://www.treas.gov/fincen).

*Question.* Mr. Baity, you have advised the Subcommittee staff that your building lease will expire in 2003.

What steps are you taking to prepare for this matter?

Answer. We have been engaged in discussions with GSA to move through the lengthy process of lease renewal or relocation to a new facility. GSA will have the solicitation by the fall of this year, with the award decision expected sometime in early 2002. We will continue to keep you apprised of the developments.

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#### QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

##### MONEY SERVICES BUSINESSES (MSBS)

*Question.* By December 31, 2001, MSBs are required to register with Treasury. FinCEN contemplates an outreach program as part of the public awareness campaign to educate both the public and the MSBs. The outreach program consists of, in part, informational forms, utilization of different languages, and data system requirements. Your new MSB Branch chief came on board April 23, and the IRS is scheduled to conduct regulatory oversight of the MSB compliance. In fiscal year 2002, the Administration is asking for an added \$5.5 million without FTE.

How will you ensure compliance?

Answer. FinCEN’s first priority in our effort to promote compliance is to educate the MSB industry about the registration and suspicious activity reporting requirements. FinCEN has undertaken a multi-year outreach and education campaign designed to reach across the diverse and expansive MSB industries. We are creating training materials that will include posters, brochures, videos and possibly a CD-ROM. In addition, we are designing a website devoted to the MSB industry. The new website will ultimately contain all of our training materials and additional guidance, including frequently asked questions and answers.

In conjunction with this outreach and education effort, we are working closely with the Internal Revenue Service (IRS) to expand and educate its examination and compliance resources, that will be primarily responsible for ongoing education and compliance examinations. Funding for these increased efforts will be reimbursed to the IRS from FinCEN, beginning in fiscal year 2002.

*Question.* Is any of the \$5.5 million for the increased IRS workload to enforce the MSB compliance?

Answer. The \$5.5 million increase to the MSB program in fiscal year 2002 annualizes efforts to implement the MSB Regulatory Program. This increase pro-

vides funding for the next phase of the multi-year public education program and provides funding to begin efforts with the IRS and other service providers to extend field outreach, begin examination of MSB for compliance, respond to public inquiries, distribute forms and publications, and support information processing of the BSA data. These oversight and outreach activities are essential to promote compliance with national registration and other BSA requirements.

*Question.* Is there any validation of the effectiveness of the outreach program?

*Answer.* In order to gauge the effectiveness of the outreach and education program, we will be surveying the industry's knowledge and understanding of the new regulations at various stages of the campaign, beginning with a baseline survey. Additional surveys will be conducted at various stages of the outreach program.

*Question.* What is the coordination with the High Intensity Financial Crimes Areas (HIFCAs)?

*Answer.* We have closely coordinated with the HIFCAs through the HIFCA Working Group comprised of all law enforcement agencies assigned to the HIFCAs. In addition, we have prioritized our media campaign in areas where HIFCAs have been designated, including New York/New Jersey, Los Angeles, and along the Southwest Border. This coordination will continue as the regulations take effect.

*Question.* Have there been any problems with the MSB outreach thus far?

*Answer.* No. We are very pleased to report that there have been no problems to date. We expect the program to continue to go smoothly.

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#### QUESTIONS SUBMITTED TO THE OFFICE OF FOREIGN ASSETS CONTROL

##### QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

##### NATIONAL [FOREIGN] TERRORIST ASSET TRACKING CENTER (THE "CENTER")

*Question.* Mr. Newcomb, Congress provided \$6.4 million last year to establish the Foreign Terrorist Assets Tracking Center at OFAC. Additional funds have been requested in fiscal year 2002 for the continued development of this Center.

I would appreciate it if you would give us an update on this effort, including a timeframe for when will the Center be up and running?

*Answer.* OFAC is working to have the Foreign Terrorist Asset Tracking Center up and running by October 2001. Currently, OFAC is hiring staff for the Center and working to establish an appropriate workspace to house it.

*Question.* What other agencies are actively participating in the planning of the Center?

*Answer.* OFAC sent a questionnaire, on March 30, 2001, asking each of the prospective agencies to describe how they would see themselves participating in the mission of the Center. All except the Department of Defense anticipate having a role in the Center, either by detailing a specialist to analyze foreign terrorist data, or by appointing a special liaison to cement the constant interaction of the member organizations, or both. The departments and agencies pledged to participate in or work with the Center are:

—The Department of Treasury—OFAC, Customs, IRS, USSS, and FinCEN.

—The Department of Justice—FBI, INS.

—The CIA—Office of Transnational Issues and the DCI's Counter-Terrorism Center.

—The National Security Agency.

—The Department of State—Office of the Counter-Terrorism Coordinator (S/CT).

*Question.* Once the center is operational, how will other Federal agencies participate in its activities?

*Answer.* In response to the OFAC questionnaire respondents described their respective roles in the counter terrorism field, identified issues in which they would wish to be involved, offered to provide information related to the mission of the Center, suggested how they might coordinate efforts, and proposed the manner of agency representation with the Center.

Analysts/specialists detailed from the participating agencies and OFAC Center analysts will work together in several teams—each team will study related terrorist groups—to evaluate terrorist fundraising, money movement, and funds placement. The teams will assist in the development of interagency strategies to impair and impede terrorist finances. Agency liaisons will coordinate with the Chief of the Center on activities and facilitate the flow of information among he participating agencies as appropriate.

## KINGPIN DESIGNATION ACT

*Question.* The Foreign Narcotics Kingpin Designation Act became law in late 1999. President Clinton named 12 significant foreign narcotics traffickers in June of last year. Under the provisions of the Kingpin Designation Act, President Bush is required to designate additional kingpins in June of this year. What is the process for making recommendations to the President for these designations?

*Answer.* The Kingpin Designation Act requires that the Departments of Treasury, Justice, State, and the Central Intelligence Agency consult and provide the President with the appropriate and necessary information to designate significant foreign narcotics traffickers. To accomplish this requirement, Treasury leads an interagency group that meets to discuss potential names and information for later recommendation to the President. Justice and OFAC then coordinate to assess and compile information to support the recommendations, which the Secretary of the Treasury provides to the Attorney General, the Secretaries of Defense and State, and the Director of Central Intelligence for formal concurrence. Upon receipt of the concurrence of the agency heads, the Secretary of the Treasury submits to the President the necessary information for him to designate as significant foreign narcotics traffickers those persons appropriate for sanctions by June 1 of each year.

*Question.* Under the Kingpin Designation Act, OFAC is responsible for naming the Tier Two individuals and entities. What is the difference between the Kingpin Designation and the Tier Two Designation?

*Answer.* Specifically, Tier I, or “Kingpin”, designations are made by the President and target significant foreign narcotics traffickers—i.e., foreign drug kingpins—worldwide. Tier Two or “derivative” designations are made by OFAC and extend the sanctions under the Kingpin Designation Act to entities which are owned, controlled, or directed by designated Kingpins, or to individuals or entities which act for or on behalf of or which materially assist or support the international narcotics trafficking activities of designated Kingpins. Additionally, unlike the Tier One or Kingpin designation process, there is no statutory timetable for Tier Two designations. The timing for Tier Two designations is determined by the course of OFAC’s investigations consultation with Justice, State, CIA, FBI, DEA, and Defense.

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 QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

## CUSTOMER SERVICE

*Question.* The Office of Foreign Assets Control provides a valuable tool to protect U.S. security interests. While it accomplishes this task it also has a problematic customer service record. Additionally, it should be noted that there are many agricultural interests looking to export to Cuba which have expressed significant concern that there is no transparency and no commitment to appropriate response time from OFAC. Often, exporters do not know how, when, or why requests are either granted or denied.

Are there any plans under consideration to streamline and clarify the process for U.S. exporters looking for clearance from OFAC?

*Answer.* First, we note that under a long-standing interagency arrangement the Department of Commerce’s Bureau of Export Administration (“BXA”) administers licensing jurisdiction with respect to exports to Cuba.

With respect to the broader question of customer service involving programs administered by OFAC, we are acutely conscious of the legitimate expectations of the U.S. business community for an expeditious and simple process to obtain licenses. In most instances, financial and trade transactions are authorized by specific licenses, and in many cases are subject to a mandatory interagency review process.

OFAC responded to over 18,500 applications over the course of the past year. License applications are reviewed by a staff of only 18 individuals. In addition, OFAC’s licensing staff responded to approximately 44,000 telephone inquiries during the same time period. OFAC currently administers 21 sanctions programs. Many have been added in the past few years, dramatically increasing the Office’s workload and the demand of the regulated community for information and services from OFAC. For its own part, OFAC has done much to streamline its procedures and to become a part of the solution, rather than an impediment, to the legitimate needs of the exporting community. Improved customer service is a primary program goal and OFAC has undertaken several measures to address this issue. These include:

- Establishing a goal to process license applications not requiring interagency review within two weeks;

- Hiring additional personnel to respond to phone inquiries to increase the timeliness and quality of information provided to the public;
- Promoting transparency of agency action by publishing interpretive rulings on OFAC's website;
- Issuing implementing regulations with an opportunity for public comment within sixty days of the issuance of an Executive order or enactment of legislation;
- Promulgating regulations to reflect internal policies regarding civil penalties; and
- Adding a section of frequently asked questions ("FAQ's") to the website.

In addition, many of the concerns raised by the U.S. business community often pertain to underlying policy issues and the different national security and foreign policy objectives of the various sanctions programs that must be vetted with other agencies.

#### CUBAN FOOD AND MEDICINE REGULATIONS

*Question.* The Administration has yet to publish regulations to implement the legislation passed last year to allow food and medicine sales to Cuba. The intent of Congress—a large majority in Congress—was to ease the restrictions on U.S. exporters.

When can we expect implementation of that request?

*Answer.* The implementation of the Trade Sanctions Reform and Export Enhancement Act of 2000 is being coordinated by the White House to ensure that the interagency review period, when required, is as brief as possible. Interagency review will be necessary in some cases as the legislation requires that one-year specific licenses be denied with respect to entities in Iran, Sudan, Libya, and Cuba determined to promote international terrorism.

OFAC and Commerce have coordinated so that their own internal review processes can be completed within a matter of days. Time frames for coordination with the foreign policy community regarding the identity of the purchaser still needs to be worked out. Once interagency review periods are agreed upon, we anticipate a rapid turnaround of license applications to ship goods to qualified end-users. This coordinated approach avoids creating confusion in the exporting community both with respect to review procedures and by maintaining existing agency jurisdiction.

We anticipate that implementing regulations may be issued by both agencies within the next few weeks as interim final rules, with an opportunity for public comment.

#### SUBCOMMITTEE RECESS

Senator DORGAN. I did want to mention that on May 24, we will have a law enforcement technology display from two to four on the afternoon of May 24 in 106 of the Dirksen Office Building, on this floor just down the hall. This is an event that Senator Campbell and I look forward to and we look forward to seeing all of you there.

Thank you very much. This hearing is recessed.

[Whereupon, at 11:02 a.m., Thursday, May 10, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

# TREASURY AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 2002

THURSDAY, MAY 17, 2001

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

The subcommittee met at 9:50 a.m., in room SR-485, Russell Senate Office Building, Hon. Ben Nighthorse Campbell (chairman) presiding.

Present: Senators Campbell, Dorgan, and Mikulski.

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

STATEMENT OF CHARLES O. ROSSOTTI, COMMISSIONER

OPENING REMARKS

Senator CAMPBELL. Good morning. The committee will be in order. I apologize for getting such a late start. We had two votes on the floor. Senator Dorgan will be along in just a minute; he was still voting.

This morning we will be discussing the fiscal year 2002 budget request for the Internal Revenue Service and the current status of changes occurring at the agency. Appearing before us will be Commissioner Rossotti. As usual, it is a pleasure and I hope we have not kept you too long, Commissioner.

The overall mission of the IRS is to provide top quality service to America's taxpayers by helping them understand and meet their tax responsibilities, and by applying the tax law with integrity and fairness. The IRS should provide world class customer service to taxpayers who call or visit IRS offices for return preparation assistance. The IRS is requesting a total of \$9.276 billion, which is an increase of \$580 million, or 6.7 percent over fiscal year 2001.

The IRS is also requesting \$146 million for earned income tax credits, or EITC, appropriations. That is about a \$1 million increase. We understand that we need to provide the IRS with the resources it needs to improve their ability to respond to various requests by taxpayers.

Under your leadership, Commissioner Rossotti, which I am sure most of the committee members have been very happy with, the agency has made remarkable improvements even though there are still yet some things to be done. I commend you and your staff for

doing such fine work, and I understand that it is a very labor intensive task.

Additional funding in the budget request for fiscal year 2002 is in two management categories. One is the business systems modernization, formerly called the information technology investment account, or the ITIA. They request an increase of \$325 million for fiscal year 2001. And the second IRS request is for \$88 million for Stable. Stable was designed to stabilize and strengthen tax compliance and customer service programs in the area where it was needed.

I understand that this computer modernization project is a major undertaking. For the amount of tax dollars allocated to this project we expect the IRS will be as accurate as possible in making sure that all the equipment and changes that are being made will work properly. There is also a mandatory requirement that the different centers be able to communicate with each other. The final requirement is that taxpayers receive courteous, accurate, and expeditious service in the future. I know under your leadership there has been great improvements made and I wish you well in this coming year.

Since we got such a late start I think what we will do is go ahead and start with your testimony, and if I can interrupt it for a minute when Senator Dorgan appears, we will do that, if that is okay with you.

Mr. ROSSOTTI. Certainly.

Senator CAMPBELL. So why don't you go ahead and start?

STATEMENT OF CHARLES ROSSOTTI

Mr. ROSSOTTI. Certainly, Mr. Chairman. I would be happy to stop as soon as Senator Dorgan gets here.

I thank you very much for your opening comments. I would also like to thank the President and Secretary O'Neill for their support of IRS since they have taken office.

The fiscal year 2002 budget request of \$9.28 billion will enable us to continue to improve operations and make critical investments in our long term modernization program. Most of the \$325 million increase maintains the momentum that we need for business systems modernization and will be used to replenish that account, which we draw down as we begin to deliver on the program's milestones.

Before the Restructuring Act of 1998 even became law it was clear, especially from the Presidential commission that studied the IRS, that a long term commitment was required to fix the IRS. Now that we are well into this program and have begun to implement some of the larger changes to our organization and our business systems, I think we can fully appreciate at this point the enormity of the challenge that has been set before us.

Progress is hard won and we are just beginning to reap the benefits of some of the changes we have made, and especially the budget increases, Mr. Chairman, that you provided and the Congress provided in the current year budget.

But just to recap a few things that have happened since the enactment of RRA 1998, we have a new mission, new strategic goals, and new measurement systems that allow us—that change the way that we value success in the agency. We have essentially invented



a new means of quantifying success in a tax administration agency, without considering dollars collected as a measure. We have implemented and are administering 71 new taxpayer rights provisions, which represent a challenge in learning new ways of doing business for almost every one of our new employees.

Should I stop, Mr. Chairman?

Senator CAMPBELL. Senator Dorgan, we were running so late I went ahead and started. Do you have an opening statement? I told the commissioner he might have to stop for a minute. Do you want him to go ahead?

#### PREPARED STATEMENT

Senator DORGAN. Mr. Chairman, Commissioner, sorry for the delay. I have an Agriculture Appropriations Subcommittee that is happening that I have to go over to the Dirksen Building for in just a few moments. But welcome, Commissioner. Let me just add my statement to the record. We appreciate your being here.

Mr. ROSSOTTI. Thank you very much, Senator.

[The statement follows:]

#### PREPARED STATEMENT OF SENATOR BYRON L. DORGAN

Mr. Chairman: I am pleased to join you in welcoming the Commissioner of the Internal Revenue Service, Charles Rossotti, before us today as we conclude our budget oversight hearings for fiscal year 2002. It is fitting that the agency which comprises well over 50 percent of this subcommittee's total budget be the "clean-up" hitter for this year's hearings.

Commissioner Rossotti, over the years we have had many opportunities to discuss your on-going modernization and realignment of the IRS. I fully understand that it is a formidable and challenging task. When Treasury Secretary O'Neill testified before this Subcommittee last month—at the opening of this year's hearings—he praised the work you have done and are doing to drag the IRS—sometimes kicking and screaming—into the 21st Century. I joined him in recognizing your efforts and congratulating you for the job done so far.

But I come back to the issue of "service." You are requesting over \$9 billion for the IRS next year and the American people need to begin seeing improved service from the IRS for that \$9 Billion. That is why I am so troubled by reports in the Washington Post last month, and yet again this past Monday in the Wall Street Journal, about taxpayers being given "inaccurate or insufficient answers 73 percent of the time." I understand that you have strongly questioned the inquiries and methodology used by the Treasury Inspector General for Tax Administration, or TIGTA, in conducting these surveys. However, the fact remains that taxpayers have yet to receive improved service for their tax dollars.

For instance, the Wall Street Journal noted that while the IRS used to have a wait-time goal of 15 minutes for assistance at walk-in centers, that goal was abandoned this year on the grounds that it "contributed to the inefficient use of resources." It troubles me that the IRS would consider walk-in taxpayer assistance as an "inefficient use of resources."

Similarly, Secretary O'Neill stated that the IRS and the taxpayers should accept nothing short of 100 percent response and accuracy for phone inquiries to the IRS. I replied that if the IRS is not even close to approaching 50 percent response or accuracy, perhaps a more realistic goal would be 80–90 percent. I would like you to set a new goal today. Your job—and our job—is too important to fail the American taxpayers in accomplishing this task.

Thank you.

#### STATEMENT OF CHARLES ROSSOTTI

Senator CAMPBELL. Go ahead. Continue, Commissioner.

Mr. ROSSOTTI. I will try to finish up this opening statement. I am just noting some of the things that have happened and some of the things that we hope to have happen in the future.

Just continuing the recap, we have now inaugurated a new customer-oriented organization structure and have eliminated the 50-year-old structure of district service centers, regions, and national office staff. This means that tens of thousands of IRS managers and employees have new jobs and many old jobs were abolished. We are now going about the process of redesigning our business systems, everything from the way examinations are conducted to the way phone calls are answered.

We are doing this while we also achieved our first clean opinion on our financial statements from GAO. While we still have significant problems in the compliance area, we did succeed in fiscal 2000 in stopping the decline in enforcement revenue.

Finally, I should note that our recently completed filing season in fiscal 2001 was one of the best ever presented by the IRS. Our electronic filing set new records with 30 percent of taxpayers now e-filing. All of our records were shattered on our web site: 100 percent increase in forms downloaded, 50 percent increase in hits.

Our phone service, which is a very important area of service during the filing season, succeeded in answering 16 percent more calls than last year. While it is far from where we want it to be, taxpayers were able to get through in person when they wanted to about two-thirds of the time, compared to 62 percent last year. And in terms of accuracy of response, it was about 78 percent on tax law calls and about 88 percent on account calls.

So these are all steps that are important, but we still know that we have a long way to go to reach our goal of top quality service for every taxpayer. We intend to accomplish this by making year by year improvements in performance, all of which are mapped out in our strategic plan, which was approved by the Oversight Board in January.

I think all of this makes one very important difference between the IRS situation today and even a year ago when I came before this committee, and that is that I think the uncertainty about the future is reduced. We still have a great deal to do, but we think we have a better handle on how to do it and we have put in place the foundation for doing it.

Turning to the budget request of \$9.28 billion for fiscal year 2002, we will use these funds to address the highest priority gaps in our accomplishment of mission and goals, and put them in areas that we know we will need operational resources even while modernization continues. We know that taxpayers who are seeking to comply with the tax laws should receive the assistance they expect.

Unpaid tax debts should be collected, and known areas of non-filing and under-reporting must be addressed and corrected. We are falling short in all of these areas in part, but not completely, because of resources. Of course, we also have to continue to support the key programs mandated by RRA 1998, including such areas as increasing electronic tax administration and compliance areas such as offers in compromise, collection, due process, innocent spouse, and others.

Let me finish up a little bit on the business systems modernization program, because this is the biggest request for budget increase. For 2002, we did request an increase of \$325 million in appropriated funds for the information technology account. I should

point out, however, compared to 2001, this really represents a net increase in funds available to us of \$20 million because in 2001 we had carryover funds from prior year appropriations of about \$300 million. So those \$300 million were available to us in 2001. They will be used up, and that is a major reason why we need this \$325 million in 2002.

Over the next 18 months in business systems modernization, we will begin to deliver projects that will help us to improve the quality of phone service, to provide some limited Internet services to taxpayers and practitioners, and to provide some better tools for our employees.

In the following years, and accelerating particularly in 2003, we will, I think, be able through business systems modernization to dramatically speed up the issuance of refunds, increase the quality and timeliness of our responses to taxpayer inquiries, and begin to provide much better tools to our employees who are collecting overdue accounts and examining returns. Overall, long term, through modernization we will dramatically improve quality, speed, and effectiveness, as well as protect taxpayer rights.

#### PREPARED STATEMENT

So, in conclusion, Mr. Chairman, I believe that we know now in some detail what the path is. I think the path is the right path. It was laid out by Congress for us in the Restructuring Act, and we will be delivering through that path both short term and immediate improvements in service and compliance, as well as putting the foundation in place for longer term improvements.

Thank you very much, Mr. Chairman.

[The statement follows:]

#### PREPARED STATEMENT OF CHARLES O. ROSSOTTI

##### BUDGET SUMMARY

Mr. Chairman, I want to take this opportunity to thank the President, and in particular, Treasury Secretary O'Neill, for their support of the IRS and its critical mission. I am especially grateful that the 6.7 percent increase contained in the IRS budget request is above what many other Agencies are proposed to receive for the coming fiscal year. The President's fiscal year 2002 budget request of \$9.28 billion for the IRS will enable us to continue to maintain current operations and provide the crucial investments needed for our longer-term Business Systems Modernization program.

The budget includes close to \$400 million in investments to modernize the IRS' outdated computer systems. This multi-year project will provide the IRS with the modern tools needed both to deliver first class customer service to America's taxpayers and to ensure that compliance programs are administered efficiently.

In addition to our Congressional Justification, we have also provided the subcommittee our Annual Performance Plan. It is a direct result of the new IRS Strategic Planning process and complements our budget submission and supports the fiscal year 2000-2005 Strategic Plan.

##### INTRODUCTION

Mr. Chairman, even before the IRS Restructuring and Reform Act of 1998 (RRA 98) became law, it was clear that a long-term commitment was required to fix the IRS. The barriers to better taxpayer service, fair and uniform administration of the tax law and greater productivity would not yield to short term fixes. Progress would be hard won and the victories would be small at first. In fact, we are just beginning to reap the benefits of budget increases that were provided more than two years ago.

Mr. Chairman, the changes triggered by the passage of RRA 98, together with the need to modernize IRS's archaic computer systems, are all encompassing and probably unprecedented in magnitude for any government agency. It is perhaps only now that we have begun to implement some of the larger changes to our organization and business systems that we all fully appreciate the enormity of the challenge we have undertaken in partnership with Congress, the Administration and America's taxpayers. And that challenge is modernizing the IRS while still administering the largest tax administration system in the world.

From my own perspective, I have tried to describe this process in a number of different ways, such as overhauling a passenger plane in mid-flight. I have also likened our Business Systems Modernization plan to reconstructing New York City from the bottom up without disturbing anyone and still accommodating growth and change. The mathematician Alfred North Whitehead once wrote that, "the art of progress is to preserve order amid change and to preserve change amid order." And that sums up both the promise and challenge of making progress on modernization.

But any metaphor I could suggest would not do justice to the magnitude and pervasiveness of the change that has occurred at the IRS and will take place for the rest of this decade. This is by no means a comprehensive list, but let me provide the Subcommittee a representative sample of some of these changes.

Since the enactment of RRA 98, the IRS has a new mission and strategic goals. We changed the entire way we value success at the Agency, both individually and collectively. We invented a means to quantitatively measure success in a tax administration agency without considering dollars collected. We implemented and are administering the 71 new taxpayer rights provisions. Many of these taxpayer rights provisions, such as innocent spouse protection, due process in collections and offers in compromise, would individually be considered major change projects. Collectively, they represent a challenge of learning new ways of doing business for nearly every one of our 100,000 employees.

We also inaugurated the new customer-focused organization structure in October 2000, eliminating a 50-year old structure of districts, service centers, regions and national office staffs. We are redesigning nearly every business process and system in the Agency, from the way examinations are planned and conducted, to the way phone calls are answered and the way facilities repairs are ordered. Tens of thousands of IRS managers and employees have new jobs and many old jobs were abolished.

Just as importantly, we are making these changes while carrying out increasingly successful filing seasons for three straight years, achieving our first clean financial opinion from the GAO, and managing an extremely difficult and complex Y2K program. In fiscal year 2000, we were also able to stop the drop in enforcement revenue.

These changes set the stage for year-by-year improvements in performance and for implementation of even more fundamental improvements that will be enabled by the Business Systems Modernization program. These improvements are carefully mapped out in a new Strategic plan that spells out what the Agency must do as an organization to improve taxpayer service and meet compliance goals while shrinking in size relative to the economy.

This strategic plan, together with the implementation of the major parts of the reorganization and of other RRA provisions, means that there is one very important difference between the IRS situation today and the IRS situation even a year ago: namely, that the level of uncertainty about the future is greatly reduced. We still have much to do, but we know more clearly how to do it and have put in place the foundation for doing it.

#### FOUNDATION AND PLANS

On January 30, 2001, the IRS Oversight Board approved the IRS Strategic Plan. It follows closely the letter and spirit of RRA 98 and reflects the new and modernized IRS. The strategic plan shows how the IRS can dramatically improve service to taxpayers and ensure fairness and compliance with our tax laws. Moreover, the Agency will meet these goals while continuing to shrink in size relative to the economy.

The greatest challenge presented by the IRS strategic plan is that we must continue to administer the world's largest and most complex tax system while simultaneously reengineering and improving how the Agency works at its most basic level. In other words, we must operate effectively and modernize at the same time.

I want to emphasize the importance of this two-pronged or dual approach of strategies to improve performance over the next two years while modernizing the Agency in the longer term. Let me illustrate how this approach is now working.

In conjunction with our mission and goals, the IRS Senior Management Team developed 10 major strategies. For each of these major strategies, such as meeting the needs of taxpayers, reducing taxpayer burden and stabilizing traditional non-compliance areas, the Team defined Operational Priorities and Improvement Projects for fiscal year 2001 and 2002. Responsibilities were then assigned for carrying out the projects.

Operational Priorities are the basis for IRS staffing needs. They provide direction for conducting both new and current operations to ensure the achievement of our strategic goals. These priorities may change from year to year depending on changes in tax laws, the effects of business systems modernization and improvement projects or the redirection of program management.

Improvement Projects are the basis for information systems project funding; they also generate savings in staffing. The projects represent opportunities to improve the ways that we work and involve both business changes and information systems improvements. These projects are smaller and more focused than those stemming from the Business System Modernization program and are selected through an agency-wide prioritization process.

Let me stress, Mr. Chairman, that when making these decisions, senior management considered internal research and analysis, stakeholder input, Treasury Inspector General for Tax Administration and General Accounting Office recommendations and employee input on the key trends, issues and problems that most affect the IRS.

This dual approach will require sustained support from the Congress and the public, as the change will take time and will inevitably include setbacks along the way. It will also require investments, especially for business systems modernization, and adequate funding for current operations, such as customer service and compliance.

#### ORGANIZATIONAL MODERNIZATION, STRATEGIES AND PROGRAM PLAN DELIVERY

Following RRA 98's directions, the IRS designed and has made substantial progress in implementing a new organizational structure. It closely resembles the private sector model of organizing around customers with similar needs.

The IRS created four customer-focused operating divisions to best serve taxpayers: Wage and Investment, Small Business and Self-Employed, Large and Mid-Size Business, and Tax Exempt and Government Entities. There are also a number of functional units, including Appeals, the Taxpayer Advocate Service, Criminal Investigation, and Communications and Liaison. Internally, the Information Systems organization, including the Business Systems Modernization Office and the Agency-Wide Shared Service unit provide information technology and administrative support, respectively, to all divisions.

The new organization focuses on providing service in three key program areas: pre-filing, filing, and compliance. And to succeed individually and collectively, all programs and organizational units must deliver top quality services to taxpayers through these three programs.

There is also a much greater emphasis on pre-filing. We want to shift from addressing taxpayer problems well after returns are filed to addressing them earlier in the process, and in fact preventing problems wherever possible. This approach is also much more cost-effective and goes hand-in-hand with improving our program delivery in filing and account assistance and compliance services.

The organizational structure is the vehicle through which decisions are made and actions are carried out. The modernized organization was specifically designed to support the new IRS' major strategies and programs or services. These organizational units can assess the impact of the strategies and programs on long-term strategic goals and objectives.

The modernized organization also sets forth clear, end-to-end responsibility and gives a top official, supported by a small top-management team, the authority to serve a taxpayer segment. It is specifically designed to facilitate direct and meaningful two-way communication, both vertically and horizontally within the organization and with the particular taxpayer segment. The top management of each major division consists of a set of teams, each of which will be linked to the next level. In order to focus the operating units on delivering pre-filing services, new front-line organization structures were created in the each of the four operating divisions. The following are some examples of this new focus.

—In the Wage and Investment Division (W&I), the Office of Field Assistance will provide comprehensive, person-to-person taxpayer assistance. To fulfill this role, a new Tax Resolution Representative position (TRR) was created to institutionalize the success of IRS "Problem Solving Days" into our day-to-day interaction with customers.

- In W&I, the Stakeholder, Partnership, Education and Communication Office (SPEC) assists taxpayers by working with stakeholders to deliver products and services tailored to customers needing assistance. SPEC will deploy Account Managers and Marketing Specialists to cover every state and major metropolitan area in the United States during fiscal year 2001 and fiscal year 2002.
- In the Small Business/Self-Employed Division (SB/SE), the Taxpayer Education and Communication Office (TEC) will provide tailored information to these taxpayers. It will conduct research and then develop and deliver products and services to meet their needs. The TEC Office will also be established during fiscal year 2001 and fiscal year 2002.
- There are small pre-filing units in both Tax Exempt/Government Entities (TEGE) and the Large and Mid-Size Business (LMSB) Divisions. By using web sites, conferences, workshops and newsletters, the TEGE unit will reach its taxpayers and help them understand their tax responsibilities. In LMSB, the Pre-Filing and Technical Guidance Office will provide guidance on domestic and international tax issues, clarify core issues with industry experts and support industry components by identifying trends in tax issues.
- The Government Entities part of TEGE is made up of three distinct sub-segments: Tax-Exempt Bonds; Federal, State and Local Governments; and Indian Tribal Governments. During fiscal year 2001 and fiscal year 2002, TEGE will establish from the ground up a cohesive education, outreach and compliance program for these customers.
- The Taxpayer Advocate Service has multiple missions: 1) assist taxpayers to resolve long-standing problems with the IRS; 2) solicit feedback from taxpayers about IRS problems; and 3) identify systemic problems and propose legislative changes.
- Criminal Investigation's Lead Development Center will work with interagency task forces, the Financial Crimes Enforcement Network and the operating divisions to select, develop and assign leads.
- Business Systems Planning is a functional group included in all business units. This group will plan and analyze business needs for new projects, develop business cases, formulate Information Technology plans and budgets, develop and test projects, and implement and oversee modernization projects for its business unit.
- The Information Technology Services organization has been established to manage the operations, maintenance and enhancement of IRS installed systems. Previously dispersed into more than 15 different information systems support organizations, this new ITS organization is aimed at providing high quality, professionally managed services to the other IRS operating and functional divisions. It will also work in partnership with the Business Systems Modernization office to reengineer and replace IRS basic business systems and supporting technology.
- Finally, Agency-Wide Shared Services was established to support the operating divisions by providing world class administrative service to all the operating units nationwide.

#### *Business Systems Modernization*

For an organization so critically dependent on technology, IRS' systems are woefully obsolete and inefficient. The facts cannot be disputed. The IRS is saddled with a collection of computer systems developed over a 35-year period. The most important systems that maintain all taxpayer records were developed in the 1960s and 1970s.

In an age of faster and more powerful computers, taxpayers are shocked to hear that their most important personal financial data is stored and updated once a week on magnetic tape. Overlaying new software onto old has created a set of disparate data bases, many of which do not talk to one another. Until our consolidation as part of the Y2K program, there were 147 mainframes and 8,700 software products.

The effect of this obsolete technology on service to taxpayers and productivity also cannot be disputed. As compared to what the private sector can offer, the IRS' services are wholly unsatisfactory.

Many credit card companies and banks provide their customers with real-time account information; their phone representatives can often make adjustments on the spot. However, due to our archaic technology, IRS employees often do not have access to current taxpayer account information. Adjustments to a taxpayer's account may not take effect for up to 16 days because of delays in updating files and data among different systems. Payments and notices cross in the mail, often generating more notices and frustration. Our overall account quality for taxpayers requesting

information on their accounts over the telephone is improving but this filing season is still only 70 percent.

While the IRS Web site has proven to be an extraordinarily valuable source of information for taxpayers, we cannot yet use the Internet to provide taxpayers information about their returns or their tax accounts, or to exchange messages to resolve account issues. This is because we have not yet solved the difficult security problems required to provide this service while protecting taxpayer data.

Inadequate technology and the concomitant lack of accurate data also seriously hamper our ability to identify and collect unreported or unpaid taxes. Generally, individual audits are not started until 6–18 months after a return is filed. When they are started, the information available to our auditors is limited, extending the time to complete the audits and increasing the burden on the taxpayer. Collection of outstanding balances of individual and business taxes is extremely slow, usually taking years rather than months as is done in the commercial world. When cases are appealed, as is provided for in RRA 98, the transfer of case materials is slow and cumbersome.

The Business Systems Modernization (BSM) program was established to take the IRS to the next level and make longer term, fundamental changes to our business processes and practices while managing the inherent risks of the process. Over the remainder of this decade, it will deliver the major benefits to taxpayers and our tax administration system that modernization and RRA 98 are all about. And that process has already begun.

Earlier this fiscal year, the IRS Executive Steering Committee approved the Enterprise Architecture. It is the roadmap for modernizing the Agency's business systems and supporting information technology networks. The Enterprise Architecture (Version 1.0) will guide the agency's business and technology improvements in the coming years. The approval of the architecture marks a major milestone in our progress towards the goals of Business Systems Modernization and will enable us to design and build new business and technology projects that will be the backbone of the modernized IRS.

The IRS previously published a blueprint in 1997. It was the first comprehensive view of modernized tax systems and guided the IRS efforts to update technology. The new Enterprise Architecture reflects the lessons learned since 1997 and incorporates elements of the IRS reorganization into the four new customer-oriented operating divisions. It is an evolving document designed for constant use, with updates scheduled for spring and fall 2001 and regular updates thereafter. This new blueprint will ensure that IRS business systems' technology is compatible. And it will enable IRS employees to do their jobs better and provide taxpayers better service.

Because of the scale, complexity and risk of BSM, we can only carry out the plan by defining manageable projects, which are subject to a disciplined methodology. Each of these projects will be carried out through a step-by-step "enterprise life-cycle" in which successively greater amounts of detail are defined. The process requires that a vision and strategy phase be completed as a first step, prior to commencing tasks such as infrastructure development, information systems delivery, or process-reengineering. The final milestone in the cycle is an initial "deployment" of a project as an operational system. The IRS' Enterprise Program Management Office manages this process.

Also key to BSM's success is the Tax Administration/Internal Management Vision and Strategy Project. Through the project, we have instituted a practice that ensures the Operating Division Commissioners and staff develop and take ownership of a process and systems modernization approach that is consistent and integrated with the overall vision of the future IRS. The project's ultimate goal is to create an enterprise-wide view of tax administration that is reflected in BSM.

The Business Systems Modernization Organization (BSMO) has now identified all the major initiatives for the next several years that link directly to our major strategies. Moreover, BSMO defined the major dependencies between and among projects and created a sequencing plan for their initiation, development, and deployment. It has also made rough estimates at a high level of the costs associated with each initiative and developed multi-year spending estimates consistent with this program.

This high-level cost and schedule estimates serve as general guide for planning and setting overall priorities, but are not intended to be used to make specific spending or schedule commitments. No spending is actually authorized except with respect to specific milestones in which more reliable cost and schedule estimates are made. In short, the IRS now has a strategy for achieving the major goals of business systems modernization.

In addition to the strategy and planning for business systems modernization, much emphasis has been placed on building an adequate program management and product acquisition capacity for this huge program. In the 21 months that this pro-

gram has been underway, considerable progress has been made in building this capacity. However, management capacity can only mature with experience, and much more can and will be done to improve it.

The risks of business systems modernization are undeniably substantial. Any large and complex modernization program involves substantial risk, and by any measure, the IRS program is large and complex. However, the unique aspect of this program, as compared with any other business systems modernization program in the public or private sectors, is the exceptionally old and fragile base of existing installed systems on which the IRS totally depends for current operations.

Virtually every one of the IRS' 100,000 employees depends on these old, inefficient, inconsistent systems to perform their everyday job. There is little, if any, precedent for making a transition of an entire base of such large-scale installed systems on an enterprise-wide basis for an organization the size of the IRS. This unique situation, as undesirable as it is, also creates the necessity for the modernization program. There is no practical alternative to total replacement of this base of installed systems.

Although the risks of modernization are high, this does not mean that the program is destined to fail. With intense and effective management, the risks can be identified and addressed and appropriate corrections made. However, the nature of this risk means that it is to be expected that frequent adjustments to plans and schedules will be made to reflect experience. Delays and even failures of some initiatives and projects will occur, but if properly managed these problems can be identified early enough to correct them with reasonable adjustments in costs and schedules and without undermining the overall success of the program.

#### KEY DRIVERS OF THE FISCAL YEAR 2002 BUDGET REQUEST

The resources provided by the fiscal year 2002 budget request will be used to address the highest priority gaps in our ability to meet our mission and goals and will be focused on areas that we know will need more resources even while modernization continues. Taxpayers seeking to comply with tax laws must receive the assistance they expect; unpaid tax debts should be collected; and non-filing and under-reporting must be addressed and corrected. The IRS is falling seriously short in all these areas, in part because of resource limitations.

In addition, we must continue to support key programs mandated by RRA 98, including Electronic Tax Administration, and must reduce the case backlog in programs such as Offers In Compromise, Innocent Spouse and Collection Due Process. Information services delivery must improve toward established benchmark levels, thereby boosting productivity throughout the organization, including the service and compliance programs. Progress on correcting security and financial control weaknesses must be made and we must fully implement some of the technical training programs, including those for essential occupations such as exam and customer service.

Finally, modernization itself places major demands on the IRS operating organizations. The Business Systems Modernization Program, which is funded by the Business Systems Modernization Account (formerly the Information Technology Investment Account), provides only for outside contract services, not for internal IRS staff required for these programs. These internal demands are increasing rapidly.

Our plan to meet the demands of these key drivers will not be accomplished in fiscal year 2002; however, we will make a significant start to meeting those goals. We will address the following strategies as one of the significant steps on the road to IRS modernization.

#### *Fill New Front-line Pre-Filing and Taxpayer Assistance Positions in the Organizational Design*

In order to provide better service to compliant taxpayers, we must complete the staffing of our pre-filing organization that aids taxpayers in filing correct returns, as well as resolving issues with payments and correction of tax returns. The need for this service was highlighted during Congressional hearings and through the success of our "Problem Solving Days." Once our in-person taxpayer assistance offices are adequately staffed, we will be also able to reduce our reliance on work details from the compliance function during the filing season—a necessary, but inefficient practice. This will enable us to provide more effective compliance coverage.

#### *Increase the Level of Service (LOS) Access for Telephone Service*

The strategy for increasing LOS for toll-free telephone is two-fold: (1) increase staffing slightly and (2) install management, process and technology changes to increase the effectiveness and efficiency of telephone operations; these changes include both technology changes and improved management specialization and training of



assistors. With these changes, the IRS has set an aggressive goal to improve the level of service—the success rate for callers connecting to an IRS representative—to 71 percent. System and productivity improvements will raise Toll-Free Level-Of-Service the equivalent of hiring 1,474 additional live assistors.

*Replace Attrition in Front-line Compliance Positions*

External factors, however, are affecting our ability to meet this plan. In fiscal year 2001, the IRS is experiencing a higher than normal attrition rate of 6.05 percent versus the 4.5 percent average annual rate. This rise is due to a number of factors, including an aging workforce. Since much of this attrition is among our senior front-line staff, our productivity measures in fiscal year 2001 and 2002 may be affected. Replacement of staff lost to attrition with qualified personnel will be a major challenge over the next several years.

*Increase Front-Line Compliance Services Staffing for Document Matching and Telephone Collections*

In fiscal year 2001, sixteen Electronic Collection sites will be divided between W&I and SBSE. At those sites, Customer Service Representatives (CSR) will answer specific calls based on the taxpayer's needs. In fiscal year 2002, calls will be routed to CSRs based on additional characteristics. For example, a specialty site will be in place for taxpayers who have defaulted on installment agreements. These and other service improvement efforts will be enhanced with the addition of staff from the STABLE (Staffing Tax Administration for Balance and Equity) initiative.

Also, in fiscal year 2001, six Automated Underreporter (AUR) sites will be divided between W&I and SBSE. In fiscal year 2002, specialized service will be provided to target groups identified through feedback from compliance audits. Through both of these approaches, taxpayers will receive better service that addresses their specific tax problems and provides a basis for more efficient tax administration.

*Reduce the Number of Compliance FTE Diverted to Filing Season Details, Thereby Increasing Net FTE for Compliance*

In recent years, the IRS has detailed approximately 1,200 FTE from Examination and Collection duties to Customer Service to meet filing season workload peaks in the Toll-Free Telephone and Walk-In assistance programs. The STABLE initiative was designed, in part, to reduce by 50 percent the Customer Service reliance on short-term details of compliance staff. By reducing the diversion of revenue agents, tax auditors and revenue officers from enforcement casework, audit coverage and collection effectiveness are expected to increase.

*Centralize Processing of Most Offers in Compromise (OIC) to Reduce the Drain on Front-Line Collections Staff*

Over the past several years, the Offer in Compromise program continued to show an increase in its over-age inventory even while resources used have continued to increase. Recent tests proved that using a bulk processing methodology to process low-dollar cases resulted in productivity gains. OIC Centralized processing will be divided between two SB/SE sites responsible for processing determinations and case building. This centralization will allow Revenue Officers to concentrate on collecting overdue accounts while improving the timeliness of processing OICs.

*Move Most Innocent Spouse Cases to W&I to Reduce the Drain on Front-Line SB/SE Exam Staff*

To improve efficiency, the "Innocent Spouse" program has been centralized at one W&I service center location. SB/SE field staff will continue to work through their current inventory, but most new cases will be resolved in the W&I service center or taxpayer assistance centers. New cases forwarded to field compliance staff are expected to decline in fiscal year 2001. With the shift of work to W&I, there will be a reduction of Field Compliance resources in SB/SE dedicated to Innocent Spouse activity allowing a redirection of these resources to compliance activities.

*Fill Out the TEGE Government Entities Organizational Design*

TEGE designed its Government Entities (GE) organization to reach taxpayer segments that have been historically underserved: Tax-Exempt Bond-Issuers, Federal, State and Local Governments (FSLG) and Indian Tribal Governments. The size and complexity of the tax-exempt bond market requires ongoing attention to address emerging economic issues. Indian Tribal government gaming and related economic development are expanding rapidly nationwide. For FSLG, the objective is to identify emerging employment tax issues and provide guidance.

*Initiate Document Matching for K-1s*

Trust and partnership return filings have steadily grown since 1995, increasing 7.4 percent and 26.2 percent respectively. Trust return filings constitute the largest business filing population at 3.5 million filers, while partnerships surpassed two million filers in fiscal year 2000. Research suggests that up to 20 percent of pass-through income is not being reported. And it is further estimated that unmatched K-1s equate to up to \$500 billion in pass-through income. These pass-throughs are not being identified by IRS and therefore are not available for compliance reviews. Abusive tax shelters are taking advantage of IRS' inability to match, regulate or analyze this information. Over 350 FTE are to be hired from the STABLE initiative in fiscal year 2001 to ensure that greater effort is placed on this problem. These FTE will provide for the essential data entry, not the actual casework to follow up on matches.

*Improve Operational Efficiency Through Modernized Business Systems Coming On Line*

In its fiscal year 2001 budget request, the IRS stated: "Our modernization program relies on improved management, business practices and technology. Because the basic IRS strategy is to meet increased workload and service demands by re-engineering business practices and technology, freeing up positions through business systems investment is a critical requirement. By investing in technology and improved business practices, the fiscal year 2001 budget request avoids the traditional staff increases that would otherwise be required." And in fiscal year 2002, we will begin to deliver on that promise.

Operational efficiencies and improved customer service will be evident as early as fiscal year 2002 in two programs. The first, Electronic Tax Administration, will make submission processing more efficient through electronic filing. The second program, Customer Communications 2001, will provide increased toll-free telephone service to taxpayers. Let me describe these initiatives in greater detail.

—The e-Services project will foster easy-to-use electronic products and services. It is targeted at specific practitioner segments that inform, educate, and provide service to taxpayers. In addition, e-Services will provide the foundation for providing safe and secure electronic customer account management capabilities to all businesses, individuals, and other customers. This project will help the IRS meet the congressionally-mandated goal of 80 percent of tax returns and information filed by electronic means by 2007, while achieving a 90 percent customer and employee satisfaction rate.

—Research has shown that third party preparers filing complex returns have been slower to adopt electronic filing. In conjunction with our efforts to allow all forms and schedules to be filed electronically, the e-Services 2002 release is designed primarily to encourage paid preparers to e-file on behalf of their clients.

—The Customer Communications 2001 project will improve the efficiency and effectiveness of IRS' systems for responding to taxpayer calls on our toll free lines. Hardware and software improvements will be made to the telephone system that is used to receive, route, and answer more than 95 million taxpayer telephone calls each year. The efficiencies derived through modernizing will allow the IRS to improve its level of service without commensurate increases in the number of FTE handling calls. This project will not only deliver direct benefits by increasing the number of calls that can be answered with available staff, but will also be a critical foundation element for subsequent projects, since virtually all major systems require communication with taxpayers.

*Plan for Normal Workload Increases*

In fiscal year 2001, the IRS will handle a total workload—greatly increased by an expanding economy—with 15,000 fewer FTE than in fiscal year 1993. Staff reductions since fiscal year 1993 are due to downsizing efforts and internal re-programming to meet essential non-labor needs. We estimate that the IRS overall workload increases at the rate of approximately 1.8 percent per year, slightly greater than the rate of growth of returns filed. At the same time, RRA 98 created very significant additional resource demands. Expanded programs such as the innocent spouse provisions, offers in compromise and due process in collection required more than 4,200 IRS staff annually to administer.

## FISCAL YEAR 2002 RESOURCE REQUEST AND OBJECTIVES

To ensure that we meet these requirements, the IRS requires a minimal increase in funding in fiscal year 2002, as set forth in the President's budget. With the new organization in place, new technology improvements beginning to come on line, and

the staffing provided by the STABLE initiative, the declines in compliance activities, such as audit and collection actions, will stabilize while customer service indicators will continue to improve.

In fact, as demonstrated in the performance and workload measures included throughout our Congressional Justification document, we expect some improvement in performance over fiscal year 2000. For example, service improvements can be seen in the expected level of service increase to 71 percent. In addition, while still low by historical standards, the number of returns audited is projected to rise by 28 percent. Equally important, key areas of non-compliance, such as trusts and passthroughs, higher income returns, corporate returns and employment tax collections will receive more focus.

The fiscal year 2002 request is \$9.276 billion (without the Earned Income Tax Credit Account), \$580 million more than the fiscal year 2001 appropriated level of \$8.696 billion. Most of this increase, \$325 million, maintains the momentum needed for the Business Systems Modernization technology effort underway at IRS.

Let me stress Mr. Chairman, that the \$325 million increase will be used to replenish the Information Technology Investment Account (ITIA) which has been drawn down as the IRS begins to deliver on the BSM program benefits. In fiscal year 2001, in addition to the \$72 million in the fiscal year 2001 appropriation, the IRS had use of \$305 million in ITIA funds carried over from prior years' appropriations. Thus, the total ITIA funds requested for fiscal year 2002 of approximately \$397 million represent a net increase in actual funds available to the program of \$26 million or 6.5 percent even though the requested increase in appropriations is \$325 million. Apart from this technology investment, the remaining increase is only 2.9 percent greater than fiscal year 2001 and is necessary to maintain current operations.

#### *Program Changes*

Our budget request has two broad categories: Maintaining Current Operations and Modernization. Program increases to maintain current operational levels include FTE for the STABLE initiative and the Counter Terrorism Initiative. Decreases in our operational levels include program offsets in costs for non-labor resources that support activities of the IRS. Modernization includes increases for our investments in new technology to continue the momentum of business systems modernization and decreases in funds for organization modernization that are no longer needed.

#### *Maintaining Current Operations*

Modernization of the IRS includes modernizing the organization structure as well as the technological base. On October 1, 2000, the structural reorganization of the IRS was completed with the standup of the final operating units. However, there will be a period of adjustment over the next two years as the new business units assume their new roles and responsibilities. In particular, the service improvements in telephone operations and compliance depend on further workload redistribution, increased specialization and retraining of approximately 4,000 to 6,000 employees in Accounts Management and Compliance Services programs.

The IRS is also requesting \$325 million to fund the estimated cost of non-pay inflation and statutory pay and benefit increases. The IRS is a labor-intensive organization. Our mission is accomplished through people, and stabilization of the workforce is critical. To maintain current operations, protect the integrity of the filing season, oversee tax administration programs and implemented organization modernization, the IRS must have the resources to pay for the increased costs associated with statutory pay increases.

Congress provided funding in fiscal year 2001 for the STABLE and Counter Terrorism Initiatives. The STABLE initiative was designed to stabilize and strengthen tax compliance and customer service programs. In addition, the annualization of the Counter Terrorism Initiative will complete funding for the IRS Criminal Investigation portion of the National Counter Terrorism Initiative.

There are program offsets too—\$57 million in projected inflation for non-pay expenditures. It is believed that such costs can be offset through improved resource management.

#### *Modernization*

Most of the costs to America's taxpayers of administering our tax system are not in the IRS budget. Each taxpayer must invest time and money in preparing a return and must bear the intangible cost of dealing with an agency that attempts to help using extraordinarily old and poorly integrated systems. The IRS has been endeavoring to reengineer the entire way it does business to ensure that its customer, the American taxpayer, receives world class service.

*Business Systems Modernization*

For fiscal year 2002, we are requesting \$397 million to continue to invest in the modern technology necessary to improve customer service delivery. Compared to fiscal year 2001, this represents a net increase in available funds of \$26 million, taking into account funds available in fiscal year 2001 that were carried over from prior years. A specific list and description of the projects to be funded from this request are contained in our Congressional Justification; a summary of these can be found in the Appendix to our testimony. Funding to improve these Core Business Systems is necessary for full compliance with RRA 98 mandates. Full funding will allow for the following benefits:

- Short Term.*—Improved access to IRS support, information and tax data through multiple, easy-to-use channels; more accurate information provided by IRS; greater speed of response to taxpayers; and improved timeliness of IRS-initiated actions;
- Mid-Term.*—A set of business systems and practices more nearly on a par with the private sector, and that provides a single point of access to all information relating to taxpayer account information for both taxpayers and IRS employees;
- Long-Term.*—A flexible and adaptable environment that meets the Nation's tax administration requirements and taxpayer needs in the ever-changing technological landscape of the future.

*Organization Modernization Non-Recur*

Funds have been requested in the past three years to cover special costs that are related to IRS modernization. Some of these resources were for design work, space alterations and contract movers to physically realign employees with their new operating divisions. The remaining funds were for employee buyouts, recruitment, relocations, employee training, equipment, services and supplies, telecommunication moves and installations, and modification of information systems to the new organizational structure. Costs for organizational modernization are peaking in fiscal year 2001, and will decline by \$101 million in fiscal year 2002 and end in fiscal year 2003. In fiscal year 2002, the \$101 million non-recur reflects reduced costs for modification of information systems, employee buyouts and moving expenses, and some contracts, training and operating travel.

## CONCLUSION

Mr. Chairman, in conclusion, I believe that the IRS is on the right track. We have demonstrated both the ability to make some short-term improvements in service, and more importantly, the ability to produce a viable and cogent strategic plan that will guide our efforts to make changes in the entire way we do business and provide service to taxpayers. With your continued support and the support of the American people, I am convinced more than ever that we can succeed.

## APPENDIX A

The Business Systems Modernization Organization (BSMO) has now identified all the major initiatives for the next several years that link directly to our major strategies. Moreover, BSMO defined the major dependencies between and among projects and created a sequencing plan for their initiation, development, and deployment. It has also estimated the costs associated with each initiative and developed multi-year spending estimates consistent with this program. It now has a strategy for achieving the major goals of business systems modernization. The following are some of the key projects we will be working on during the next three years and beyond.

- Deployment of the Customer Communications 2001 Project.*—The Customer Communications Project is the first deployment of a business capability under the BSM effort. It is now in final testing before deployment in the third fiscal quarter. The IRS will greatly improve the efficiency and effectiveness of IRS' Automated Call Distributors (ACDs) and provide customer service levels on a par with the private sector. Hardware and software improvements will be made to the telephone system that is used to receive, route and answer more than 150 million taxpayer telephone calls each year. At a later date, Internet access capabilities will be added. This project will deliver direct benefits by increasing the number of calls that can be answered with available staff and will be a critical foundation element for subsequent projects, since virtually all major systems require communication with taxpayers.
- Development of the Customer Relationship Management Exam (CRM Exam) Project.*—Development has already begun. Through CRM, the IRS tackles some of the most complex tax calculations, including carryback/carryforward, the Al-

ternative Minimum Tax, and Foreign Tax Credit. This initiative will enhance the revenue agent's capabilities, reduce exam time, produce consistent results and reduce the burden on taxpayers who must deal with the IRS on these complex tax issues.

—*Development of the Security and Technology Infrastructure Releases (STIR).*—The design for STIR was approved and development was initiated. This project provides the essential underlying security infrastructure for the planned project deployments of the Customer Account Data Engine (CADE), Customer Communications (2002), and e-Services and Customer Account Management System. Development, testing and first release are expected by 2001.

—*The Customer Account Data Engine.*—(CADE) is the cornerstone of the data infrastructure. It is designed to provide a modern system for storing, managing, and accessing records of taxpayer accounts. CADE will create applications for daily posting, settlement, maintenance, refunds processing, and issue detection for taxpayer accounts and return data. The database and applications developed by CADE will also enable the development of subsequent modernized systems.

—CADE is scheduled to be released in stages, beginning first with simple tax returns being moved into the new CADE system, followed by increasingly complex taxpayer returns. As more taxpayer account information is moved into the new CADE system through these staggered releases, other modernized applications will be put in place to provide the interfaces necessary for IRS employees, and affected taxpayers, to access and carry out transactions. System development, testing and initial deployment of some returns is expected to be completed during 2002.

—*Development of the Enterprise Data Warehouse/Custodial Accounting Project (EDW/CAP).*—Today, the IRS has a variety of dedicated research databases, and also uses its operational databases for operations research/analysis. The timeliness, consistency and standardization of the data in these separate systems do not support integrated analysis and corporate-wide decision making. The inconsistent and redundant data in stovepipe systems can result in inconsistent management and reporting data.

—Through EDW/CAP project, the IRS will develop an integrated enterprise data warehouse to support organizational data needs, such as those that are critical to managing our new compliance initiatives. For example, it will provide a single integrated data repository of taxpayer account and payment/deposit information, fully integrated with the general ledger. And it will identify payment and deposit information at the point of receipt. The operating divisions will be given access to pertinent revenue, assessment, disbursement, and seized asset information. In addition, it will provide the IRS with the capability to maintain financial controls over the \$2 trillion of tax revenue received annually.

—The e-Services project will support our ability to meet the overall goal of conducting most transactions with taxpayers and their representatives in electronic format, as required by RRA 98. By 2002, the e-Services will: (1) provide the capability to register new electronic return originators over the Internet; (2) permit delivery of transcripts to authorized parties electronically; and (3) allow third parties who are required to provide certain forms 1099 and information returns to check the taxpayer identification numbers for accuracy before submission.

—An important aspect of e-Services project is that it will be one of the first projects to provide a practical and limited application to define and test the design of our critical security infrastructure for sending and receiving taxpayer data internally and externally.

—*Customer Account Management (Individual Assistance and Self-Assistance Operating Models).*—In today's environment, taxpayers are often unable to receive timely and accurate responses to requests and inquiries. These operating models will provide improved technology and business processes that will enable the IRS to: better manage customer service functions; maintain and utilize customer data to improve taxpayer interactions with the IRS; provide comprehensive account and tax law assistance to taxpayers and practitioners; and manage the case work flow of customer inquiries. There is a separate release strategy for each of the operating models based on the customer segment that benefits the most from the new capabilities.

—*Tax Education (Direct and Indirect) Operating Models.*—These models address improving business processes and operational systems within the pre-filing business area (i.e. before a return is filed). In the past, there has been minimal investment in pre-filing activities, such as making educational materials, information and forms more readily available. With the organizational modernization, pre-filing activities will become more prominent. The Tax Education Oper-

ating Models will help taxpayers reduce or eliminate errors before they become compliance problems by developing proactive and targeted educational materials that are available 24/7 in various formats from web-based products to published documents. Utilizing third-party partnerships, the IRS will develop and make available in plain language reliable educational information, guidance and advice.

—*Individual Assistance Operating Model for Reporting Compliance.*—The current compliance environment has produced a number of problems, such as extended cycle times, reduced coverage and decreased customer and employee satisfaction. This project will have a significant impact on the present Reporting Compliance operational environment by providing: (1) robust, issue driven compliance planning that utilizes outcome-based improvement to ensure fair and effective selection of cases; (2) highly automated decision engines for risk-based case selection, treatment assignment and resource allocation to decrease cycle time; (3) electronic case files with pre-identified issues to support productivity gains and increased coverage; (4) case working tools, workflow management and remote access to critical data; and (5) new technology and processes to establish collectability, secure payments and facilitate payment agreements at the closure of cases.

—*Filing and Payment Compliance Operating Model.*—This is an end-to-end strategy to resolve collection issues quickly and fairly. It augments, refines and replaces existing processes and technology to enable the IRS to interact with taxpayers in a seamless and efficient manner. Protection of taxpayer rights at all times is an important component of this strategy. Taxpayers who are able to resolve their cases with no direct IRS contact are provided various self-correct options. Field or Collection Call center staff will assist taxpayers who need help to resolve their delinquent tax cases. They will have access to real-time data to ensure that appropriate actions are taken and taxpayer rights are protected. The operating model will decrease cycle time to approximately six months.

#### GAO CLEAN AUDIT OF IRS FOR THE YEAR 2000

Senator CAMPBELL. Thank you, Commissioner. I do not have a conflict for about an hour and-a-half and Senator Dorgan does, so I think I will yield to him, if you have some questions you would like to ask before you go?

Senator DORGAN. Mr. Chairman, thank you very much. Again, Commissioner, thank you for being here. Without belaboring the point, all of us serve on many committees. I think I am in four committees and I think 12 subcommittees, and 3 of them are meeting right now. One of them I have to stop at quickly and I do not know that I will get back in time. So what I would like to do is submit a list of questions to you, and just mention two areas.

I understand that in fiscal year 2000, for the first time the GAO gave the IRS an unqualified or clean audit opinion for the year 2000. Congratulations.

Mr. ROSSOTTI. Thank you.

Senator DORGAN. That obviously suggests that the financial management systems have been improving and you have been taking the right kind of steps and providing the right kind of leadership. I congratulate you for that.

#### IRS MODERNIZATION PROGRAM

I do want to ask a question about the Washington Post report that I think I had mailed to you and certainly you have seen, and also a report in the Wall Street Journal. It is a problem that has existed prior to your coming to the IRS, but continues, and I suspect it is a vexing problem for the Service. That is, people calling in to get taxpayer assistance and getting the wrong advice. And at least in one in five circumstances, in addition to the wrong advice,

getting somebody who is not very friendly or not treating them properly.

I assume that you are treating this as a priority and struggling to try to deal with it. Could you give me your reaction to both of the reports?

Mr. ROSSOTTI. Yes. First of all, it absolutely is a priority to provide first quality service to taxpayers who either call in or actually come and visit, and let me take them separately because they are similar in some ways, but they are actually distinct.

Most taxpayers that contact the IRS do so by phone. We are getting about 100 million calls now across the whole year. About 30 percent of them are tax law calls, where people call in to ask information about tax law. This is a very, very high priority for us to improve. It is also a very difficult one because of the wide range of things that people can call in and ask about, so we are tracking this very carefully.

In the phone service area, but not yet in the in-person service, we do have a quality measurement system that we began to put in about a year and-a-half ago, which actually monitors real taxpayer calls and scores every call both in terms of accuracy of answer, as well as the more soft variables of how well they were treated. We have improved, and I cited some of the statistics. But it is still well below what we need to do.

The things that we are doing to fix this and to improve this have partly to do with training of employees, and that is probably the main thing that we have done to improve so far. But frankly, if you look at the things that people can call in about about tax laws and accounts, it is an enormously wide range of subject matter.

So one of the most important things that we are doing longer term is reorganizing—we have about 9,000 full-time-equivalent employees that answer phones, but in the filing season it goes up to maybe 13,000. Obviously, what we have to do is we have to divide them into specialized subsegments, so that an employee can reasonably be expected to learn about a particular area of tax law, and then we have to use technology to direct the calls to the people who have that particular expertise. That is the basic strategy.

We began to implement some of it even last year. We will be implementing considerably more of it next year. That is actually the very first project that is coming out of business systems modernization—call service that will direct those calls. We are also doing some other things in terms of the way that the place is organized, so that we can train people in these specialized subjects.

The net effect of this is that I really believe that—as we have already done and we have made some progress, over the next two years we will see continued improvement in both the accessibility and the quality of phone service for taxpayers.

On the other side of it—and we have spoken about this in person, is the in-person service. Some people just cannot cope over the phone or do not want to cope. They want to come in and deal with an IRS person face-to-face. This kind of service, this in-office service was treated very ambiguously by the IRS for many, many years. It was never clear whether it was really a priority or it was not a priority, and as budgets were cut, the staff was cut. We have talked about North Dakota. As of about 18 months ago, there were

only five full-time employees in the entire State of North Dakota that were assigned to specific offices so that people could come in and get service.

We made a determination as part of our strategic plan in our reorganization that, unambiguously, we do need to provide that kind of service for those taxpayers who need it. We have reorganized so that now that is all under one management structure. As part of the STABLE initiative we will be, and are at the present time, right as we speak, recruiting higher graded and additional employees. When it is fully effective, we will have 17 permanent employees in four different locations in the State of North Dakota.

I am using this because I know this will mean more to you than the thousands across the country. I am sorry, Mr. Chairman, I should have gotten the ones for Colorado too, but I will get them for you. It just occurred to me that I should not neglect Colorado in this discussion.

But I figured just using it to illustrate the fact that we are going to have a professional set of people managing it, they will be assigned full-time, and then they will be trained to offer reasonable services.

I will also say that we have further to go, I believe, in measuring the quality of service in our in-person sites than we do in the phone service because in the phone service, we have been at this for a couple years and it is easier to monitor traffic because you can do it electronically. We are still working on how to get our quality measurement system for the walk-in sites. That is one of our top priorities for this year and we will be, we hope, by the end of this year, putting in place some sort of a quality measurement system.

So I think you can see that we are putting a high priority on this. It is not a simple task, nor is it a low cost task, but it is one that I think the taxpayers need.

[The information follows:]

COLORADO TAX ASSISTANCE CENTER STAFFING

[Filing Season]

	2000	2001	2002	2003
<b>Denver:</b>				
Full time .....	4	9		
Seasonal .....		1		
Details-in .....	13	2		
P/T details-in .....	2	2		
<b>Total .....</b>	<b>9</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Colorado Springs:</b>				
Full time .....	2	3		
Seasonal .....	1	2		
Detail-in .....	1			
P/T detail-in .....	1			
<b>Total .....</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>5</b>



## COLORADO TAX ASSISTANCE CENTER STAFFING—Continued

[Filing Season]

	2000	2001	2002	2003
Ft. Collins:				
Full time .....	2	2		
P/T details-in .....	2	.....		
Seasonal .....		1		
Total .....	4	3	3	3
Grand Junction:				
Full time .....	1	1	2	
Detail-in .....	1	.....		
P/T detail-in .....	1	1		
Total .....	3	2	2	2
Colorado: Total .....	21	24	24	24

<sup>1</sup>Details in are from Compliance.<sup>2</sup>Part time details-in are for periods of peak demand only.

Senator DORGAN. Commissioner, thank you. Would you submit to the committee your benchmarks of expectations with respect to busy signals, quality and so on?

Mr. ROSSOTTI. Yes.

[The information follows:]

## TELEPHONE SERVICE BENCHMARKS

IRS establishes goals and expectations for a number of discrete aspects of its telephone operations. For fiscal year 2001, the key objectives included an Assistor Level of Service (the percent of customer calls answered by our major nonautomated telephone services) of 63.4 percent, a Tax Law quality rate of 74 percent, and an Accounts quality rate of 63 percent. Actual performance for January 1, 2001 through May 18, 2001, for Level of Service is 64.91 percent (an increase of 5.2 percent from the same period in the prior year), Tax Law quality of 73.83 percent (an increase of 2.73 percent), and Accounts quality of 69.77 percent (an increase of 18.03 percent).

Senator DORGAN. Again, largely because the issues raised in the two news stories describing the studies raise questions that you are concerned about I am concerned about, and I would like to get a sense of what you aspire to achieve in terms of your goals.

Mr. ROSSOTTI. I would be pleased to do that.

Senator DORGAN. Again, Mr. Chairman, let me, submit my questions for the record, and thank the Commissioner. We can have opportunities to visit outside of this hearing if other issues arise. Mr. Chairman, I am going to run over then to the Agriculture Appropriations Subcommittee. Thank you very much.

Senator CAMPBELL. Along that same line, Commissioner Rossotti, I think one of the complaints was also about preprogrammed messages and not being able to talk to a live, human being. You said you get 100 million calls a year, 9,000 people answer those calls, but it goes up to 13,000 during the busy season, spring filing season. Here on the Hill when we hire people, usually the one that comes in the door last is the one that has to answer the phones, because we know a lot of the calls are going to be just very simple

they will not be asking a lot of technical questions, and half of them are just going to be venting at us about something anyway and anybody can record that.

What are the qualifications of the people that answer those phones?

Mr. ROSSOTTI. We do not treat it that way, as just taking the first person that comes in, because these are very professional jobs that are very important. We do have a grade structure. The top grade for the phone assisters is currently a GS-8, which is certainly, I think, reasonably competitive with what the private sector is. Of course, they come in at a lower level to start and work their way up. They are trained to answer calls of particular kinds.

So they are full-time. They are there to answer people in person, and they answer very technical tax law questions, as well as deal with taxpayer accounts.

The difficulty is that there is such a large variety of questions that can come in, given the breadth of the tax law. And not just the tax law, but all the different accounting things that can happen, when somebody sends in a payment and it does not get credited to the right account, or they want to maybe have an installment agreement.

So the real challenge that we have is how to group these assisters and line up what specialized subject matter they should be trained in. You cannot train 9,000 people in everything.

Senator CAMPBELL. Sure.

Mr. ROSSOTTI. What we are really going to have with the technology is for people to be able to be directed through the phone prompting so that they get to the right person. So that, for example, if you want to ask a question about your dependent, whether you can take your son as a qualifying child as a dependent, you can push a button and it will give you to a person who is trained in that particular subject. That is really the critical thing that we have to do to make this work.

Senator CAMPBELL. If I ever call, I am going to call you. I just want you to know that.

Mr. ROSSOTTI. Yes, sir.

Senator CAMPBELL. If I have a problem, I will call you.

Mr. ROSSOTTI. And you will not be routed. I can promise you, you will not be routed through a routing system. You will come to me directly.

Senator CAMPBELL. That is good. We are joined by Senator Mikulski. Senator Mikulski, did you have an opening statement? We were asking some questions here.

Senator MIKULSKI. Thank you very much, Mr. Chairman. I will put my opening statement in the record, because I know we were delayed because of the votes. I want to welcome Mr. Rossotti to the committee. As you know, IRS is headquartered in Maryland. I think we are very blessed to have someone of his competence really trying to reform IRS while we formulate tax policy.

#### PREPARED STATEMENT

I will be asking questions about the pace of modernization, particularly technological, to really enhance consumer service and the

collection of our taxes. So I will just put this in the record and come in after you, sir. Thank you very much.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

Thank you Chairman Campbell, Senator Dorgan. Welcome Commissioner Rossotti. It's a pleasure to be here today to discuss the Administration's Internal Revenue Service budget request for fiscal year 2002.

Just a few weeks ago, you and I attended a groundbreaking ceremony in New Carrollton, Maryland for a new facility being built by the Computer Science Corporation. This building will house the private sector employees that will support the IRS' Business Systems Modernization project. I am so pleased that you joined us for this event because it signals your commitment to the success of modernizing IRS' outdated computer systems.

We are all familiar with the failed efforts to modernize technology at the IRS prior to your arrival. Billions of dollars were wasted. Dozens of outmoded computer systems were built. Little of which helped the IRS achieve the two objectives it must accomplish—improved customer service and fair and accurate tax compliance. This failure frustrated Congress, but even worse, it frustrated the front line IRS workers on the front lines. They work hard trying to help taxpayers get accurate and timely information but did not have the tools they need to do their jobs.

This legacy has also made the Congress skeptical the success of the current modernization effort. I am concerned that funding for this modernization has been inconsistent. Once we have appropriated funds, I know there is beauracracy before the funds can be released. I know that the 4 layers of review contributed to program's shutdown last year. I also know that it has made it difficult to attract and retain the best and the brightest to help solve one of the most significant information technology challenges in the Federal government

I hope that this year we can work together—the House, Senate and the Administration, to stabilize this program. I know that the computer infrastructure must work for IRS to move forward with other taxpayer services. The two are indelibly linked. So we must be reliable partners. We must ensure that IRS has the resources it needs to complete their mission. And, that the money gets to the contractors on time, so they can complete theirs.

Why is the IRS in such desperate need of new technology? The current database of tax files used by the IRS was created in 1962. We've come a long way since 1962. Americans have come to expect the highest level of customer service from VISA or MasterCard or American Express. They should expect no less as taxpayers from the IRS: getting questions answered quickly and accurately; receiving refund checks in two days instead of a month or six weeks; and having a system that eases the audit burden on our agents and allows them to pursue the billions of dollars lost each year to tax cheats. Taxpayers who pay by the rules should have safe, secure, and reliable customer service when they have questions about their tax returns

Building new computers from the group up is not an easy task. It requires the IRS to fundamentally change its organizational structure, its business practices, and its information systems. I commend you for your efforts to date to change the way the IRS does business. I look forward to the continued progress of the Modernization hope you know you can count on me to be an ally in this transformation effort.

Thank you Mr. Chairman.

INNOCENT SPOUSE RELIEF PROGRAM

Senator CAMPBELL. All right. Let me ask a couple of questions we will just go back and forth here, Commissioner.

The innocent spouse relief as it is called, that provision was enacted in 1998. Have the claims for the innocent spouse relief decreased or increased since 1998?

Mr. ROSSOTTI. They have increased very substantially, Mr. Chairman.

Senator CAMPBELL. And we are keeping up with those?

Mr. ROSSOTTI. Well, we are now. It took us a while to get caught up. And really more than getting caught up, to learn how to adjudicate them. There are four different subsections of the law, Section 6015. I know these because this is a very important section.

We had to really determine how we could train our employees and how we could set forth policy to determine, for example, which spouse knew what about a tax return when they filed it so we could separate these liabilities.

We have set up a special center, based in the Cincinnati area, that adjudicates most of these claims, except for the more complex ones. We are, I think, doing much better in the innocent spouse area. This was one of our priorities. I think by the end of this fiscal year we will be able to claim that we are caught up on a reasonably current basis, and are reaching some reasonable goals. So that is one area that was definitely a difficult one, but one that I think we have made some very good progress in. I feel very confident about that one now.

Senator CAMPBELL. When you came to Denver we had an opportunity to visit and listen to some innocent spouses and they had some really heart-rending stories about what had happened to them.

Mr. ROSSOTTI. They did, and I would like to believe that—even though I am sure not everyone will be satisfied—that if you were to ask today about people that have that particular problem, they would be getting a lot better treatment and a lot better service in that area.

#### TAXPAYERS ADVOCATE OFFICE

Senator CAMPBELL. Thank you. What is the overall progress of the Taxpayers Advocate Office? Do taxpayers appear to be satisfied with that?

Mr. ROSSOTTI. I think that probably most of the Members of Congress would be our best source of that evaluation. I have talked to many of them and I would have to say that I believe that they are satisfied, or at least a lot more satisfied.

We have an outstanding person that has recently come in to be the National Taxpayer Advocate, Nina Olson. If she has not already been over, I would be glad to bring her over to meet you, Mr. Chairman. She has long experience, not only as a practitioner, but in dealing with low income taxpayers and testifying before Congress.

Prior to her arrival, we had already reorganized the Taxpayer Advocate service into a distinct organization as called for by RRA. That is now operational. We have recently completed some additional delegations of authority for that service, and I think it is fair to say that they are operating very effectively in dealing with difficult cases that are not otherwise handled.

Now, the other role of the Taxpayer Advocate is to come up with legislative and other administrative proposals to make it easier for taxpayers in the longer term, and Ms. Olson has already testified this year before Congress. I think you will find that she has many valuable suggestions on how to make life easier for the average individual or small business taxpayer.

Senator CAMPBELL. The IRS, I guess is a different kind of an agency because if you are making progress, I guess you cannot measure it by the number of calls that are increasing by people that say they love you, because you will not get many of those. But

you have to measure it by the decrease of the people that are not as angry as they were.

Mr. ROSSOTTI. That is part of it. I think that measuring dissatisfied taxpayers is part of what we try to track. We would like to reduce them as much as possible. But I think more qualitatively or anecdotally, which is not unimportant, I have talked to many Members of Congress and members of their staff, and most of them report to me that the number of really bad cases that they run into that cause them a great deal of pain, such as the ones that you identified in your hearing, have decreased substantially. Of course, they have not decreased completely, but they have decreased substantially.

Senator CAMPBELL. Good. I understand also the audits and collections have decreased. In fact I read something in the newspaper about that about a month ago. How do you explain that, that there has been a decrease in audits since 1998, and as I understand that news article I read, a decrease in collections, too?

#### DECREASE IN AUDITS AND COLLECTIONS

Mr. ROSSOTTI. There has indeed been a decrease, not just since 1998, but going back to the early 1990s, in the percentage of audits. As a matter of fact, last year compared to 5 years earlier, the percentage of people audited of all types had gone down about two-thirds. So it is a very substantial decrease. A lot of that is traced simply to resources because there have been a continuing decrease in the number of staff in the IRS since the early 1990s.

Senator CAMPBELL. So you have fewer staff in auditing and collections both?

Mr. ROSSOTTI. Fewer staff, yes, we do. We provided some of those numbers in our answers to your questions, but we can provide more of them. I do not want to say it is all resources though, because the other thing that has happened is that demand for services has been up.

#### INNOCENT SPOUSE RELIEF PROGRAM

Let's take innocent spouse, which we just discussed. A very important program, very important to do, and was a focus of RRA. But in order to administer that program, we have had to add hundreds of staff years, and they have all been taken out of our exam function, for the most part, and allocated to adjudicating these claims. So as a result of the Restructuring Act there were additional responsibilities that were added on top of other ones, and therefore, the number that were available to do exams has gone down.

Now in the budget for 2001, which you passed and gave us for this year, we did, for the first time in 6 years, get some additional money to add staff to be able to do some of these things. That is the short term approach that we are taking to turn it around.

Also, as a result of our reorganization and some of our management improvements, we hope that we will be able to somewhat improve productivity in those functions to get more quality work, as well as more exams out, as well as in the collection area.

## IRS MODERNIZATION PROGRAM

Finally, of course, modernization is very important. In the long term, there is a lot of time that our examiners and our collectors spend that could be relieved by modernization. In other words, the amount of time they spend just handling paper, and closing and opening cases, looking up information, that kind of function can be off-loaded, to some degree, through modernization, and that is part of our strategy.

So we have had a definite problem in the decline in audits and collection activity over an extended period of time. We think it will begin to level off this year, partly as a result of the resources we were given. We hope it will not continue to go down as it has, but it will take some years to get it back up again.

Senator CAMPBELL. The IRS used to be accused of being too punitive, I know for years and year. I wonder now if some of that decline is because they are being too nice.

Mr. ROSSOTTI. I do not think it is a question of—my view is it is not a question of being—I really do not accept the idea that we need to be nasty to people in order to collect money. I think that we can do it professionally and effectively and protect taxpayers' rights, and yet still be effective. That is the essence of our challenge, but it is part of our entire approach.

I think with the right training, with the right resources, with the right tools, with the right management we can be very effective as a collection organization and still provide good service. After all, most taxpayers are compliant anyhow. Most people are calling us and they are willing to comply if we give them a little assistance.

The others that do not want to comply, we need to use enforcement means. But even that can be done in an appropriate way.

Senator CAMPBELL. Tell the committee something about the electronic filing that is projected to start in the year 2007. What steps are being taken by the IRS to meet that 80 percent projection by 2007, and what types of security measures are in place to make sure that personal information is protected by the e-filers?

## IRS ELECTRONIC TAX RETURN FILING

Mr. ROSSOTTI. That is also another very important program that was laid out in RRA. This year we are going to get about 40 million out of about 125 million returns electronically, so we are on the road. That is about 30 percent.

Senator CAMPBELL. Forty million?

Mr. ROSSOTTI. Yes, 40 million. We have gotten almost 40 million already. We are still getting a few more through extensions and so forth. So that is up significantly from last year and the year before.

We know that we have to do a lot more to get from 40 million, which is a little more than 30 percent of the returns, to 80 percent, which is the goal that the Congress set for us. Some of those things have to do with technology.

For example, right now, one of the impediments is we cannot accept all the different kinds of forms and schedules that can be filed on paper. So by next year we intend to solve that problem; we will have an ability to accept them all.

The second thing is we have to make it simpler and easier for people, and make it more attractive. Not only for individuals, but especially for practitioners, because practitioners file about 55 percent of the returns. So one of the things we are doing is we are trying to work with them. We had some progress this year, we will make more next year, to eliminate some of the ancillary paperwork that is associated even when you file electronically and pay electronically. There was still some ancillary paperwork and we are trying to eliminate that.

Finally, I think some of it is what, in the private sector, we would call good old-fashioned marketing. We have to go out and explain to people why this is better. It is better for the taxpayer, but people have habits. They have certain things that they do the way that they have always done them, and the way that you file your tax return traditionally is you put a stamp on it and you send it in.

We have to explain to people that they can get their refunds faster, that they can get their acknowledgements so they know that we have got it. There are fewer mistakes, so they do not get follow-up letters from us, which nobody likes to get follow-up letters from the IRS.

So we have to communicate those things effectively, and those are some of the steps that we are taking.

There are also some longer-term things that the business systems modernization will provide. With the eventual advent of a new taxpayer database we will be getting refunds out to taxpayers who file electronically within a matter of days, rather than a matter of weeks. We think that will be extremely attractive as an incentive for people to file.

Senator CAMPBELL. I am sure it will be. Let me yield to Senator Mikulski for a few questions and then we will get back to some of mine.

Senator MIKULSKI. Thank you very much for the courtesy, Mr. Chairman. We are also holding a hearing on the nursing shortage which I would like to be able to get up to.

First, I would like to compliment you on holding it in this room. What a beautiful room.

Senator CAMPBELL. Most of the Indian Affairs hearings are in this room.

Senator MIKULSKI. The sculpture and so on is quite stunning, and inspirational.

Senator CAMPBELL. If you had to buy that sculpture now you would need the personal support of Commissioner Rossotti and the IRS because that was an expensive one.

Senator MIKULSKI. I bet. Mr. Rossotti, as you know, we have been through many failed efforts to modernize the technology at IRS and there were a variety of reasons, but now we are on track. Could you tell me, do you feel that you have sufficient funds in this appropriations request to really complete or to continue a timely, well-paced effort on the technological modernization, which of course, is crucial to both collection and customer service?

## IRS MODERNIZATION PROGRAM

Mr. ROSSOTTI. First, Senator, I appreciate your comment about it being on track. I believe that we have made a great deal of progress and put in a forthright management approach to make this successful, although it is a very challenging program.

With respect to funding, as I mentioned in my opening, the request is for \$325 million additional funding over the 2001 appropriation. That is very, very important to get because that will give us—

Senator MIKULSKI. But is it in your request?

Mr. ROSSOTTI. The \$325 million is in our request, and Secretary O'Neill went to bat for us to get that money in the request. That is really the minimum that we need, because we had \$300 million of carryover funds—in the current fiscal year we had available to us \$300 million that the Congress had appropriated from prior years. That money is no longer available because it was used, will be used this fiscal year. That is why we need the additional \$325 million.

If we get that money, that will keep us on an up trend. Obviously, I think any agency head would like to move faster and to get more funds, but getting \$325 million increase is really a very, very important thing in order to keep this program on track.

Senator MIKULSKI. Mr. Rossotti, I understand that in order for you to have the approval process for the release of funds you have got to go through four layers of bureaucracy: your own, Treasury oversight board, OMB, and GAO, before the approval process is sent to the House and the Senate. Now do you have any suggestions on how we can either streamline this process or are these really not the barriers to modernization? It seems like, one, there is the need for money. But then there is a need for you to be able to get the approval to spend the money.

## APPROVAL PROCESS FOR THE RELEASE OF FUNDS

Mr. ROSSOTTI. There indeed is, and that is indeed a rather complicated process.

Senator MIKULSKI. Did you know that, Mr. Chairman, four bureaucracies?

Senator CAMPBELL. No.

Senator MIKULSKI. Your staff will be able to brief you after the hearing.

Senator CAMPBELL. I knew there were several.

Mr. ROSSOTTI. I do not have any specific proposals right now to change that process. It is imbedded in the law and in the statute. I think that in the immediate future what we would like to do is to work with all those groups to figure out how we can overlap some of these things. Not necessarily eliminating them, but if we could overlap them so they were not all in sequence, this would be very helpful and it would cut down some of the time.

Senator MIKULSKI. Would you consider some management ways of dealing with this, meeting statutory requirements? We are not going to change the statute. We need to address tax policy now rather than IRS structure and organization. But perhaps you can make some recommendations to the chairman and the ranking and



myself to reduce the length of time it takes to release the appropriation.

I agree that oversight is necessary because there has been a tendency to buy gizmos, gadgets, and a lot of other stuff that just did not work. I think we have got the right plan, the right contractor, and the right commissioner. So we look forward to working with you on this.

Mr. Chairman, I just wanted to bring that to your attention, and Mr. Rossotti, because we want you to be able to, if you will pardon the expression, just move it.

Mr. ROSSOTTI. Senator, I appreciate that a lot, and I understand. We fully understand the need for oversight, and I have to say that GAO, which is a key agency for Congress, in particular really worked very constructively on this. They have been critical and pointed out areas, but constructively.

I think that the biggest thing right now would be to just shorten the time. Even if we have the same oversight, if we could shorten the time so that it did not have to go all through these steps in such a sequential fashion.

Senator MIKULSKI. Either doing some together, or even in report language perhaps we could give them some deadlines.

Mr. ROSSOTTI. That would be helpful.

Senator MIKULSKI. Thank you very much, Mr. Chairman. You have been most generous.

Senator CAMPBELL. Thank you. Commissioner Rossotti, let me ask something about tax fraud. That has always been a problem, but as we move more and more to the high tech fields some have said that the Internet has really elevated the problem of tax fraud to a new level. Do you have a procedure in place to detect tax fraud on the Internet?

#### TAX FRAUD AND THE INTERNET

Mr. ROSSOTTI. I think, Senator, you put your finger on something. In fact there was a recent Senate hearing that focused on this and identified the fact that the Internet provides a vehicle to promote schemes, actually, is primarily what it does. It is not so much that fraud is on the Internet, although there is some of that, but it is just to promote. In other words, to try to entice taxpayers into believing that there are easy ways to put your money into some kind of a trust or some kind of a device, in some cases offshore.

So we have been working on that for a number of years. A couple of years ago, actually we started to focus on this. We call it abusive trusts and abusive schemes. A lot of our strategy is aimed at promoters there, Mr. Chairman. We have had some success in putting some of these promoters in jail and getting—in fact recently we got another injunction against one set of these promoters to shut them down.

Senator CAMPBELL. Do people within the IRS do the investigations or are they just turned over to the FBI or some other agency?

Mr. ROSSOTTI. No, we have a very effective internal criminal investigation organization. That is another thing that we have reorganized and refocused on this area. They have been the ones that have done these investigations. We do go to the Justice Depart-

ment to actually prosecute the cases, but we do the investigations and we have, in the last two years, begun to refocus them on these particular areas.

The one that you noted, these abusive schemes that are promoted through the Internet. Not exclusively through the Internet. They have a whole variety of promotional ways. That is a top priority for our criminal investigators as well as our civil enforcement people.

#### IRS E-LEARNING METHOD

Senator CAMPBELL. Tell me a little bit about the e-learning method the IRS plans to use to train new employees. I understand there are about 3,000 employees in accounting courses over the next 18 months that will be trained that way?

Mr. ROSSOTTI. Yes.

Senator CAMPBELL. Is that the training of new employees or does that include those already employed by the IRS?

Mr. ROSSOTTI. It is both, but it is largely for existing employees. We have put in place some opportunities for employees to advance but with a requirement that they obtain some additional accounting credits. So we think this is a way to make them more effective. You talked about quality of answers to tax code—

Senator CAMPBELL. Do you have a method of tracking if they are becoming more successful with that training?

Mr. ROSSOTTI. There are going to be assessments when they complete these courses. So they are going to have a variety of ways to take these kinds of accounting credits and to obtain the additional accounting education that they need. That includes the e-learning method.

Senator CAMPBELL. Is that a less expensive way of training them than the old-fashioned method of a class?

Mr. ROSSOTTI. Certainly, yes, it is.

#### EARNED INCOME TAX CREDIT

Senator CAMPBELL. The earned income tax credit which is designed to help working families has turned out to be a real success. I understand there is a 54-page booklet explaining how it works, but the booklet is pretty complex, and some eligible families do not apply because they do not understand the booklet. Do you have a method of simplifying that or is there anything in progress to try to simplify it?

Mr. ROSSOTTI. I think the difficulty, we are constantly working on the EITC to help people understand it better, and we have simplified some forms and so forth. But I think we do have to acknowledge, as the Joint Committee on Taxation here in the Congress recently reported, that the underlying tax law is surprisingly complex in this area because there have been many tests applied as to what determines a qualifying child and who supplies the support for that child.

For example, there is a test in there that if there are two earners in the household, only the higher earning income one can be the custodian of the child and things of that kind. So these get to be rather—there are income limits, and they depend on certain things. So there is some complexity there.

I must say that the Joint Committee that recently reported for the Senate Finance Committee had some interesting suggestions as to how some of this could be simplified. So we can do some on our end, but I think we are up against the stops as to the fundamental constraints of the tax law in this area.

#### IRS MODERNIZATION PROGRAM

Senator CAMPBELL. We have appropriated so far \$578 million for the business systems modernization. How is that coming along? Do you have a completion date?

Mr. ROSSOTTI. This is a program, Mr. Chairman, that will be going on for many years, so we have a lot of interim dates, but the program will go on. We have recently come out with a multiyear program that lays out what we are going to be doing for the next several years, subject to funding availability.

Just to note a few of the things that are underway now. The funds that you noted would include all the funds for the remainder of this fiscal year, including \$128 million that we now have before the Committee that we are waiting to get released. With that money we have basically addressed three major areas.

One is laying the foundation, in terms of management, to manage this whole program because Senator Mikulski noted, as you have noted, as others noted, these have not always been successful, these programs, in the past. Having the right management process in place is important, and that has to be done over a period of time and become mature as we get experience with it. But we have made significant progress in that area with more still to come.

Secondly, we did have to lay out the plan, or the architecture as it is called, so that these pieces fit together. We completed the first version of that recently. We will be coming up with a second version later this year. That is very important.

And finally, of course, the real payoff is actually delivering individual specific projects. Those things that will improve our productivity and our efficiency. Because of the scale of this it is not one project, Mr. Chairman. It is divided up into individual projects that will be delivered every year. It is much too big to do it all at once.

We have two projects that will be coming out this year—really over the next few months. One of them to improve phone service, as I was discussing with Senator Dorgan. The other one, giving some better tools to our examiners that examine corporate tax returns so they will be more efficient in looking at corporate tax returns. Those are the first two coming out.

Then next year, in 2002, we will get significantly more additional features to direct calls on the phone service, some initial Internet capability so that taxpayers and practitioners will be able to deal with us in a secure way over the Internet, which so far we have not done because of security issues.

And most importantly, most critically, the first update of our taxpayer database since the 1960s. We still are using a 1960s technology, believe it or not, to maintain our taxpayer records. This is the key foundation element of the whole thing. We hope that in 2002 we will deliver the first increment of taxpayers converted over to a new taxpayer database. Those are some of the highlights.

As each of those projects is implemented, we have a business case, as we call it, that shows——

Senator CAMPBELL. Is that what is called the customer account data engine?

Mr. ROSSOTTI. Yes, it is.

Senator CAMPBELL. What is the schedule for that? I know you have some different milestones. I understand it is behind schedule however.

Mr. ROSSOTTI. We have delayed slightly, a few months, the completion of a key milestone to make sure that we have all of the issues resolved here. That is the piece of this entire structure, if you will. If you thought about it as a building, this is the piece that holds up the whole building. We want to make sure that we get that absolutely right. It has defied solution for 30 years. We are still using a tape system that was built in the 1960s. So we need to make sure we get this right.

We hope to complete that milestone over the next few months. Then, once we do that, that will give us the design that we need, and the modeling that we need to lay out the precise dates that we will begin to implement. We still believe that we will begin to implement the first segment of taxpayers over to the new database in 2002, but we are being a little cautious about what the precise date is until we finish this design.

Senator CAMPBELL. 2002. Okay, Commissioner, I have no further questions. I want to thank you for being here. I am sure you have met both Pat and Lula who are sitting over here, haven't you, on different occasions?

Mr. ROSSOTTI. I certainly have, and I want to express my appreciation——

Senator CAMPBELL. They work very hard. Lula in fact set up this hearing. And I know, as you do, that if it was not for staff we would not be doing very much that is effective around here.

#### ADDITIONAL COMMITTEE QUESTIONS

Mr. ROSSOTTI. I just want to express my appreciation to both Pat and Lula as well as Chip, Nicole and Matt. They have all been fantastic to work with. They make it easy for us by letting us know what is expected and being very cooperative, and they are just great.

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

#### QUESTIONS SUBMITTED BY SENATOR BEN NIGHTHORSE CAMPBELL

##### BUDGET REQUEST

*Question.* To date, we have appropriated and released a total of \$578 million for the Business Systems Modernization.

How is the IRS doing in modernizing its computer systems?

*Answer.* We established the Business Systems Modernization (BSM) program to manage our longer term, fundamental changes to business processes and minimize the inherent risks of the process. Over the remainder of this decade, BSM will deliver major benefits to taxpayers and our tax administration system. To date, the IRS has made the following significant accomplishments:

—Approved the Enterprise Architecture. The architecture is the roadmap for modernizing the Agency's business systems and supporting information technology networks. It will guide the agency's business and technology improvements in

the coming years and is a major milestone in our progress towards the goals of Business Systems Modernization. It will enable us to design and build new business and technology projects that will be the backbone of the modernized IRS and will ensure that IRS business systems' technology is compatible.

- Established a Systems Engineering Board run jointly by the IRS and PRIME. This board provides additional and ongoing engineering guidance to the enterprise architecture effort.
- Created the 2002 Release Architecture that identifies the configuration items that we can trace to the Enterprise Architecture and allocate to specific modernization projects.
- Required architectural certification for every project before exiting Milestone 3, which is before the systems development phase. Through these reviews, compliance with the Enterprise Architecture is ensured. These reviews evaluate each project on:
  - Design consistency with the technical reference model in the Enterprise Architecture
  - Compliance with architectural standards
  - Systems interfaces as defined in the Enterprise Architecture
  - Compliance with meeting architectural security and privacy requirements
  - Systems Design alignment with the transition strategy
- Defined manageable projects, which are subject to a disciplined methodology, and are carried out through a step-by-step "enterprise life-cycle" in which successively greater amounts of detail are defined. The process requires that a vision and strategy phase be completed as a first step, prior to commencing tasks such as infrastructure development, information systems delivery, or process re-engineering. The final milestone is an initial "deployment" of a project as an operational system.
- Completed the Tax Administration/Internal Management Vision and Strategy Project. This project instituted a practice to ensure the Operating Division Commissioners and staff develop and take ownership of a process and systems modernization approach consistent and integrated with the overall vision of the future IRS.
- Identified all the major initiatives for the next several years that link directly to our major strategies.
- Identified major dependencies between and among projects and created a sequencing plan for their initiation, development, and deployment.
- Estimated, at a high level, the costs associated with each initiative, and developed multi-year spending estimates consistent with this program. This estimate serves as a general guide for planning and setting overall priorities, but is not intended to be used to make specific spending or schedule commitments.
- Placed more emphasis on building an adequate program management and product acquisition capacity for this huge program. In the 21 months that this program has been underway, considerable progress has been made in building this capacity. However, management capacity can only mature with experience, and much more can and will be done to improve it.
- Made significant progress implementing rigorous configuration management practices across the portfolio of modernization projects. In early July, we will complete a detailed report summarizing the development of the configuration management processes, the identification of the configuration items, and the establishment of the configuration baselines.
- Implemented the IRS Enterprise Lifecycle (ELC) which guides systems through five phases of conceptual development, technical development, and deployment.
- Partnered with the IRS' Business Operating Divisions to ensure modernized systems deliver needed business results.
- Scheduled multiple projects for near term delivery.

Although the risks of modernization are high, this does not mean that the program is destined to fail. With intense and effective management, the risks can be identified and addressed and appropriate corrections made. However, the nature of this risk means that it is to be expected that frequent adjustments to plans and schedules will be made to reflect experience. Delays and even failures of some initiatives and projects will occur, but if properly managed these problems can be identified early enough to correct them with reasonable adjustments in costs and schedules and without undermining the overall success of the program.

*Question.* How much has it cost to date?

*Answer.* To date, the Business Systems Modernization Program has committed \$31,234,563, and obligated \$334,139,235, for a total of \$365,373,798 of the \$577,263,148 appropriated. You are requesting \$86 million to annualize the STABLE initiative.

*Question.* How do you plan to distribute these funds?

*Answer.* The table below identifies the distribution of resources for STABLE in fiscal year 2002.

FISCAL YEAR 2002 STABLE INITIATIVE FTE

Type Description	Service Centers & Call Sites	Field	Total
<b>Pre-Filing Services:</b>			
Taxpayer Education and Assistance .....		1,039	1,039
Rulings and Agreements .....		26	26
Subtotal .....		1,065	1,065
<b>Filing and Account Assistance Programs:</b>			
Accounts Management—Telephone Assistance .....	768		768
Accounts Management—Field Assistance .....		727	727
Subtotal .....	768	727	1,495
<b>Post-Filing Compliance:</b>			
Payment Compliance—Telephone Collection .....	504		504
Tax Reporting Compliance—Document Matching .....		288	288
Field Examination—Revenue Agent .....		128	128
Subtotal .....	792	128	920
<b>Submissions Processing and Information Reporting: Information Reporting</b>			
.....	378		378
Subtotal .....	378		378
Total .....	1,938	1,920	3,858

SYSTEMS MODERNIZATION

*Question.* Modernization is one of the main objectives of the Internal Revenue Service. There are several milestones that will have to be completed and the Customer Account Data Engine (CADE) is one.

Will CADE be able to get back on schedule or will there just continue to be a slip-page? *Question.* What are we talking about in time, 3 months or longer?

*Answer.* Although we will not meet the January 2002 date for CADE, it will deploy during the summer of 2002. This delay is necessary to ensure CADE's logical design is complete, traceable to the current Enterprise Architecture, and under configuration management control. We are progressing in a prudent manner to ensure that future releases are not impacted. After the deployment of Release 3, and based on the experience gained, we will evaluate whether we can accelerate the remaining releases while limiting the risk to ongoing tax processing. *Question.* Will the modernization project be able to move ahead at this particular juncture or will it be delayed?

*Answer.* IRS is continuing to work on CADE. We are putting all the modernization projects under configuration control. We will baseline the technical solutions, the schedules, and the budget. We are in the process of baselining the projects that are in the 2002 release now. By July 15, we plan to have all projects under configuration control. At that time, we will be able to identify any delays.

AUDITS AND COLLECTIONS

*Question.* How do you respond to the sharp decline in tax collection enforcement taken by the IRS the past year?

*Answer.* In comparison with fiscal year 2000 results, the IRS is experiencing both positive and negative trends in Collection activity during fiscal year 2001. Enforcement actions are increasing in fiscal year 2001, with positive trends in the number of liens filed and levies issued in both Automatic Collection Systems (ACS) and Field Collection. Through March 2001, both delinquent notice yield and Taxpayer Delinquent Account (TDA) dollars collected have increased. However, the number of TDA dispositions has decreased slightly in fiscal year 2001. This decline is due to

the need to redirect resources from TDA work to handle the dramatic increase in the numbers of Offers in Compromise.

The IRS is taking several steps to increase resources applied to collection compliance activities. First, through the IRS Strategic Planning and Budgeting process, we are focusing our enforcement resources on those areas most in need of attention. In addition, we are reengineering and realigning work processes, with the goal of improving the effectiveness of our compliance activities. Finally, a new recruiting and hiring strategy will assure a more constant and stable workforce.

In the Strategic Planning and Budgeting process, new compliance strategies are being developed and current strategies are being updated to better focus collection compliance resources on those areas most in need of attention. For example:

- The National Nonfiler Strategy is a broad-reaching, multifunctional effort to bring nonfilers back into the system and to keep them there. It is supported by a continuing research effort aimed at identifying the most egregious taxpayer groups and determining causes of the noncompliance. By using information from State and private sector data sources, we expect to improve our case selection criteria and provide useful case file information to our Collection employees. In addition to direct enforcement efforts, we will develop education, outreach, and alternative treatment programs to address noncompliance of those taxpayer groups likely to respond to such programs.
- We are also developing a strategy to reduce Accounts Receivable. As part of that strategy, we are piloting an effort to address trust fund pyramiding problems with in-business taxpayers through the use of the general civil injunction provision. Through the IRS Office of Government Liaison and Disclosure, and in partnership with the Federation of Tax Administrators (FTA), we are seeking 100 percent participation in the State Income Tax Levy Program (SITLP) with the 41 States that have an income tax. We also are working with the Financial Management Service (FMS) and other Federal agencies to expand and enhance the Federal Payment Levy Program (FPLP). IRS has instituted a number of reengineering and redesign projects designed to improve the efficiency of its operations and to provide a higher level of consistency in its treatments.
- The Collection Reengineering project will address a number of mainline collection functions. For example, we will examine the assignment of trust fund cases from the Collection notice stream to Collection field enforcement to minimize delays between assessment and compliance contact. We will seek to simplify our policy and procedures for referrals to Appeals, the pyramiding of trust fund liabilities, and case documentation and managerial review requirements. In the long term, we will be examining and rethinking all of our fundamental collection processes with the goal of improving efficiency and consistency in our treatment of taxpayers.
- To address the growing number of Offer in Compromise cases, we are reviewing and reengineering our work processes and centralizing those cases most effectively worked in a service center environment. As part of that effort, we will be addressing the backlog in inventory and implementing actions to improve efficiency.
- A project to enhance the Automated Collection System (ACS) will explore the use of the predictive dialer technology to commence outcall campaigns to targeted inventories. This improvement will allow the ACS outcall process to route answered calls back to employees dedicated to answering calls. It will also route no answer and busy calls to a research function designed to determine suspended or deferred status.
- The Compliance Risk project will identify and assign those cases that have the greatest impact on compliance. Through behavioral and application scoring of cases, high-risk cases will be identified and assigned earlier in the collection process.
- Our Vision Migration Strategy will centralize and consolidate the support services associated with case processing, workload delivery, and technical support. This will streamline support services, resulting in efficiencies and the potential for reassigning enforcement personnel to front line activities.

We are also trying to address continuing concerns expressed by compliance personnel on their exposure to taxpayer complaints even when they exercise their enforcement responsibilities appropriately. The approval process in place for seizure action, in particular, has been emphasized as a protection against unfounded allegations of impropriety. Appropriate case direction by managers is an issue we are trying to address as well.

To assure a constant and stable workforce, we have developed a recruiting and hiring program that will result in hiring approximately 550 new Revenue Officers this fiscal year. In addition to increasing our Revenue Officer staffing levels, the IRS

is decreasing the amount of Revenue Officer time applied to filing season activities. The institution of the Staffing Tax Administration for Balance and Equity (STABLE) initiative will serve to replenish the Customer Service workforce and allow Compliance enforcement staff to again focus on appropriate collection enforcement activities.

*Question.* Are you at a full staff in the auditing and collection departments?

*Answer.* Since our last hiring initiative, we have experienced a steady decline in the number of field audit and collection staff available to examine returns, collect delinquent taxes, and secure delinquent tax returns. Hiring an additional 100 Tax Compliance Officers (formerly known as Tax Auditors), 558 Revenue Agents, and 550 Revenue Officers this fiscal year will allow IRS to stabilize its workforce and to assign resources to the areas of concentrated workload. Additional hiring of Customer Service staff through the Staffing Tax Administration for Balance and Equity (STABLE) initiative also will allow us to utilize more appropriately our audit and collection employees.

A key objective of the fiscal year 2001/2002 STABLE budget initiative is to reduce reliance on compliance and enforcement staff for taxpayer assistance. In fiscal year 2001, 40 percent fewer Compliance FTE will be diverted to assistance programs. A second reduction of nearly 50 percent will occur in fiscal year 2002, and by fiscal year 2003, we expect that detailees from Examination and Collection will be nearly eliminated.

*Question.* There have been growing concerns over the past several years that the IRS audit coverage rate is declining and that higher percentage of low-income taxpayers are being audited.

What is your view on this?

*Answer.* Rather than rely strictly on the traditional audit to assure reporting compliance, the IRS has for many years relied on a range of techniques to verify certain items on tax returns. These include correcting math errors on tax returns, matching tax return data to information obtained from third party reporting, and corresponding with taxpayers by mail to verify questionable items reported. These efforts, taken in conjunction with the traditional face-to-face audit, comprise the IRS strategy for assuring that taxpayers file accurate tax returns.

With the use of document matching, as well as other return verification techniques that new technology will eventually enable, it is our view that there is no need to return to the levels of individual audit coverage that existed even five years ago, which was three times the fiscal year 2000 level. The IRS strategic plan does not call for this approach. In the long run, we will rely on our business systems modernization program to increase the effectiveness and efficiency of these activities.

One of the real concerns about the decline in audits is fairness to the majority of taxpayers, whose income is reported and can be readily verified. It is relatively easy for the IRS to verify the returns and reported income of the majority of taxpayers, whose income results from wages, interest, and dividends, and who take the standard deduction. It is harder, and often requires audits, to verify the income of taxpayers with other forms of income and deductions or more complex returns, who are often higher income taxpayers. To the extent that the IRS uses more and more document matching and less and less auditing, the effect may be perceived as, and will in fact be, unfair because higher-income taxpayers will not have their returns verified to the same degree as middle-income taxpayers.

Hence, we are taking steps to use our traditional audit resources more efficiently and effectively. The IRS Strategic Plan sets forth an approach, in the short run, to stabilize our level of traditional compliance activities, such as individual audits, at or slightly above current levels and to focus them on the areas where they are most required. Efforts to free up Examination resources, which can be redirected to increasing the audit coverage of higher income taxpayers, include:

- Reducing Examination resources applied to customer service work over the next two years.
- Making third party matching data available earlier. Assembling all available data about a taxpayer case for our employees will avoid the need to get duplicate data from taxpayers.
- Selecting most individual tax returns for audit within the same year they are filed and completing those audits more rapidly through Business Systems Modernization improvements.
- Reengineering the examination and administrative support processes.
- Centralizing the “Innocent Spouse” program to improve efficiency and allow the redirection of front-line Examination resources to audit activities.



*Question.* Offer in Compromise is a way to make it easier for taxpayers to settle their tax liabilities for less than the amount owed to the IRS. This has become a lengthy process and in some cases it is taking up to a year or longer to settle.

How does the IRS plan to reduce the time it takes to resolve these cases?

*Answer.* To shorten the time frames for processing offers in compromise (OIC), the IRS will realign field resources to increase the number of staff assigned. In fiscal year 2000, we increased the revenue officer, paraprofessional, and clerical staff assigned to OIC from 762 to 1,230 FTEs, and we project an increase to 1,267 by the end of fiscal 2001. We also reviewed our processes and procedures in an effort to shorten processing timeframes. As part of that effort, we will be addressing the backlog in inventory and providing additional recommendations to redesign the Offers in Compromise (OIC) process.

To address the increasing workload in the OIC program, we conducted a pilot project in two service centers to test the feasibility of processing offer in compromise cases of less than \$50,000 in a centralized environment. Based on the results of the test, we expect centralized bulk processing of OICs to produce gains in both staffing and time per case closure. Beginning in July 2001, all new OIC receipts will be sent to one of two service centers, depending on where the taxpayer resides. A staged implementation is planned between July and November, with actual casework beginning in August 2001.

*Question.* Let's say a taxpayer dispute has been resolved and the taxpayer has agreed to pay the tax liability, but requests that the penalties be waived. How does the IRS determine whether to waive payment of the accrued penalties?

*Answer.* Employees are required to follow specific internal procedures regarding penalty relief. As a general rule, the Service's policy does not provide abatement for taxpayers who agree to pay their tax liabilities on the condition that penalties are removed.

While different rules apply to different penalties, certain penalties can be abated for reasonable cause—for example, the penalties associated with failure to pay tax and failure to file a timely return. In order to minimize subjectively diverse judgment calls in the determination of reasonable cause, and to help ensure that taxpayers in roughly identical situations are given consistent treatment, the Service is currently phasing in use of the Reasonable Cause Assistor (RCA). The RCA is a computer program that guides the penalty examiner through a system of rules assuring a consistent application of reasonable cause provisions.

#### ELECTRONIC FILING

*Question.* Electronic Filing is projected to be the method of choice by year 2007. What type of security measures do you have in place to protect personal information of e-filers?

*Answer.* During the last year, the IRS initiated timely actions to strengthen important e-filing security controls, including completing actions to improve critical access controls and to complete the systems' security certification. The electronic filing systems meet critical Federal information security requirements to provide strong controls to protect taxpayer data. We have strengthened our systems' security, and we will remain vigilant to keep our e-filing process the safest possible. As the General Accounting Office (GAO) has previously noted, the IRS does have an aggressive and effective security program. This program—along with our privacy program—is actively focused on safeguarding the confidentiality of taxpayer records. Since 1997, we have implemented many corrective actions to improve our computer security infrastructure since, and we are placing a strong emphasis on designing security safeguards into new systems.

The IRS has further enhanced its security program by focusing on mission assurance, risk management, and measurable corrective actions. The program continues to improve the Service's security infrastructure, approaches and processes—while overseeing and managing risks. Of special note, the IRS has been focused on enhancing its computer security incident reporting and analysis capability for the last few years to better detect system and network intrusions. In this regard, the IRS is continuing to shift considerable resources to support its security program approach. Many planned and needed improvements are highly dependent on continuing our systems modernization efforts to adequately mitigate the risks and weaknesses associated with our existing systems infrastructure. These weaknesses are consistent with many of those that continue to be reported by GAO and the Treasury Inspector General for Tax Administration (TIGTA).

Because e-file transmitters, along with Electronic Return Originators (ERO), are considered trusted partners, if tax return information is misused, the transmitter may be subject to criminal penalties under §301.7216-1(a), or civil penalties under

§ 6713 for unauthorized disclosure or use of tax return information. Additionally, they undergo an annual suitability check, which includes a review of tax returns filed, and tax liabilities.

The IRS also monitors authorized e-file providers for compliance with the revenue procedure and program requirements. Monitoring may include reviewing IRS e-file submissions, investigating complaints, scrutinizing advertising material, checking Form 8453 submissions, visiting offices, examining files, observing office procedures, and conducting annual suitability checks. Violations may result in warnings or sanctions for the authorized e-file provider. Sanctioning may be a written reprimand, suspension or expulsion from the program, or other sanctions depending on the seriousness of the infraction. Because EROs and transmitters have access to taxpayer data, stringent suitability requirements are monitored and enforced for the duration of their participation in the e-file program. In the processing year 2000, 224 new applications to participate in the program have been rejected and 703 program participants have been suspended based on these screenings. Because of these controls, we believe the risk of taxpayer data coming through transmitters is no greater than that of the risk of taxpayer data coming through the mail in paper format.

#### E-LEARNING

*Question.* E-learning is the method IRS plans to use to train about 3,000 employees in accounting courses over the next 18 months. This massive number of employees is the first step in a comprehensive effort to use technology by way of the Internet and e-mail to train employees. This method is supposed to hold down the cost of employee education.

What do you estimate the cost per student enrollment to be through e-learning?

*Answer.* We estimate the costs to be \$1,500 for a 3 semester hour course from a major University under the IRS consortium.

*Question.* Is there a procedure in place to track the success or failure of this training?

*Answer.* The IRS tracks the success or failure of its training on three levels:

- Level 1.*—learner reaction—determines how the trainee feels about the training;
- Level 2.*—learner achievement—determines whether or not the trainee learned the skills and acquired the knowledge that formed the learning objectives of the course, and;
- Level 3.*—job performance—determines whether or not the trainee used, on the job, the skills and knowledge presented in training. A Level 3 evaluation consists of on-the-job instructor (OJI) or coach and/or manager assessment of trainee performance of job tasks during on-the-job training (OJT) and trainee self-assessment at the end of OJT.

#### LIFE INSURANCE COMPLIANCE VERIFICATION

*Question.* Does the IRS audit life insurance contracts to determine if they meet the requirements of the rules Section 7702, which was enacted in 1984, or whether they constitute modified endowment contracts under section 7702A, which was enacted in 1988?

(In general, it should be noted that extensive guidance on the examination of Life Insurance Companies is contained in the Internal Revenue Manual (IRM 4.4.2 (May 19, 1999)). This particular section is known as the “Insurance Industry Handbook”. An Industry Guide on the Life Insurance Industry (July 2000) further supplements this manual section).

*Answer.* During an examination, IRS Agents ask questions related to IRC §§ 7702 and 7702A compliance. These sections contain specific rules for determining the amount of cash that is able to accumulate tax-free (“inside build up”). In the event the accumulation exceeds the allowable amount, a taxable distribution is deemed to occur to the policyholder/recipient.

When an excess accumulation occurs, either the IRS and/or the taxpayer will usually seek to enter into a closing agreement at the National Office level. Any amounts at issue are usually assessed against the insurance company rather than the individual policyholders. This is accomplished by entering into a closing agreement in which the insurance company agrees to pay taxes and interest due to the excess accumulation. Penalties may be assessed based on the particular circumstances.

Closing agreements are executed through the Office of Chief Counsel in Washington. This process saves resources by avoiding the time and cost of separately contacting each policyholder individually. Although the agreements usually result in an assessment against a party that is technically not liable for the tax (insurance companies), they are designed to insure that the proper amount of tax due is, in fact,

ultimately paid to the IRS. This closing agreement process reduces burden on the individual taxpayers and allows for early resolution of the issue.

Violations of §§ 7702 and 7702A do not directly affect the 1120L Life Insurance tax return. The only area of concern that would directly relate to the insurance company's 1120L tax return is the claimed deduction for life insurance reserves. Since the excess cash accumulation generally remains in the policy as a result of the closing agreement, the value of the policy increases and the related reserves remain unchanged. Policies are generally not disallowed under § 7702 since exiting mechanisms exist that would permit the reinstatement of policies. The Modified Endowment Contract rules codify this practice.

*Question.* Does the IRS audit annuity contracts to determine whether they contain the distribution on death language that Congress mandated in section 72(s)?

*Answer.* Yes. The IRS examines annuity contracts to determine whether the proper amount of premium income has been recognized, and whether the reserves are properly computed in accordance with provisions of the Internal Revenue Code. In general, due to the voluminous number of contracts sold, individual annuity contracts are sorted into groups with similar characteristics. An analysis of individual contracts is then conducted on a test sample basis.

*Question.* Does the IRS audit annuity and life insurance contracts to determine whether they comply with the diversification rules in section 817(h) and the investor control rules?

*Answer.* Yes. In general, the examination of a large life insurance company will consider the formation of a separate account, which must meet the adequate diversification requirements of IRC § 817(h).

In addition, before being permitted to engage in the sale of units in a separate account, a life insurer must seek approval from the Securities and Exchange Commission. The SEC imposes a set of similar diversification rules on a life insurer seeking approval. As an examination tool, Revenue Agents examine the application of the § 817(h) diversity rules and also consider any SEC requirements.

With respect to the investor control rules, the IRS is currently conducting a study to determine how a violation of Rev. Proc. 99-44 may be occurring through the sale of life insurance products. The Service is also examining issues involving Bank Owned Life Insurance (BOLI) and Trust Owned Life Insurance (TOLI) and other offshore insurance opportunities. It should be noted that certain sections of the Code dealing with pension plan contracts are considered exempt under Rev. Proc. 99-44.

*Question.* Which department within the IRS is responsible for conducting such audits?

*Answer.* The Large and Mid-Size Business Operating Division ("LMSB") is currently responsible for conducting these audits. LMSB is further aligned by industries, in order to provide an industry-focused organization that will improve business practices, processes, and training. The Financial Services and Healthcare Industry of LMSB serves taxpayers related to commercial banking, savings and loans, securities, healthcare, insurance, and other financial services.

Since the taxation of insurance companies is a highly specialized field, LMSB has trained specific employees within the Financial Services and Healthcare Industry to work exclusively on insurance cases. These specially trained employees are primarily responsible for the examination of taxpayers in the insurance industry.

*Question.* Does the IRS have the actuarial expertise and technical systems to conduct such audits?

*Answer.* In the past, the Service has generally conducted such audits internally without the use of outside experts or systems. However, from time to time, the IRS has hired outside actuaries to aid in the examination of large life insurance reserves claimed by taxpayers. As a result, substantial adjustments have been made resulting in increased tax liability.

Although actuaries are part of the examination team, they do not generally work directly with the taxpayer. The outside actuary helps in the development of Information Document Requests. Any questions or requests for documents from the actuary are submitted to the IRS Team Manager or Team Leader for formal issuance by the examination team. Any information received by the Team Leader is reviewed with the outside actuary. The Team Manager and/or Team Leader propose any changes to the tax return. The Revenue Agents apply any actuarially developed data in accordance with the requirements of IRC § 807.

Outside Experts are only used in special situations such as cases involving high impact precedent setting issues, high dollar unagreed issues, high impact compliance issues, and significant issues where in-house expertise is limited or not available.

The Service does not currently employ a professionally qualified actuary. However, the Service is currently in the process of attempting to hire several profes-

sionally qualified actuaries. A job announcement has been placed both internally and externally in industry publications.

*Question.* Has the IRS estimated the potential tax revenues that would be raised if these audits were conducted, and compared that estimate to the cost of conducting those audits?

*Answer.* The IRS does currently conduct examinations of the above issues and, when necessary, uses outside experts to enhance the quality of any resulting adjustments. However, specific estimates of potential revenue or costs relating to these issues are not available.

During an examination of a large insurance company, the Service also considers other important issues including issues involving whole life, permanent life, industrial life, pensions, accident and death, disability (active—retired lives), or Guaranteed Investment Contracts (GICs) with permanent purchase rate guarantees. In addition, the Office of Tax Shelter Analysis (OTSA) is currently developing issues involving Bank Owned Life Insurance (BOLI) and private placement insurance.

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QUESTION SUBMITTED BY SENATOR RICHARD C. SHELBY

*Question.* In the report to accompany last year's Treasury and General Government Appropriations bill (S. Rept. 106-500), the Committee raised concerns about Technical Advice Memorandum 199918001 and directed Treasury to reconsider the TAM in view of its impact on recycling and report back to Congress. Please provide the Committee with the status of that review and the timeline for providing the Committee your report.

*Answer.* Technical Advice Memorandum (TAM) 199918001 concluded that bonds issued to finance the facility under examination did not satisfy Code section 142(a)(6), which permits tax-exempt financing for solid waste disposal facilities. The TAM applied Income Tax Regulations section 1.103-8(f)(2)(ii)(b), which defines solid waste as waste material that has no market value at the place where the waste is located. The facts of this case indicated that on the relevant dates, the waste being processed in the bond-financed facility had a market value at the place where the waste was located. This TAM applied only to the facts under examination. Since the issuance of this TAM, other waste recycling facilities have been examined and found to comply with the Code and regulations.

The Senate Report noted that the Committee was concerned with the apparent direction that the IRS is taking with respect to the use of tax-exempt bonds for recycling as evidenced in Technical Advice Memorandum 199918001. The Committee believed the position in the TAM was inconsistent with the Administration's Executive Orders and with the nation's effort to promote recycling. The Committee was concerned further that the TAM will act to chill recycling efforts and increase the amount of materials going to landfill or to waste incineration. Accordingly, the Committee directed the Treasury Department to reconsider the TAM in light of the Administration's and Congress' policy to increase recycling and report to the Committee on its findings.

We have not yet completed our review of the TAM in question. Our initial review indicates that the TAM is consistent with existing rules and regulations, and is based on the application of those rules and regulations to facts that show the waste material in question had value on the relevant dates.

We are, however, aware of Congress' interest in this issue. Moreover, in late March, we received a letter from the National Association of Bond Lawyers, which included a comprehensive "Report on Solid Waste Regulations." We are in the process of reviewing this report and arranging a meeting with industry representatives to discuss their concerns. We hope to have the meeting in late June. Once we have completed this task, we will report back to the Congress.

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QUESTIONS SUBMITTED BY SENATOR BYRON L. DORGAN

BUDGET REQUEST

*Question.* Regarding the overall IRS budget request, the Oversight Board recommends \$800 million more for the IRS for fiscal year 2002 than requested in President Bush's budget.

What was the total IRS budget request to OMB for fiscal year 2002? How does it compare with President Bush's request?

*Answer.* While a formal budget process was started between the Department and bureaus under the previous Administration, there was not a formal Department to Administration fiscal year 2002 budget call. Regardless of what may have been re-

quested within the Treasury Department, there was not an opportunity to transmit these requests to OMB due to the nature of the fiscal year 2002 budget process. The current Administration has not validated the previous Administration's estimate.

*Question.* As part of the budget request, the IRS is expected to cover the costs of non-pay inflation (\$56.7 million) through "improved resource management."

What types of improved resource management will allow the IRS to achieve this level of savings? *Question.* If you can achieve these savings, would you not already be doing so in the current fiscal year?

*Answer.* Improved resource management is an ongoing process in the IRS that began with the inauguration of the customer-focused organization structure in fiscal year 2000. Business processes and systems have been redesigned and the old structure of districts, service centers, regions, and national office staffs has been restructured and streamlined.

The proposed plan to absorb the non-funding of non-labor inflationary costs is for organizations to leverage the newly streamlined IRS organizational structure, as well as business systems improvement projects, to realize efficiencies in managing travel, contracting, and procurement.

Though appearing to be a simplistic solution, the Service expects sufficient offset in these discretionary spending areas so as not to decrease program levels of effort (i.e. FTE).

Since the reorganization process continues through fiscal year 2001, these resource management efforts are still being implemented in the current fiscal year, so savings are not yet realized.

#### IRS STAFFING

*Question.* For the IRS staffing plan known as STABLE (Staffing Tax Administration for Balance and Equity) for which Congress initially provided funds in the fiscal year 2001 bill, your budget claims that STABLE is fully funded at \$227 million and will allow for the hiring of approximately 3,800 new employees to improve service and enforcement. However, the Oversight Board notes that as a result of reductions and existing cost absorptions mandated elsewhere in the IRS budget, the IRS will hire 1,300 fewer new employees than claimed in your budget.

How can IRS provide the "service" to taxpayers that they expect and deserve if there are not enough employees to correctly answer the questions, process the claims and enforce the laws?

*Answer.* The President's fiscal year 2002 Budget Request of \$9.28 billion for the IRS will enable us to continue to maintain current operations and provide the crucial investments needed for our longer-term Business Systems Modernization program. With the new organization in place, new technology improvements beginning to come on line, and the staffing provided by the STABLE initiative, the declines in compliance activities, such as audit and collection actions, will stabilize while customer service indicators will continue to improve.

#### SYSTEMS MODERNIZATION

*Question.* Your budget requests \$297 million as the next replenishment of the systems modernization account known as ITIA (Information Technology Investment Account). This account is critically important for the IRS to be able to accurately and efficiently access customer tax records and provide them with timely and valid information about their accounts.

Because of past failures by the IRS in upgrading their information systems, Congress and the General Accounting Office have closely monitored the IRS planning and expenditures. Things seem to be on track—although there have been a number of required delays in implementing critical parts of the system. As previously appropriated funds are released from this account, a number of stakeholders are concerned that the account will be drawn down to zero this fall—likely before the fiscal year 2002 budget has been signed into law.

Indeed, the Oversight Board has recommended that \$1 billion be infused into the account and made available over the coming two fiscal years. They argue that it makes good business sense to have a significant reserve of funds from which to draw—under the current management and congressional oversight and conditions—so that there can be some continuity to the program and an avoidance of wasteful and costly "stops and starts."

Leaving aside the specific amount of funding, as a businessman who had to manage large sums of funds in an earlier life, don't you think this makes good business sense?

*Answer.* With a program of Business Systems Modernization's (BSM) magnitude and complexity, any "stops and starts" due to a lack of funding, could cause serious

delays and likely cause a ripple effect on progress in other ongoing, interdependent projects. Prudent planning for major capital investments through fully funding projects or “useful segments” of projects makes good business sense and is required by the Office of Management and Budget.

#### IRS HARDWARE REPLACEMENT

*Question.* The Oversight Board notes that the Administration’s budget request makes no accommodations to begin replacing out-of-date laptop and desktop computers. It makes no sense to spend hundreds of millions of dollars to develop much needed new software and then not provide the hardware to the IRS employees who operate the software. The Board recommends initiating an annual program, funded at approximately \$54 million, to begin replacing computers on a rotational basis. Most private companies regularly upgrade their computers every three years or so as new generations are developed.

Doesn’t it make good business sense for one of the Federal government’s most business intense agencies to do likewise?

*Answer.* The timely replacement of hardware is needed to capitalize on the efficiencies that can be derived from a modernized environment. However, older hardware is currently operating newer software. Given the competing demands on resources, the Administration’s budget proposes a balanced approach to addressing this issue.

The Administration’s budget contains funding for hardware replacement, which will allow the IRS users to capitalize on new, more effective software, heightened security, and dramatically more efficient end-user support. It also allows the IRS to move its older machines to volunteer centers where taxpayer assistance can be enhanced. The IRS recognizes that the Administration’s budget attempts to balance multiple demands and will distribute replacement equipment to IRS employees in areas that would get the most benefit from the replacement.

#### TELEPHONE ASSISTANCE

*Question.* Last year, you agreed with me that a 65 percent telephone assistance rate—the rate of people trying to get through on the phones in order to obtain an answer to their tax questions—was “short” of the optimal goal. In fact, you testified that a 90–95 percent rate was what was needed. Setting aside the surveys performed by TIGTA and others, your press release of April 26 states that taxpayers who wished to speak with an IRS assistor got through on the phones 66.5 percent of the time—a 4.3 percent increase over last year.

Clearly, telephone assistance continues to be “short.” Why?

*Answer.* There are a number of factors that contribute to the telephone assistance rate, including staffing, work processes and technology. We are working to improve all three. We allocated a staff of approximately 8700 FTE to respond to a projected 85 million telephone calls on the IRS’ principal toll-free lines during fiscal year 2001. Additional staffing will come in fiscal year 2002 from STABLE. Two additional factors make it especially challenging to provide service at a world-class rate:

1. The highly peaked seasonal nature of customer demand, requiring us to answer just as many calls during the filing season as we answer in total for the rest of the year; and,

2. The wide and complex range and changing scope of the subject matter. For example, between January and April, tax law calls, which can be extremely complex, comprise 52 percent of the calls, while the rest of the year tax law calls comprise only 29 percent.

To address these factors, the IRS is taking the following steps:

- increasing FTE from STABLE;
- focusing on improving resource utilization;
- shifting significant volumes of refund status callers to automated services;
- improving and expanding the scope of current automated self-service applications for account service and refund status callers;
- redirecting FTE savings realized through use of enhanced automated services to account services and tax law services; and,
- continuously identifying initiatives to further reduce telephone demand.

#### WALK-IN ASSISTANCE

*Question.* According to the recent Treasury Inspector General for Tax Administration (TIGTA) report, taxpayers seeking assistance at IRS walk-in sites often had to wait for long periods of time to get help, and in some instances these taxpayers were given insufficient answers to their questions.

Why? What is needed to resolve this issue? Is more staffing and training the answer?

Answer. There were very few TIGTA reviewers posing as taxpayers who were required to wait more than 30 minutes. In 83 percent of their contacts, the reviewer was assisted in 30 minutes or less. Since these reviews were conducted during the period of peak filing season demand, we are confident that in the post-filing season, the percentage of people who are assisted in 30 minutes or less is even higher.

With regard to the quality of answers provided, we began this fiscal year with about 1000 technical employees and recruited an additional 504 by mid-March. The new hires started too late in the filing season to receive more than minimal tax law training. However, during the post-filing season we have a very aggressive training plan to ensure that all of our technical employees receive appropriate training. In addition to the increased emphasis on training, we have collaborated with the National Treasury Employees Union (NTEU) to identify another means to improve the quality of tax law service. We intend to integrate the methodology utilized in the Probe and Response guide into IRS publications and, make their use the standard tool for all Field Assistance technical employees. We also plan to include Integrated Case Processing (ICP) terminals for every Tax Resolution Representative (TRR). ICP is an automated system that significantly enhances employee research tools to improve the quality and timeliness of account assistance.

*Question.* What are the most common errors that IRS employees make regarding tax law assistance at these walk-in sites?

Answer. From our observations, most occur when employees answer technical tax law questions that are beyond the scope of their training level. Often employees were reluctant to refer those questions to other employees with more experience or a higher level of training. The need for employees to seek assistance or refer questions beyond their skill level will be emphasized in our training for filing season 2002. However, it is important to note that technical tax law questions, such as the questions asked by the TIGTA reviewers, represent a small portion of the total workload, which also includes return preparation, account assistance, and forms distribution.

#### ENHANCING PRODUCTIVITY

*Question.* One of your strategic goals is to increase productivity by providing a quality work environment.

From the perspective of a front-line employee who deals with taxpayers, what near-term and longer-term changes do you plan that will directly affect the productivity of front-line employees?

Answer. The single most important factor affecting our ability to provide the quality of services that taxpayers expect in the most effective and efficient manner is our ability to recruit, retain, and develop talented personnel. Replacing the significant number of employees who will retire over the next five years is just one of the challenges that make it crucial for us to improve our ability to attract new and retain essential employees who have the right skills. Although organizational units needs may vary, similar strategies can be applied to ensure a fully qualified staff to efficiently accomplish the IRS mission. Some of the ways we are addressing this in both the short and longer term include:

- a customer-focused organizational structure and increased specialization for our employees
- improved front-line employee training
- enhanced managerial and leadership training
- implementation of a strategy to stabilize and improve our traditional compliance programs in the near term, while working through the business systems modernization program to use information and computer assisted tools more effectively to manage our compliance activities for longer term and more fundamental improvements
- targeted skills assessments to determine the current skills of our workforce and what will be needed for the future
- support for advanced degree and education programs
- quality of worklife policies, such as consistent and appropriate compensation, reasonable accommodation, adequate space and equipment, clear career paths, and consistent and clear lines of authority and responsibility
- a nationally coordinated program to hire, and train highly qualified people for STABLE positions, including an aggressive college recruiting campaign, and
- implementation of new Senior Executive and senior manager performance appraisal systems driven by individual commitments directly tied to our strategic and program plans.

## LADUCER CONTRACT WITH IRS

*Question.* Two months ago you traveled to North Dakota for the ribbon-cutting ceremony at Laducer Associates in Mandan. We were pleased you were able to join us as they launched their work on a major five-year contract with the IRS. Just last year, Laducer—which is an 8(a) firm—was named the IRS Small Business of the Year.

As you know, they process about 20,000 cash transaction receipts each day for the IRS. This amounts to about 9 million key strokes at an accuracy rate of 99.5 percent. Their workforce is nearly 40 percent American Indian and 22 percent of their employees are single mothers. Most of the data entry staff came from jobs where they earned, at most, \$6 an hour. Under this contract, depending on their ability and seniority, they can earn up to \$18 an hour.

I commend you and your agency for the partnership you have established with Laducer Associates. In addition to providing an excellent work product for the IRS, Laducer has been able to make a real difference in the lives of many North Dakotans.

Would you provide us with a status report on this particular contract?

*Answer.* IRS is pleased to have established such a positive and productive partnership with Laducer Associates. The IRS Director of the Detroit Computing Center visits the Laducer facilities regularly and is quite impressed with the quality of the work environment. We are currently in the fourth year of a five-year contract and are very pleased with the quality service Laducer provides. The contract with Laducer is worth \$5.3 million for 2001. The IRS was able to offer a cost of living increase to Laducer Associates, which increased the contract by approximately \$300,000 this year. Laducer has grown their business significantly during the four years they have been working with IRS. They have been able to skillfully use the experience they gained with IRS to expand their business with other Federal agencies.

## ELECTRONIC FILING

*Question.* You have testified that it will be difficult for the IRS to meet the 80 percent electronic filing goal it has been required to achieve by 2007 under the IRS Reform Act of 1998.

What are the consequences of not meeting that goal? What are the budget implications?

*Answer.* The primary consequences and budget implications of not meeting the 80 percent goal by 2007 are: (1) the IRS would not achieve the efficiencies inherent in a predominantly electronic environment as quickly as envisioned, and (2) the IRS would have to be prepared and funded to process a paper return volume in excess of 20 percent of all returns filed in 2007. However, it is important to understand that the IRS plans for our campuses, formerly known as service centers, and our plans for increasing resource availability in critical program areas, are based upon continuing growth of electronic filing and ultimately achieving the 80 percent goal.

*Question.* What steps is the IRS taking to expand electronic filing for business taxpayers?

*Answer.* The IRS has made significant strides over the last couple of years toward expanding electronic filing for business taxpayers. In 2000, the Electronic Federal Tax Payment System (EFTPS) processed more than 63 million Federal tax payments, totaling more than \$1.5 trillion.

The IRS also introduced new business e-file options for Forms 941, 940 and 1065. Employers can file their quarterly employment tax returns, Form 941, electronically either through a payroll service provider or on-line from their home or office computer. Selected small businesses can use the 941TeleFile system to file over the telephone. Employers can also file their Annual Unemployment Tax Return, Form 940, electronically. In 2001, Congress mandated and IRS implemented the electronic filing of Form 1065, Partnership Returns, for Partnerships with 100 partners or more.

In 2002, the IRS will continue to expand electronic filing for business taxpayers by allowing them to pay their tax obligation with Forms 941, 940 and 1065.

*Question.* Telephone tax return filing, or TeleFile, has decreased by 14 percent from last season. Why?

*Answer.* Over the past several years, the TeleFile program has experienced an overall decline in receipts. This year, TeleFile receipts decreased by approximately 14 percent from the prior year. The IRS is currently analyzing the reasons for the decrease. Initial findings indicate that the redesign of the TeleFile tax package, a reduction in the number of packages issued, a system problem in the TeleFile script, and taxpayer eligibility contributed to the overall decrease.



As part of our ongoing initiative to reduce taxpayer burden, the IRS redesigned the TeleFile tax package to condense the number of pages from 20 to 12 this year. Unfortunately, the booklets were folded in half for mailing purposes, which gave the appearance of junk mail. This was confirmed by participants in a TeleFile focus group held this spring. Further, IRS received twice as many taxpayer inquiries this year as compared to past years, stating that they did not get their booklet or that they had misplaced it. For next year, the booklet will continue to be folded. However, in the focus group, the IRS tested a new cover that clearly indicates that the booklet is a TeleFile tax package. The revised cover received positive feedback from the focus group participants.

Also, the IRS restructured the criteria for issuing the TeleFile package to those filers who were more likely to use TeleFile versus a practitioner. This modification resulted in removing approximately 6.8 million taxpayers from our TeleFile database that qualified to use TeleFile, but used a practitioner in previous years.

Another contributing factor was that for 2 days (January 31st and February 1st) during the TeleFile peak, taxpayers calling TeleFile received an erroneous message that they were filing their return late. Many of the taxpayers attempting to use TeleFile called Customer Service concerned about the message. It is believed that many of the taxpayers that heard this message used an alternative method of filing for fear of their return being considered late. This problem was corrected immediately and the system worked well for the balance of the filing season.

Finally, the IRS's greatest obstacle with TeleFile is user eligibility. Research has indicated that approximately one-third or more of TeleFile eligible taxpayers in one year become ineligible to use it in the following year because they move or their filing requirement changes (e.g., single to married, etc.). The IRS is currently exploring methods on how this can be rectified.

#### COST OF A TAX REBATE

*Question.* As part of the tax cut discussion, the option of a 2001 tax rebate remains a real possibility. However, there have been concerns expressed that this will result in increased, and un-budgeted-for, costs to the IRS as well as the Financial Management Service.

Given the current state of affairs, what do you estimate will be the additional costs to the IRS associated with a tax rebate?

*Answer.* The President has submitted a \$115.8 million supplemental Appropriations request to Congress to cover the costs associated with administering the rebate.

*Question.* Is there a preferred method to provide the rebate—if the Congress and the President decide to go down this path?

*Answer.* The IRS will be able to administer the law as passed by Congress.

#### GAO AUDIT

*Question.* For the first time, the General Accounting Office gave the IRS an “unqualified,” or clean, audit opinion for fiscal year 2000.

What is the significance of this? Do managers now routinely have the financial data they need?

*Answer.* The accounting systems at the IRS are divided between the systems that record tax revenue activity (collections and disbursements) of the IRS for the Federal government and the system that accounts for the funds appropriated by Congress each year to perform tax administration within the IRS.

The IRS first received an unqualified opinion on its reporting of tax revenue activity from the GAO in fiscal year 1997. Each year since, IRS has had a clean opinion on this part of its financial statement reporting. For appropriated funds, IRS received its first unqualified opinion from GAO on all of its financial statements in fiscal year 2000. This means that for the beginning of the year until the end, at a summary level, IRS was able to fairly and accurately present its financial condition and the changes that occurred during the year.

In GAO's audit report on the fiscal year 2000 financial statements of IRS, the GAO audit team noted that while the year-end summary information was fairly presented and the IRS made notable progress in both revenue and administrative activity, there were still deficiencies in the systems that needed to be corrected.

In relation to tax revenue activity, the current system uses technology from the late 1960's, it does not produce information that will satisfy the requirements of a Standard General Ledger established by statute and OMB, and has limitations on the extent of financial management information that is available.

For administrative accounting, GAO noted the delays in processing financial data which prevented providing managers with timely information. However, the GAO also noted significant progress in fiscal year 2000.

In both revenue and administrative accounting, we are working to make our financial systems better each year. At the outset of fiscal year 2004, we plan to have a new administrative accounting system that will correct most of the deficiencies noted by GAO. Due to the uniqueness of revenue systems, the current plan to modernize the accounting systems for tax revenue will take up to 10 years to complete. Both of these efforts are contingent upon IRS continuing to receive Information Technology Investment Account funding.

#### CONCLUSION OF HEARINGS

Senator CAMPBELL. They usually make it easy for me too. Thanks for appearing. The subcommittee is recessed.

[Whereupon, at 10:36 a.m., Thursday, May 17, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

## **MATERIAL SUBMITTED SUBSEQUENT TO THE HEARINGS**

[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 Agencies and 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 these witnesses.]

### **RELATED AGENCIES**

#### **PREPARED STATEMENT OF PATRICK E. MCFARLAND, INSPECTOR GENERAL, OFFICE OF PERSONNEL MANAGEMENT**

Mr. Chairman and members of the subcommittee: Thank you for providing me with this opportunity to discuss the President's fiscal year 2002 request for appropriations for the Office of the Inspector General. The total request for the Office of the Inspector General is \$11,414,000, which is an increase of \$333,000 above the amount appropriated in fiscal year 2001. Of this amount, \$1,398,000 is from the salaries and expenses/general fund and \$10,016,000 is from the trust funds. In addition, we plan for \$150,000 in advances and reimbursements.

The Office of the Inspector General recognizes that oversight of the retirement and insurance trust funds administered by the Office of Personnel Management (OPM) is, and will remain, its most significant challenge. These trust funds are among the largest held by the United States Government. Their assets totaled \$551.9 billion in fiscal year 2000, and their annual program and operating expenses were \$127.9 billion. The amounts of their balances are material to the integrity of the government's financial position. I continue to allocate the vast majority of the Office of the Inspector General's efforts and resources to trust fund oversight, and I believe that we remain as fully committed to trust fund activities as is possible within the context of our current resource structure.

Outlays from the OPM Retirement Trust Funds are made in the form of payments to millions of annuity recipients. The health insurance trust fund provides payments to approximately 291 health insurance plans nationwide. In turn, the health insurance carriers pay millions of claims for services filed by their enrollees and health care providers. Our experience shows that such health insurance payments are at risk for being improper, inaccurate or fraudulent. We are obligated to Federal employees and annuitants to protect the integrity of their earned benefits. We accomplish this through our investigative and audit work, thereby reducing losses due to fraud and impropriety and recovering misspent funds whenever possible. We owe this especially to the Federal agencies and American taxpayers who provide the majority of the funding.

Working with the level of resources provided, the Office of the Inspector General has achieved an impressive record of cost effectiveness. Audits and investigations of the OPM administered trust fund programs have resulted in significant financial recoveries to the trust funds and commitments by program management to recover additional amounts. In fiscal year 2000, these recoveries and commitments totaled approximately \$105.2 million. This equates to approximately \$11 of positive financial impact for each direct program dollar spent. In addition, Office of the Inspector General audits and investigations provide a significant deterrent against future instances of fraud, waste, and abuse.

The Office of the Inspector General's fiscal year 2002 request includes additional resources totaling \$333,000. Specifically, this increase will be used to off-set the impact of the anticipated January 2002 pay raise and inflation.

The Office of the Inspector General continues to seek inclusion of the FEHBP as a full participant in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The Federal employees health benefits program (FEHBP) was excluded from remedial and civil enforcement authorities for health care fraud which were made applicable to all other Federal health care programs. With support from the Department of Justice in the last administration and the Inspector General at the Department of Health and Human Services, we have been working to amend HIPAA to include the FEHBP in its definition of the Federal health benefits program. As a result of this exclusion, the FEHBP is the only Federal health program without benefit of most of HIPAA's anti-fraud provisions, despite its standing as the third largest Federal health insurance program. Removal of the FEHBP's specific exclusion from this definition would enable OPM to take advantage of enhanced sanctions, such as mandatory exclusion of individuals and entities that have been convicted of a felony relating to health care fraud or controlled substances, and mandatory minimum duration of certain discretionary exclusions. We could also take advantage of HIPAA's revised standard of proof in civil monetary penalty cases, increasing penalties per false claim from \$2,000 to \$10,000, and new administrative penalties for incorrect coding, medically unnecessary service, and anti-kick-back provisions. This legislation would enable the Inspector General to work more effectively and on an equal footing with other Federal agencies in fighting fraud against the nation's largest employer-sponsored health insurance program.

Thank you for this opportunity to state once more my resource request for fiscal year 2002.

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PREPARED STATEMENT OF BETH S. SLAVET, CHAIRMAN, MERIT SYSTEMS PROTECTION BOARD

Chairman Istook, Ranking Member Hoyer and Members of the Subcommittee: I am pleased, on behalf of the U.S. Merit Systems Protection Board, to submit to the Subcommittee our fiscal year 2002 appropriations request and this statement explaining its importance in permitting the Board to fulfill its statutory missions.

OVERVIEW OF THE REQUEST

The President's fiscal year 2002 request for the MSPB is \$30,375,000 plus a \$2,520,000 limitation on reimbursements from the Civil Service Retirement and Disability Trust Fund. It is a lean budget request; all amounts requested are essential to enable the Board to fulfill its statutory mission. The increases of \$1,002,000 over the fiscal year 2001 appropriation, adjustment for the rescission, and \$96,000 in the Trust Fund limitation cover only the mandatory pay increases of January 2001 and January 2002 along with the higher space rental charges that will be incurred in fiscal year 2002. Focussing our efforts on fulfilling the Board's adjudicatory and merit studies functions, we have not included a request to fund any new initiatives during this budget cycle.

ADJUDICATORY

The Merit Systems Protection Board has a record of excellence in deciding 9,000 to 10,000 cases per year, involving serious personnel actions taken by Federal agencies. Approximately half of the appeals are adverse actions, including removals; and just over 25 percent involve retirement matters. More than half of our initial appeals not dismissed are resolved through settlement techniques, saving resources for all of the parties and producing a negotiated, rather than a mandated disposition of the case. Our decision-making pace stands out among adjudicatory agencies. In fiscal year 2000, the MSPB moved cases through two stages of processing in just under nine months, on average.

Rather than resting on our laurels, we are constantly striving to enhance the efficiency of the agency in order to better serve our customers. In this regard, we have raised the bar by which we evaluate our timeliness in processing cases at headquarters. In the past, we emphasized resolving or reaching a final disposition on cases that have been pending in headquarters for over 365 days. We now place special emphasis on cases that have been pending in headquarters for more than 240 days in an effort to prevent them from reaching the 300-day mark.

This past year, the Merit Systems Protection Board has taken a proactive stance in improving the effectiveness of our compliance program. We have met with representatives of the Defense Finance Accounting Service (DFAS), the National Finance Center (NFC) and the U.S. Postal Service (USPS) to develop mutually beneficial systems for achieving full compliance with Board orders in a timely manner.

As a result of those meetings, the agencies have developed checklists and other tools that advise agencies and appellants of the information required in order to process payments agreed upon in settlement cases or as ordered by the Merit Systems Protection Board. The DFAS and NFC Checklists are now posted on the Board's website. The USPS is developing a handbook for this purpose. When it is completed, we will work with the Postal Service to make it accessible to our customers.

In June 2000, the Board expanded our pilot program at headquarters to expedite the processing of certain petitions for review (PFRs) of administrative judges' initial decisions. Its purpose is to identify non-meritorious PFRs that can be disposed of quickly so that the Board can then focus its resources on more complex and precedential cases. An experienced attorney from the Board's Office of Appeals Counsel conducts these initial reviews. During the first 6 months of this program, approximately 8 percent of the 724 PFRs processed under this procedure resulted in expedited decisions. The average time for processing the expedited cases—from receipt of the PFR to issuance of the decision—was 60 days. Unquestionably, this initiative has been a significant factor in the Board's ability to meet key case processing targets. This pilot program is being evaluated during fiscal year 2001.

The Suspended Case Pilot Program, initiated in November 1999, has allowed the Board to be more responsive to the needs of our customers who are attempting to settle cases outside of the litigation arena. Under this program, the administrative judge will grant a joint request from the parties for a 30-day suspension in the processing of a case in order to permit them to pursue settlement efforts or engage in additional discovery. Additionally, the administrative judge may grant a joint request for a 30-day extension of the case suspension. We believe the "Suspended Case" pilot program has been a success. As of early April 2001, the Board's administrative judges have granted 457 case suspensions at the parties' request. Additionally, the Board's administrative judges settled 197 of the 362 "closed" appeals where they had granted suspensions. This rate of settlement, 54.5 percent, is consistent with the 55 percent overall average rate of settlement in the regions. Initial feedback from the Board's administrative judges indicates that the appeals involved in the pilot program are generally more complex than most appeals filed with the Board. Consequently, we believe that the pilot program has led to a significant optimization of the Board's limited resources by facilitating settlements in the type of complex appeals that cause our administrative judges and headquarters attorneys to expend the most time and effort. We intend to continue implementation of this program in the next year. However, we would like to first formally seek feedback from our constituents.

The Board encourages the use of alternative dispute resolution techniques at all levels of its adjudicatory process. Two years ago, the Board implemented a new regulation under which employees may be granted an extension of time to file an appeal with the Board if the employee and the agency are attempting to resolve the issue through ADR. This has encouraged parties to engage in settlement discussions before they get to the Board.

During fiscal year 2000, the settlement rate for initial appeals not dismissed was 55 percent. The Board also enjoys a respectable settlement rate for cases before it on Petition for Review. During the preceding 5 years, the settlement rate for those cases in which settlement was attempted has ranged from 21 percent to 29 percent. These rates are impressive given the fact that the initial decision has already been issued in these cases, resulting in a disincentive for the prevailing party to engage in settlement negotiations.

The Board plans to continue the use of ADR techniques to resolve cases at the earliest possible stage. Additionally, the Board expects to conduct outreach efforts targeted at agency decision-makers to encourage them to make greater use of ADR at the early stages of an employment dispute. Finally, the Board anticipates training more of its employees within this fiscal year and fiscal year 2002 on the broad range of alternative dispute resolution techniques available to facilitate case settlements. Our objective is to incorporate these techniques into existing settlement programs. If this effort is successful, we will require additional funding in future years to train more of our staff in ADR techniques and to expand the use of ADR within the Board's adjudicatory and case management processes.

#### MERIT SYSTEMS STUDIES AND OVERSIGHT

Building on research efforts that yielded two major study reports and five editions of the "Issues of Merit" publication in fiscal year 2000, the Board expects to com-

plete work on five additional studies during fiscal year 2001<sup>1</sup> and publish four new editions of the "Issues of Merit." The Board's studies and newsletters present new data and analyses as well as recapping and updating MSPB positions on critical issues that are still pertinent in the current Federal environment.

The Board also supports an active outreach program to increase the constructive impact of its work products. During the last 12 months, over 100,000 copies of the Board's reports and newsletters were downloaded from the MSPB web site and other web sites that make copies available as a service to their users. The Board's studies staff responded to almost 250 requests for additional studies-related information, data, advice, or public presentations. These requests came from other Federal agencies, Congressional staff, academicians, and others seeking objective and authoritative information and analyses on Federal sector human resources management. For example, in fiscal year 2001, at the request of the Department of Justice and as a follow-up to earlier MSPB studies, we agreed to conduct a survey of over 17,000 employees throughout the Department on the issue of sexual harassment. Additionally, the results of the Board's recent survey of applicants for Federal employment served as the basis for a request from the Senate Committee on Governmental Affairs that the General Accounting Office conduct a study of the hiring processes of selected Federal departments and agencies. During fiscal year 2002, the Board will continue to add new and relevant information and analyses to the ongoing public dialogue and growing concern regarding the perceived and very real "human capital" crisis in the Federal government. This will include a review of the degree to which Federal contracting officers' technical representatives (COTRs) have the experience and competencies needed to adequately oversee the work of Federal contractors and a study of the impact of the major downsizing in the Federal human resources profession on the delivery of human resources management services—including the ability to maintain a merit-based hiring system.

#### MANAGEMENT SUPPORT

The MSPB has implemented major organizational changes during the past several years to save resources and to directly focus them on mission-critical objectives. At 228 FTE, the MSPB is 30 percent smaller than it was in 1993,<sup>2</sup> has fewer management layers, and has made innovative use of technology in adjudication and administrative matters.

The Board is committed to strengthening the agency's internal systems and processes to support continuous improvements and the achievement of the highest degree of efficiency while maintaining the flexibility necessary to meet program needs. For the first time in the Board's history, each office head was required to submit business plans during fiscal year 2000, and to update those plans as warranted. Managers are being held accountable for obtaining results as specified in the plans.

The Board has also begun to place great emphasis on the professional development of its employees. To this end, the Board seeks to promote efficient and effective accomplishment of its statutory mission by providing a work environment with workplace policies and programs that enable its employees to excel. During fiscal year 2001, each employee will be required to conduct a self-assessment to identify strengths, weaknesses, experience, training and education. Each employee, together with his or her supervisor, will then design an Individual Development Plan which will include short- and long-term goals and the training and additional work experience necessary to help the employee to achieve his or her career objectives. We would like to make these opportunities available to a greater percentage of the staff, however, to do so would require additional funding.

fiscal year 2002 will be the fourth year of our 5-year information technology (IT) initiative, which is aimed at increasing our use of information technology to enable us to continue processing cases efficiently despite the reduction in staff resources the agency has experienced in the past 8 years. The Board adopted ambitious goals at the inception of this initiative. As implementation of the initiative has evolved, we have learned that to be successful in this effort, we must take a more systematic

<sup>1</sup> This includes the triennial Merit Principles Survey administered to a representative sample of over 17,000 Federal employees government-wide, and studies of the Presidential Management Intern Program, the variety of employee selection methods used by Federal agencies in making new hires, the Federal merit promotion program, and a 20-year retrospective review of the U.S. Office of Personnel Management.

<sup>2</sup> The reduction in staff is not without some downside. For example, the decrease in adjudicatory staff impacts the number and speed of our case processing in headquarters. Additionally, agency headquarters, in particular, was left with virtually no clerical support staff. Consequently, time that the attorneys could be devoting to research, analysis and other substantive case processing activities is being diverted to the accomplishment of necessary clerical tasks.

approach to integration of the new technologies into current processes and that integration of the new technologies much be accomplished at a more gradual pace. Because electronic filing of appeals with MSPB offices and electronic distribution of Board decisions are key components of the IT initiative, its completion on schedule will support the Board's compliance with the Government Paperwork Elimination Act of 1998 (GPEA), which mandates that agencies provide their customers the option of submitting and receiving information electronically by October 2003.

#### CONCLUSION

It has been my distinct honor and pleasure to serve the Board, first as Vice Chairman, now as Chairman. I want to extend my appreciation to you and your staff for the support and courtesies you have accorded us during my tenure. Your guidance and assistance have been invaluable as we worked to perform the critical functions of the agency.

The information contained in this statement provides a mere snapshot of the Board's success in carrying out its mission of safeguarding the Federal merit employment system. The Board is a small but precious jewel amongst Federal agencies. The agency has maintained an enviable record of effective management but, suffering from a lack of a clear constituency and political interest, it has been hampered with limited resources. Our limited budget has made it difficult for the Board to implement new initiatives such as ADR and enhanced outreach efforts. While we have been largely successful in meeting our goals and operating efficiently within the parameters of our appropriations, we could enhance our adjudicatory and merit studies functions with additional funding.

I want to stress that this budget request reflects the minimum level of funding necessary to enable the Board to perform all of its mission-related functions. With your continued support, the Board can build upon its record of excellence in service to the Federal government and to the American public. The MSPB staff and I are available to provide you with any additional information or assistance. Thank you.

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#### NONDEPARTMENTAL WITNESSES

##### PREPARED STATEMENT OF THE NATIONAL TREASURY EMPLOYEES UNION

Chairman Campbell, Ranking Member Dorgan, and other distinguished Members of this subcommittee, my name is Colleen Kelley and I am the National President of the National Treasury Employees Union. As you know, NTEU represents more than 155,000 Federal employees across the Federal government, including most of the employees who work at the Department of Treasury. I want to thank you for giving me the opportunity to present testimony on behalf of these dedicated men and women who keep our democratic government running.

I would like to highlight some of NTEU's priorities and concerns contained in President Bush's fiscal year 2002 budget request for the Department of Treasury and other agencies under this Subcommittee's jurisdiction. Too many times, our nation takes for granted the work performed by the men and women at the U.S. Treasury Department. It is these dedicated individuals who work to ensure that the taxes and tariffs due to the Treasury are paid; they are the ones standing on the front lines of our borders and ports in keeping illegal drugs out of our country; they ensure the integrity of our government's revenue payment and collection systems; they work with local law enforcement agencies to protect the public from dangerous explosives and illegal trafficking of alcohol and firearms; they print and distribute Social Security checks that are so important to so many of our families. Every day, the men and women who work for the Federal government make countless contributions to our nation's stability, security, and prosperity.

That is why it is incumbent upon Congress and President Bush to ensure that these dedicated employees have the tools and resources they need to do their jobs. And it is incumbent upon Congress and President Bush to provide these employees—who selflessly provide for our nation day in and day out—with the pay and benefits that are, at a bare minimum, on par with those in the private sector. Below I have highlighted NTEU's views on some of the most important issues facing the Treasury Agencies' workforce. I would welcome the opportunity to provide additional views at a later date.

##### INTERNAL REVENUE SERVICE

Total staffing levels at the IRS decreased by 18,000 between 1992 and last year and the number of revenue agents declined by more than twenty percent between

1995 and 2000. Notwithstanding these staffing decreases, during the past decade, Congress made hundreds of changes to the tax code (801 changes in the Taxpayer Relief Act of 1997 alone), our nation experienced unprecedented economic growth, which led to the filing of more complex tax returns, and the total number of tax returns processed by the IRS increased by nearly 10 percent. Simultaneously, IRS toll free phone services and web-based services for taxpayers were expanded and improved, taxpayers can visit IRS officials at more convenient locations during longer hours of operation, and taxpayers have more options for filing their returns. IRS employees have successfully done more with less over the last decade.

Unfortunately, NTEU does not believe that President Bush's budget for fiscal year 2002 provides the IRS with the resources necessary for the Service to continue to perform current operations, while simultaneously meeting its modernization goals. The budget does not adequately take into account tax compliance staffing shortfalls due to the shifting of many IRS examination staff, revenue agents, compliance officers, auditors and others to help improve customer service, answer taxpayers' questions, and provide walk-in assistance to taxpayers. And the Bush budget does not recognize the requirements necessary to bring IRS information technology systems into the 21st century. In fact, the newly created independent IRS Oversight Board pointed out that the budget fails to provide funding for an additional 1,300 employees needed to stop the decline in staffing levels which has led to a drop in audits and enforcement activities. And the Oversight Board, in its report on President Bush's 2002 budget for the IRS, points out that the budget fails to provide funding for new laptop and desktop computers to accommodate new computer programs, even though the IRS has spent millions of dollars developing new software.

President Bush's budget proposal for the IRS indicates that this Administration is not willing to make the long-term commitment necessary to modernize the IRS, and is not willing to provide the Service with even a reasonable fraction of what is required to carry out its mission.

The Bush Administration and Congress need to do more than merely fund band-aid repairs to address immediate needs at the IRS. The IRS needs adequate funding for day-to-day operations and maintenance, but it also needs a commitment from President Bush and Congress to invest in long-term improvements that will modernize tax compliance and customer service to meet the demands of the American taxpayers. Improving customer service, enhancing tax return processing, and increasing tax compliance can only happen if President Bush and Congress support increased funding for staffing, more advanced technology and equipment, training and innovation. Employees at the IRS have responded to the mandates from Congress contained in the IRS Restructuring and Reform Act and are making tremendous progress. However, the current IRS workforce can only do so much with its limited resources. Further progress in making the IRS more efficient and more effective will only be achieved if President Bush and Congress provide more funding.

The IRS needs to maintain current staffing levels, be able to hire new staff and retain them for longer than one year, and completely modernize outdated IRS technology and equipment. Without a long-term commitment to provide adequate funding, the IRS will be forced to shuffle resources from one account to another, with the end result being an IRS less responsive to the needs of the American taxpayers.

For example, the President's budget does include funding for the IRS Staffing Tax Administration for Balance and Equity (STABLE) initiative. The STABLE initiative was first proposed by the previous Administration and funded in the current year's budget. If fully implemented, the original initiative would enable the IRS to hire nearly 4,000 new employees to help increase compliance and improve customer service.

Unfortunately, the amount of funding in President Bush's budget would only allow the IRS to "complete" the hiring of roughly two-thirds of the required 4,000 new employees. Because the Bush budget fails to provide funding to account for inflation and routine pay increases for the IRS to maintain its current workforce, the IRS will be forced to cut back on its plans to hire additional employees. This is simple math: if we want to maintain the current levels of staffing and hire additional employees, the IRS needs enough money to pay those currently working at the IRS and the IRS needs enough money to recruit additional qualified individuals. Both cannot be funded under the proposed budget.

The President's budget will provide \$400 million in investments to modernize IRS's outdated computer systems. This is less than half of the Oversight Board's recommendation of \$1 billion for systems modernization. NTEU supports the Board's recommended funding allocation so that IRS employees will have the systems infrastructure they need to more efficiently process, store, analyze, and manage taxpayer records, and so that taxpayers can be assured that their taxpayer information is secure and kept confidential.



While NTEU supports an increased budget for more advanced information technology systems and better equipment, we do not believe that these improvements have to come at the expense of reduced funding for staffing.

As you know, audit rates are down. One reason is the lack of staff; another is an issue which has had a chilling effect on employees, and I believe has contributed to the declining rates of audits and tax compliance. IRS employees continue to work in fear of section 1203 of the IRS Restructuring and Reform Act, which sets out ten infractions, known as the "Ten Deadly Sins," for which IRS employees face mandatory dismissal. One of those infractions is the untimely filing of Federal income taxes.

IRS employees violating the IRS Rules of Conduct have always been subjected to discipline, including dismissal, and rightly so. However, RRA's requirement for mandatory dismissal of employees who violate these infractions, is unduly harsh, especially in light of the fact that many IRS employees are being terminated for filing returns late, even when they have refunds due. Section 1203 is having a negative effect on collections and morale at the IRS, and must be repealed or modified.

#### U.S. CUSTOMS SERVICE

The President's fiscal year 2002 budget requests a funding level of \$1.96 billion for salaries and expenses and 17,849 FTEs for the United States Customs Service. This represents an additional \$97 million and 370 additional FTEs from last year's appropriations. NTEU feels that this budget is woefully inadequate to meet the needs of this country's oldest law enforcement agency.

The workload of the Customs Service employees has dramatically increased every year including more commercial entries that must be processed, more trucks that must be cleared and more passengers that must be inspected at the 301 ports of entry. There has been a relatively small increase in personnel worldwide, despite the dramatic increases in trade resulting from NAFTA, the increased threat of drug smuggling and the opening of new ports and land border crossings each year. In 2000, Customs Service employees seized over 1.5 million pounds of cocaine, heroin, marijuana and other illegal narcotics—as well as over 9 million tablets of Ecstasy, triple the amount seized in 1999. Customs also processed nearly 500 million travelers last year, including 140 million cars and trucks and over \$1 trillion worth of trade. This number continues to grow annually, and statistics show that over the last decade trade has increased by 135 percent.

In addition, Customs employees have become responsible for preventing international money-laundering and arms smuggling. Yet, the Customs Service has confronted its rapidly increasing workload with relatively static staffing levels and resources. In the last ten years, there have not been adequate increases in staffing levels for inspectional personnel and import specialists—the employees who process the legitimate trade and thwart illegal imports.

It's very clear that funding must be increased to allow Customs to meet the challenges of the future. In recent years Customs has seen a decrease in the level of funding, relative to other Federal law enforcement agencies, even while having significantly higher workloads and threats along America's borders. Customs' recent internal review of staffing, known as the Resource Allocation Model or R.A.M., shows that Customs needs over 14,776 new hires just to fulfill its basic mission for the future. Congress must lead by example in showing the men and women of the Customs Service they respect and support the difficult and dangerous work these officers do 365 days a year by providing increased funding for the Customs Service.

NTEU recommends deploying the new hires to our nation's ports of entry along the busy Southwest land border where wait times hinder trade facilitation and drug smuggling is at its peak, and in the busy area ports on the Northern Border where ports are unmanned, while the trafficking of "B.C. Bud" marijuana and the threat of international terrorism has changed the landscape. In addition to the busy land borders, NTEU recommends focusing attention on the bustling seaports and airports across the country. The understaffed and overworked inspectors at the U.S. seaports and airports currently contend with corruption, theft and safety issues that are a direct result of the lack of staffing. As one Southwest Border Senator aptly phrased it: "U.S. seaports and airports are under siege by smugglers, drug traffickers and other criminals, yet law enforcement agencies that regulate them are understaffed and outgunned."

Last year, Congress acknowledged the shortage of staffing and resources by appropriating \$13.7 million for staffing and other resources for the Southwest Border. We hope that this Congress will again increase the funds available for additional inspectors and equipment in all areas around the country that are experiencing the most severe shortages.

Another issue, which is of extreme importance to the front line employees of the U.S. Customs Service, is the COBRA account. This user fee account funds all inspectors and canine enforcement officers' overtime pay as well as approximately 1,400 Customs positions across the country. This account is funded with user fees collected from Air/Sea Passengers except from the Caribbean and Mexico, Commercial Vehicles, Commercial Vessels/Barges and Rail Cars.

The history of collections and obligations for COBRA over the last 5 years shows a significant drawing down of reserve money available in the COBRA fund for overtime and additional positions, to the point where a significant (\$40 to \$60 million) shortfall is expected in 2001. Customs anticipates collecting \$300 million in COBRA fees during fiscal year 2001, well below the \$350 million they project in COBRA obligations during fiscal year 2001.

Based on the projected shortfall in the COBRA funding account, Customs has cut back on overtime and held off filling hundreds of new positions, thereby decreasing services to all taxpayers and exacerbating the long delays at many border crossings. It is imperative that the COBRA fund be reauthorized. It is currently set to expire in September 2003. Along with the reauthorization of COBRA there must be significant increases in appropriated funds to enable Customs to properly staff all ports of entry across the United States, and to ensure that shortfalls in the COBRA account prevent undue reliance on the unpredictable COBRA account.

It has become increasingly more difficult to recruit the best and the brightest into the ranks of Customs Service employees including inspectional personnel and import specialists. Import specialists have yet to be recognized for their increased responsibility for determining the classification, appraisal value and admissibility of products coming into the United States. In response to the recent explosive growth in trade, and the enactment of the Customs Modernization Act in 1994, the responsibilities and necessary technical abilities of Customs' import specialists have increased tremendously, yet their salary structure and position description have not reflected the GS-12 graded workload they must perform regularly. Customs conducted a pilot audit of import specialists' work that showed the higher graded work that they perform, yet Customs has not provided the resources to effect these upgrades. NTEU will continue to pressure legislators and the agency to comply with the classification standards and provide GS-12 journeyman levels for the Customs Service's import specialists.

The Customs Service employees assigned to the Customhouse at the Los Angeles Seaport (Terminal Island, CA) have endured years of environmentally unsafe working conditions, including exposure to particulate matter from the nearby petroleum coke facility, asbestos, noxious fumes and other air pollutants. The current health and safety conditions are absolutely intolerable, and I urge the appropriators to ensure that the General Services Administration (GSA) permanently moves these employees as quickly and efficiently as possible. NTEU will continue to work with Customs and Members of Congress on a permanent solution, but immediate interim steps are also needed. The Customs Service should be provided the resources to move the remaining 150 employees to temporary work sites pending the final permanent move.

NTEU believes that it is also important for Congress to focus its attention on the failing computer system currently operated by the Customs Service—the Automated Commercial System (ACS). Last Year Customs received \$130 million towards its modernization effort but President Bush's Fiscal 2002 budget keeps funding at the same level. At this current funding pace it will take 14 years to install the new ACE (Automated Commercial Environment). The current ACS is a 17 year old, outdated system that is subject to brown outs and freezes that wreak havoc on trade facilitation and employees' ability to do their jobs. Although a system upgrade is necessary for Customs to meet its modernization efforts, NTEU would oppose funding a new system by shifting funds away from the front line employees who currently facilitate the volumes of trade growth and enforce our laws at the borders.

Quite simply, the resources have not been provided in the President's fiscal year 2002 for Customs Inspectors, Canine Enforcement Officers and Import Specialists to adequately do their jobs. These are dedicated, professional individuals and I urge Congress to appropriate more funding to increase staffing levels for Customs and to provide them with the resources they need to do their jobs.

#### OTHER CRITICAL AGENCY FUNDING PRIORITIES

In addition to the work at the IRS and Customs Service, the Treasury Department performs many more critical functions that also need to be adequately funded. For example, NTEU is hopeful that Congress will provide funding for BATF's request for 340 new hires. This will enable the bureau to better prevent violent crimes

and protect the public, while continuing to collect billions of dollars from license fees and tariffs. The Financial Management Service and the Bureau of Public Debt need at least what President Bush has proposed so that our government can continue to operate the Federal government's payment, collection, accounting services, and when necessary, borrow money and account for the resulting debt. And with modern technology in the hands of sophisticated criminals, the Bureau of Engraving and Printing faces great challenges in designing and printing counterfeit-proof currency, stamps, and other government-issued financial documents. Like the budget recommendations for all Treasury bureaus, the President's budget request for BEP should be viewed as a floor not a ceiling.

Finally, with the increase in money being spent on elections by candidates and campaign committees, and complex problems with our entire election process, it is critical that the Federal Election Commission sees a significant increase in funding over previous years' budgets. FEC employees cannot possibly keep up with its increasing workload and ensure the integrity of our democratic voting system with the limited resources they have been given over the years.

#### FEDERAL EMPLOYEE PAY AND BENEFITS

The human capital crisis facing the Federal government is an issue that Congress can help solve. It is no secret that the Federal civil service system needs fundamental changes to address retention and recruitment problems. The primary obstacle to retaining highly qualified individuals working for the government today and recruiting the Federal workforce of tomorrow is inadequate pay and benefits. There was once a time when it was the steady pay and good health care and retirement benefits offered by the Federal government that encouraged young individuals to dedicate their careers to working for the government. However, with the widening of the pay gap between the public and private sectors, and the skyrocketing costs of health care premiums paid by Federal employees, more and more individuals who would like to work for the government instead are opting for careers in the private sector where the pay and health care coverage are now much better.

Unfortunately, the proposals in President Bush's budget will only make the human capital crisis worse. NTEU believes that, at a minimum, Federal employees should get a 4.6 percent pay raise, identical to the amount President Bush proposed for the military. President Bush's budget recommends a 3.6 percent pay increase for civilian employees. However, the final budget resolution approved by the House and Senate call for pay parity between civilians and military personnel, and we hope the final appropriations bill fully funds at least a 4.6 percent pay raise for all Federal employees. No single issue is more important to Federal employees than bringing the pay of Federal employees more in line with individuals working in the private sector.

NTEU also was very disappointed that the Bush budget fails to provide additional funding to assist Federal employees afford the skyrocketing costs of health care coverage. In recent years, the rising costs of the Federal Employees Health Benefits Program (FEHBP) have put health care coverage out of reach for many lower paid Federal employees and retirees. Premiums for Federal employees went up 10.5 percent this year, 9.3 percent last year, and another 9.5 percent the year before that. Additionally, the Bush budget would drop the requirement that Federal health plans must pay for contraceptive health coverage if they pay for other prescription drugs, which will lead to further health care cost increases for many Federal employees. NTEU urges this Subcommittee to help reduce the health care costs paid by Federal employees.

NTEU was very pleased that last year this Subcommittee extended the child care subsidy program for lower graded employees for another year. However, not all agencies are taking full advantage of this program due to a shortage of money and uncertainty regarding the program's future. This was confirmed recently by a report done by the Office of Personnel Management. The OPM report also found that employees expressed concern about the possible need to change child care arrangements in order to qualify for the subsidies without being assured that the program would be permanent. With additional funding and a longer-term commitment from Congress and President Bush, more agencies will be able to operate and expand this cost-effective and family-friendly program.

The President and Congress cannot expect the Federal government to deliver the services and perform the necessary tasks the American taxpayers expect if adequate funding is not provided to retain the current workforce, recruit additional employees, and give these employees the equipment and training they need to improve the efficiency of their work. Day in and day out, Federal employees are working to improve the quality of life for all Americans. If we want our nation to have confidence

in the Federal government, then we need to make sure the employees receive adequate pay and recognition for their work, and that they have the tools they need to have confidence in the work they're doing.

Thank you for this opportunity to provide you with NTEU's views on the important issues under this subcommittee's jurisdiction.

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PREPARED STATEMENT OF THE INSTITUTE OF MAKERS OF EXPLOSIVES

Dear Mr. Chairman: On behalf of the Institute of Makers of Explosives (IME), I am submitting a statement for inclusion in the Subcommittee's hearing record regarding the proposed fiscal year 2002 budget for the Bureau of Alcohol, Tobacco & Firearms (BATF).

INTEREST OF THE IME

The IME is the safety association of the commercial explosives industry. Our mission is to promote safety and the protection of employees, users, the public and the environment; and to encourage the adoption of uniform rules and regulations in the manufacture, transportation, storage, handling, use and disposal of explosive materials used in blasting and other essential operations.

Commercial explosives are key to the recovery from the earth of all raw materials that are not grown. IME member companies produce over 95 percent of the commercial explosives consumed in the United States. Additionally, our products are distributed worldwide.

The production, distribution, storage and use of explosives are highly regulated. BATF is one of the agencies that plays a primary role in assuring that explosives are identified, tracked, and stored only to and by authorized persons. The ability to manufacture, distribute and use these products safely and securely is critical to this industry. With this perspective, we have carefully reviewed the Administration's fiscal year 2002 budget request and have the following comments.

BUDGETARY ACCOUNTABILITY NEEDS TO BE IMPROVED

Our industry relies on BATF to efficiently and effectively perform a number of functions to ensure that the legitimate commerce of high explosives can go forward unimpeded. Additionally, when explosives are stolen, lost, or used for illegal purposes, we rely on the BATF to recover products and investigate incidents as necessary. In this regard, we support all necessary resources for these essential services. However, the BATF budget request does not break down its budget authority or staffing by its programs, with the possible exception of firearms. Rather, the budget is broken down by the Bureau's strategic goals—reduce violent crime, collect revenue, and protect the public. While laudable, without detail on the amount of resources available for the Bureau's various programmatic missions, it is not possible to determine if adequate resources are being dedicated to all functions. BATF staff recently admitted that, with the attention to firearms issues during the last Congress, the Bureau's explosives program was not adequately covered as evidenced by the proportional number of inspections BATF was able to perform on explosives licenses and permittees. To BATF's credit, we are told that effort is being made to better balance the Bureau's responsibilities. We support resources necessary for this task.

STRATEGIC GOALS

A key to rebalancing the Bureau's statutory responsibilities is the identification of performance standards that can measure BATF's progress or areas needing attention. In fact, such performance measures are demanded by the Government Results and Performance Act. Currently, BATF has identified six customer service standards to measure its delivery of services to its regulated community. None of these standards address the needs or concerns of the explosives industry. Last year, we approached BATF with suggestions of measures appropriate for our industry.<sup>1</sup> While an interim reply acknowledged receipt of our suggestions, we have yet to hear from the Bureau whether our suggestions are appropriate, could be modified, or if other standards would better measure service to the explosives industry. In the meantime, measurable indices remain unavailable to assess Bureau's service to the explosives industry.

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<sup>1</sup>Letter to Wayne Miller, BATF, from Cynthia Hilton, IME, July 19, 2000.

## RULEMAKING CONCERNS

Currently, BATF regulations rules require domestic manufacturers to mark all explosive materials they manufacture for sale or distribution.<sup>2</sup> These marks consist of the manufacturer identity and the location, date, and shift of manufacture, commonly referred to in the industry as the “date-shift code.” These marks are necessary for reasons of security and safety. The BATF has emphasized that the failure to apply these markings inhibits law enforcement from tracking explosives to the source, and proving criminal activity. The date-shift code enhances safety because some explosives deteriorate over time and the code allows users to keep inventory fresh. Additionally, the date-plant-shift code is the industry’s “QA/QC” tool, allowing the manufacturer the ability to trace product quality problems back to the point of manufacture and distribution.

These marking rules, however, do not apply to licensed importers or their foreign manufacturers. During the last two years, we became aware of unusually large imports of unmarked explosives being shipped to the United States from China.<sup>3</sup> This development prompted IME to petition BATF for a rulemaking to close this loophole as it applies to high explosives and blasting agents. Our petition would make it unlawful for any licensee to import such explosive materials without legibly identifying by marking all explosives materials in the same manner prescribed by the BATF for domestic manufacturers.

While stating general agreement with our concern, BATF express doubt that they could go forward with our proposal without more information about the economic consequences to the explosives industry irrespective of whether or not the product was a “high” or “low” explosive. Nevertheless, to the Bureau’s credit, an advanced notice of proposed rulemaking (ANPRM) was issued.<sup>4</sup> Although all comments to the ANPRM supported the need to close this loophole, the Bureau remains reluctant to go forward with a rulemaking because it did not receive a greater number of comments. It is unclear to us what additional “me to” comments would substantively add to the Bureau’s understanding of this issue as it relates to the problem at hand, namely unmarked imports of high explosives and blasting agents from China. We are concerned about the status of this rulemaking and ask that you also join in asking the Bureau to close this security and safety loophole.

## RESEARCH

As manufacturers of explosive materials, we have a special interest in doing everything possible to prevent the misuse of our products. We are interested in the development of new technologies to safeguard the public, and support efforts to develop detection and prevention technologies that will enhance our national security. Nevertheless, from time to time efforts are made to mandate technologies that are unproven or unsupported by sound science and cost-benefit analyses. Efforts to mandate identification taggants in explosives are a case in point. In 1996, Congress refused to bend to such demands and enacted, with IME support, anti-terrorism legislation that instead directed BATF to study the feasibility of placing identification taggants in explosives. BATF has informed us that the study will be completed for submission to Congress by the end of fiscal year 2001. IME has worked with BATF to ensure that they have the industry data that they require, and has appreciated BATF’s efforts to keep us informed of the work on the study and preliminary findings. While we cannot believe that BATF will reach conclusions different from contemporary assessments by the National Academy of Sciences about the inappropriateness of identification taggants, we believe the research capabilities the Bureau has developed in explosives should not be disbanded when the congressionally-mandated study is released. Thus, we support the fiscal year 2002 budget request to consolidate these research assets in BATF’s new National Laboratory center in Maryland, and will continue to provide industry expertise and technical information to make the science of solving criminal acts with explosives even more effective.

<sup>2</sup> 27 CFR 55.109(a).

<sup>3</sup> Regrettably, not all countries that manufacture explosives maintain the same high standards for stewardship and security that underpin the BATF’s marking requirements for domestic manufacturers. This disparate regulation gives rise to concerns about trade practices. In terms of high explosives, the United States has already lost its ability to domestically manufacture TNT, and only one company still makes dynamite. We do not think it is in the national interest to lose more of our high explosive domestic manufacturing capability to unfair trade requirements.

<sup>4</sup> 65 FR 67669 (November 13, 2000).

## NEED FOR FEDERAL AGENCY COORDINATION

According to a recently released GAO report, several Federal agencies, including BATF, that oversee the production, use, storage, or disposal of hazardous materials should better coordinate their requirements for worker protection and accident investigation.<sup>5</sup> While these agencies have distinct roles for worker safety, the roles partly overlap, placing duplicative burdens on the regulated community. These duplicative rules cover substances regulated, response plans, training, and accident investigations. Regulatory overlap leads to confusion and non-compliance. To enhance worker protection and reduce the compliance burden associated with the hazardous material statutes and associated regulations, the GAO recommended that the Occupational Safety and Health Administration, the Environmental Protection Agency, the Chemical Safety and Hazard Investigation Board, and BATF work to establish a general protocol that sets forth the framework under which multi-agency incident investigations are conducted with the goal to minimize regulatory overlaps. We share the GAO's concern about redundant regulatory schemes, especially when the result is reduced worker safety. When we last checked, none of the affected Federal agencies had responded to this GAO recommendation. We believe Congress should insist that these agencies show progress in addressing GAO's findings and recommendations.

## CONCLUSION

The manufacture and distribution of explosives is accomplished with a remarkable degree of safety. We recognize the important role played by BATF in helping our industry achieve and maintain safe and secure workplaces. We, therefore, strongly recommend full funding for BATF.

Thank you for your attention to these issues.

## PREPARED STATEMENT OF THE NATIONAL COALITION AGAINST DOMESTIC VIOLENCE

The National Coalition Against Domestic Violence (NCADV), which represents a network of approximately 2,000 battered women's shelters and community-based programs, as well as individual battered and formerly battered women throughout the nation, submits this testimony in support of full-funding for Violence Against Women Act programs.

Domestic violence is an epidemic. The Department of Justice estimates that intimate partners commit, on average, 960,000 violent crimes against women every year,<sup>1</sup> while another source puts the number as high as 3.9 million.<sup>2</sup> Nearly one in every three adult women experiences at least one physical assault by a partner during adulthood.<sup>3</sup> At least 3.3 million children are at risk of exposure to parental violence every year,<sup>4</sup> and between 50 and 70 percent of men who abuse their female partners also abuse their children.<sup>5</sup> Children of battered women are 12 to 14 times more likely to be sexually abused by their mother's partner.<sup>6</sup> 1,218 women were killed in 1999 by their current or former partners.<sup>7</sup>

Though these numbers are profound and disturbing, NCADV recognizes that other issues must be weighed by Congress in prioritizing and determining appropriations. We are in a time of strong but uncertain economy, of conservative fiscal policy, of a desire to cut taxes, and of a need to stimulate business in order to grow economically. We seek to save money for companies and investors so that our country will bloom rather than wither with recession.

NCADV agrees that this is important, and maintains that one of the best ways to save money for employers and taxpayers is to prevent domestic violence. Adult

<sup>5</sup> Worker Protection: Better Coordination Can Improve Safety at Hazardous Materials Facilities, GAO-01-02, October 26, 2000.

<sup>1</sup> Lawrence A. Greenfeld, et al., *Violence By Intimates: Analysis of Data on Crimes By Current or Former Spouses, Boyfriends and Girlfriends 3* (Bureau of Justice Statistics, 1998).

<sup>2</sup> The Commonwealth Fund, *First Comprehensive National Health Survey of American Women* (July, 1993).

<sup>3</sup> American Psychological Association, *Violence and the Family: Report of the American Psychological Association Presidential Task Force on Violence and the Family 10* (1996).

<sup>4</sup> Jaffe, Wolfe & Wilson, *Children of Battered Women*, Sage Publications 19 (1990).

<sup>5</sup> Lee H. Bowker, Michelle Arbitell & Richard McFerron, "On the Relationship Between Wife Beating and Child Abuse," in Kersti Yillo & Michele Bograd, Eds., *Feminist Perspectives on Wife Abuse 158, 162* (1988); M.A. Strauss and R.J. Gelles, *Physical Violence in America Families* (1990).

<sup>6</sup> L.A. McCloskey, A.J. Figueredo, & M.P. Koss, "The Effects of Systemic Family Violence on Children's Mental Health," 1239-1261, *Child Development* 66 (1995).

<sup>7</sup> Bureau of Justice Statistics, *Homicide Trends in the US: Intimate Partner Violence 1* (2001).

victims of domestic violence annually incur \$67 billion in court, medical and other expenses.<sup>8</sup> Child abuse costs an estimated \$56 billion.<sup>9</sup> It is conservatively estimated that employers pay between \$3 and \$5 billion annually to cover the cost of crimes against employees and their families.<sup>10</sup> 94 percent of corporate security and safety directors and companies nationwide rank domestic violence as a high-risk security problem.<sup>11</sup>

Economic experts such as Alan Greenspan have recognized the importance of worker productivity in maintaining healthy economic growth and preventing inflation. In a recent survey, 49 percent of senior executives said domestic violence has a harmful effect on their company's productivity, 47 percent said domestic violence negatively affects attendance, 44 percent said domestic violence increases health care costs, and one-third said domestic violence has a negative impact on their bottom lines.<sup>12</sup> Over 50 percent of abused women lost at least 3 days of work due to abuse, and 70 percent reported difficulty in performing their jobs because of abuse.<sup>13</sup> National Coalition Against Domestic Violence of Congress made great strides in addressing domestic violence by passing the Violence Against Women Act (VAWA) in 1994 and reauthorizing it in 2000. The funds appropriated to VAWA programs have made a difference. In fact, after holding steady for 20 years, the number of domestic homicides decreased from 1,581 in 1993 to a near-record low 1,281 in 1999.<sup>14</sup> This is a positive start, and we must continue to fund VAWA programs in order to see greater reductions in the scale of domestic violence. VAWA 2000, and the funding levels authorized within, was passed last year with overwhelming, bipartisan, nearly unanimous support. However, in the fiscal year 2001 budget, Congress appropriated only \$468 million of the \$677 million that had been authorized for VAWA programs that year. The Bush Administration's recently-released fiscal year 2002 Presidential Budget requests full-funding for most VAWA programs administered by the U.S. Department of Justice. However, the President's fiscal year 2002 Budget leaves programs administered by the U.S. Department of Health and Human Services funded at fiscal year 2001 levels—\$108 million lower than authorized levels. NCADV asks that Congress live up to the promise it made to constituents in passing VAWA 2000 by fully-funding all VAWA programs.

#### FAMILY VIOLENCE PREVENTION AND SERVICES ACT

Domestic violence shelters provide essential services to millions of women, men and children across the United States. Over the past 20 years, shelters have evolved to provide a wide spectrum of services. When a woman enters a shelter she often receives individual and group counseling, parenting classes, tutoring and therapy for her children, help getting a protective order against her batterer, and case management to help her meet her goals and find safe housing. Most shelters also provide a hotline, crisis counseling, and help for victims of rape and sexual assault. Shelters cannot succeed in their goal of providing safety if they do not help women in a myriad of ways, from helping a woman start a savings account to arranging transportation for her to get to work, from providing food, clothing and toiletries to offering intervention for batterers.

In a recent mini-survey of 32 shelters for battered women, the National Coalition Against Domestic Violence found that in fiscal year 2000, more than 11,740 women and children had been housed by these 32 shelters alone. There are more than 2000 shelters in the United States, serving an estimated 240,000 adults and children.

But shelters provide so much more than just an emergency place to stay. By far the majority of clients served are not living in the shelter. These same 32 shelters provided non-residential services to an additional 920,551 adults and children. The non-residential services offered by shelters included more than 50 different programs. Some of the most frequently provided programs included legal advocacy, counseling, children's programs, rape and sexual assault crisis intervention, sub-

<sup>8</sup>Ted R. Miller et al., *Victim Costs and Consequences: A New Look*, National Institute of Justice Research Report (January, 1996).

<sup>9</sup>*Ibid.*

<sup>10</sup>Bureau of National Affairs, *Violence and Stress: The Work/Family Connection 2*, Special Report No. 32 (1990).

<sup>11</sup>Joseph A. Kinney, National Safe Workplace Institute, *Domestic Violence Moves Into Workplace 2* (1994).

<sup>12</sup>Roper Starch, Liz Claiborne, Inc. *Addressing Domestic Violence: A Corporate Response 2-3* (1994).

<sup>13</sup>Connie Stanley, *Domestic Violence: An Occupational Impact Study 17* (Tulsa, Oklahoma, July 27, 1992); Louise Laurence & Roberta Spalter-Roth, *Measuring the Costs of Domestic Violence Against Women and the Cost Effectiveness of Interventions 25* (IWPR, Victims' Services & the Domestic Violence Training Project, May 1996).

<sup>14</sup>See Bureau of Justice Statistics, *supra* note 7.

stance abuse treatment, job training, transportation, child care, 24-hour hotlines, training for professionals, batterers' intervention programs, transitional housing, and preventative outreach in schools and communities.

Despite the huge numbers of women being served by shelters for battered women, the need for shelter still exceeds the capacity of most programs. At least 4,743 women and children were turned away in fiscal year 2000 for lack of space by the 32 shelters surveyed. Considering that there are about 2,000 emergency shelters for battered women in the country, approximately 296,440 women and children were unable to access essential residential services last year. Here are some startling details:

- In fiscal year 2000, a Winchester, Virginia program turned away as many people as it was able to house. Statewide, 25 percent of women and children seeking shelter in Virginia were turned away;
- In White Plains, New York, a shelter housed 246 individuals in fiscal year 2000, while turning away 763. In 1998, 23,160 women and children across New York state were denied shelter due to lack of space;
- A staff person at a shelter in San Francisco stated that 80 percent of women and children are turned away in that city because shelters are full;
- In suburban Clearwater, Florida, a shelter turned away  $\frac{2}{3}$  as many people as it was able to house in fiscal year 2000;
- 33 families were housed in fiscal year 2000 in a shelter in the small-town of Mount Vernon, Ohio, while 35 families were turned away; and
- In a separate survey, Missouri reported that in fiscal year 2000, 4,907 individuals were turned away statewide.

The need for emergency shelters for battered women has increased over time. Though VAWA programs have done much to reduce the impact of domestic violence, one of the positive effects has been the increasing number of victims of domestic violence who now have the courage to ask for help and end the cycle of violence. As the need for service increases, so does the need for funding. For example:

- Calls to a New York City domestic violence hotline increased 23 percent from 1999 to 2000—from 95,000 to 117,000;
- A Webster, Texas shelter also saw calls to their hotline increase 20 percent in the last year;
- In the past six months, a shelter in Chattanooga, Tennessee has already served as many individuals as were served in the whole of the 2000 fiscal year;
- In 1999, shelters across Arizona turned away 19,775 women and children—nearly 3,000 more than in 1998;
- The Rhode Island Coalition Against Domestic Violence found shelter programs statewide serving 13 percent more non-residential and 12 percent more residential clients in fiscal year 2000 than in fiscal year 1999;
- Total bed nights have doubled in 2 years at a Waldorf, Maryland shelter, indicating that they are both serving more people and serving them for longer periods of time;
- The Colorado Coalition Against Domestic Violence reported a 12 percent increase in hotline calls from fiscal year 1998 to fiscal year 1999, while the New Mexico Coalition Against Domestic Violence reported a 20 percent increase in such calls from fiscal year 1999 to fiscal year 2000;
- In Chicago, Illinois, at a shelter where twice as many people were turned away as were housed, the number of individuals served through non-residential programs increased 19 percent over the past 2 years, from 1,612 to 1,912;
- The Alabama Coalition Against Domestic Violence reported a 60.33 percent increase statewide in provision of non-residential services from fiscal year 1999 to fiscal year 2000. Over the same time period, the Maine Coalition to End Domestic Violence saw a 20 percent increase in such services; and
- 562 women and children were turned away from a shelter in Louisville, Kentucky in fiscal year 2000, whereas fewer than 100 were turned away the year before.

Battered women's shelters overwhelmingly responded that they need more funding to be able to serve the large numbers of women, men and children in need of domestic violence services. In a national survey of 221 shelters and domestic violence programs, funding was listed as the primary concern.<sup>15</sup> Women are at the greatest risk of being injured shortly after separating from their abusive partners;<sup>16</sup> if the local shelters are already full, a woman may have nowhere safe to stay.

<sup>15</sup>National Coalition Against Domestic Violence, Public Policy Poll (January 2001).

<sup>16</sup>Ronet Bachman and Linda Salzman, Bureau of Justice Statistics, Violence Against Women: Estimates From the Redesigned Survey 1 (1995).



Increasing appropriations for shelters for battered women through the Family Violence Prevention and Services Act (FVPSA) portion of the Violence Against Women Act of 2000 (VAWA 2000) will allow these shelters to provide critical assistance to families in desperate need.

FVPSA was authorized under VAWA 2000 to be funded at \$175 million each year. Despite the broad support for shelters for battered women and for VAWA 2000, FVPSA was appropriated at only \$117 million for fiscal year 2001—a loss of \$58 million. The President's fiscal year 2002 Budget also neglects FVPSA, requesting funding at last year's \$117 million level. We ask that Congress follow through on its commitment to battered women by funding FVPSA at the authorized level for the fiscal year 2002.

#### NATIONAL DOMESTIC VIOLENCE HOTLINE

The National Domestic Violence Hotline has received more than 500,000 calls since it began in 1994. Housed in Texas, this 24-hour, national toll-free hotline has received calls from increasing numbers of victims of domestic violence. The Hotline averages 13,000 calls each month, and provides services in 139 languages. A sophisticated system allows the Hotline operator to patch the caller in to a service provider located in the area nearest to the caller. The Hotline also provides information, referrals, and crisis counseling to its thousands of callers.

The Hotline serves as a lifeline to women, children, and families across the country, and their goal is to ensure that when calling the Hotline, each of these individuals in crisis has access to an advocate who can effectively assist in ensuring their safety. Without crucial continued funding, thousands of battered women and their children will not receive assistance and will continue to live in fear for their lives.

Between October 1, 1999, and September 30, 2000, the Hotline responded to 147,852 calls for help. In the last 6 months of fiscal year 2000, the Hotline was able to answer 64,770 calls. When its funding was increased from \$1.2 million to \$2 million in fiscal year 2001, the number of calls answered increased to 80,620 for the first six months of fiscal year 2001. Unfortunately in the same six-month period in fiscal year 2001, 20,483 calls went unanswered for lack of resources. Continuing funding for the Hotline with at least \$2 million for fiscal year 2002 will allow Hotline staff to continue to answer the thousands of calls for help they receive each month.

The Hotline staff tell a story about a woman who called from a bus station. A small suitcase of clothing and \$32 were the total sum of her personal resources. She had just fled for her life from her batterer, who was hot on her trail. She couldn't use family or friends as a haven, because he had repeatedly threatened their lives as well as her own. She had consulted with the bus station attendant to purchase a ticket for the location that was as far from her batterer as \$32 would take her. She would have no money for food or phone calls during the trip, and her only resource was the toll free number of the National Domestic Violence Hotline. The bus was leaving in minutes, and she would arrive in a strange city later that night where she knew no one. The Hotline advocate handling the call calmed her fears and initiated a three-way call to the domestic violence shelter located near her destination. After some discussion and problem solving, all was well. She would be picked up from the bus station upon arrival and given safe haven and assistance as she made the first steps in her new life, free of violence and abuse.

Congress recognized the valuable service provided by the Hotline and fully-funded it in fiscal year 2001. We ask Congress to continue this support and maintain full funding, \$2 million, for the Hotline in fiscal year 2002.

#### TRANSITIONAL HOUSING

Transitional housing is a critical need for battered women. Of all homeless women and children, 50 percent are fleeing domestic violence.<sup>17</sup> 56 percent of cities identified domestic violence as a primary cause of homelessness.<sup>18</sup> To help meet this need, emergency shelters for battered women provide a host of essential services. Unfortunately, most battered women's shelters can only accommodate residents for a month or two. The demand for shelter space is high, with thousands of women being turned away in each state.

<sup>17</sup>The Women and Housing Task Force, *Unlocking the Door III: A Call to Action, Battered Women*, September 1996 (citing Schneider, Elizabeth, *Legal Reform Efforts for Battered Women: Past, Present and Future* (prepared for the Ford Foundation, July 1990)).

<sup>18</sup>U.S. Conference of Mayors, *A Status Report on Hunger and Homelessness in America's Cities: 2000*.

In an ideal world, women would move directly from emergency shelter into stable, permanent housing. However, the housing crisis in America means there is little to no affordable housing, and women in most areas must wait for years to participate in Section 8 voucher programs. Moreover, victims of domestic violence frequently require supportive services including counseling for themselves and their children, case management, job and financial skills training, and legal assistance. Without those support services, many victims are unable to remain safe and independent and therefore return to their abusive partners.

In a recent poll of 221 battered women's shelters and domestic violence programs, transitional housing was listed as the number one funding priority.<sup>19</sup> In a separate mini-survey of shelter programs, shelter directors estimated that on average at least 50 percent of battered women in their shelters required, but usually could not find space in, transitional housing.

Transitional housing for battered women allows women to spend less time in emergency shelters, and thus allow emergency shelters to take in larger numbers of residents. The support services that accompany transitional housing provide victims with the practical assistance they need to rebuild their lives. Transitional housing programs help victims move beyond emergency shelter and work toward securing permanent housing. A St. Petersburg, Florida battered women's shelter that provides transitional housing said that the program is "critical [in] enabling women to become independent" and preventing them from returning to violent situations. Further south in Bradenton, Florida, a shelter director in an area with no transitional housing stated that abuse and problems with welfare have "created a class of working poor who cannot afford housing and must remain with their abusers" in order to have anywhere to live.

Transitional housing programs around the country offer many success stories and demonstrate the multifaceted approach required to assist domestic violence victims. For example, a program in Louisville, Kentucky noted that transitional housing allows women to become self-sufficient before finding permanent housing. Many women have fled violent situations and arrive at the shelter in complete poverty. The Louisville program offers a broad spectrum of follow-up and support services, including a financial skills building course and an Individual Development Account (IDA) 2-1 matched savings plan. Without these continuing services, the director stated that "women would cycle in and out of homelessness."

In Alliance, Ohio, where there is no transitional housing for battered women, women in the emergency domestic violence shelter must wait one to two years for any housing assistance. The emergency battered women's shelter stated that their top priority was to build transitional housing. The assistant director noted that transitional housing "would enable [battered women] to stabilize their families, have hope, and break the cycle of violence." A Mount Vernon, Ohio shelter said that if they could do anything, they would build transitional housing. There is none in their community, and they estimate that at least 50 percent of their shelter residents need transitional housing.

Where transitional housing is available, it is usually in such high demand that only a small percentage of needy applicants can be housed. In San Francisco only one transitional housing program is available for the entire city. The program can house 15 women and 15 children and must turn 75 percent of applicants away. Many transitional housing programs are extremely small, such as one in Leesburg, Virginia that can house only two families. Though transitional housing is available in Wooster, Ohio, there is a shortage of affordable housing, and an estimated 50-70 percent of shelter residents require transitional services.

Transitional housing programs for battered women are in desperate need of funding. One program from Waldorf, Maryland described the lack of security cameras or other safety features. Despite this, the program is able to assist residents across Maryland, DC and Northern Virginia, providing 14,434 bed nights in 2000. The transitional housing director described a young woman whose abuser had destroyed her credit, isolated her from all friends and family, and repeatedly suffocated her child near to the point of death. The woman and her child were so traumatized that they required counseling and other supportive services along with the longer stay of a transitional housing program. Fortunately, the Maryland program was able to make space for them and the family is now established both financially and emotionally.

Transitional housing is an essential component of the fight to end domestic violence. As the McAuley Institute, a faith-based housing organization, stated, "short-term housing aid and targeted supportive services can help survivors bridge the gap between financial and emotional dependency and productive, healthy and life-sus-

<sup>19</sup> See National Coalition Against Domestic Violence, *supra* note 15.

taining environments for themselves and their children.” Congress responded to the urgent need for transitional housing by providing a modest \$25 million for temporary housing assistance in VAWA 2000. Unfortunately, no money was appropriated for this vital service, and the President’s Budget continues this travesty by requesting no funding for transitional housing in fiscal year 2002. Though the \$25 million was initially authorized only for fiscal year 2001, we fully anticipate it will be reauthorized as part of the Child Abuse Prevention and Treatment Act (CAPTA). We ask that Congress now appropriate the needed funds for fiscal year 2002.

#### STOP GRANTS

In order to eradicate domestic violence, abusers must be held accountable for their actions and victims given appropriate legal assistance. The STOP (Services, Training, Officers and Prosecution) Grant program provides funding directly to states, territories and Indian Country to create a coordinated, community response to domestic violence and sexual assault. Police, district attorneys, shelters for battered women, rape crisis centers, and outreach organizations work together to combat domestic violence from an interdisciplinary approach. According to Nancy O’Malley, Chief Assistant District Attorney in Alameda County California, because of the STOP program, “victims and abusers are no longer falling through the cracks. We are everywhere.”<sup>20</sup>

Before VAWA was originally passed in 1994, most police officers were not well-trained about domestic violence and sexual assault, and often made no arrests or did not collect appropriate evidence. When arrests were made, many victims of domestic violence dropped the charges, in large part because they were not adequately protected by the judicial and law enforcement systems and feared reprisals by their abusers. Programs funded by STOP have trained police, judges, prosecutors and court personnel to assist battered women and children as well as victims of rape and sexual assault.

According to the Muskie School for Public Service’s 2001 report for the U.S. Department of Justice Violence Against Women Office, STOP grants have been extremely effective in assisting victims and prosecuting batterers and rapists:

- In Largo, Florida, the rate of domestic violence arrests that resulted in charges filed increased from 16 percent in 1997 to 55 percent in 1999;
- 23,546 victims in Ohio were served through STOP grants from 1997 to 1999;
- From 1994–1999, there was a 275 percent increase in the number of felony stalking cases filed by the Los Angeles, California District Attorney’s Office Stalking and Threat Assessment Team;
- Counties in Iowa with established Domestic Abuse Response Teams (DARTs, created with STOP grant funding) have a conviction rate nearly 20 percent higher than counties without DARTs;
- The Louisville, Kentucky Police Department saw its domestic violence arrest rate increase by 42 percent from 1998 to 1999;
- Charleston, West Virginia saw a 73 percent increase in the number of arrests for violation of domestic violence protection orders from 1998 to 1999. A STOP funded prosecuting attorney in Wood County increased the number of domestic violence convictions from fiscal year 1998 to fiscal year 1999 by 143 percent;
- In-person contacts made with victims by the Colorado Springs Domestic Violence Enhanced Response Team increased by 60 percent from 1998 to 1999;
- In Gresham, Oregon, the percentage of domestic violence police reports has increased 129 percent, from 383 reports in 1996 to 876 in 1999;
- In South Carolina, the number of criminal court hearings that domestic violence advocates have been able to attend has increased from 62 in 1996 to 1,511 in 1999, an increase of 2,337 percent;
- From 1996–1999, the New Day Shelter in Ashland County, Wisconsin, saw a 44 percent increase in client services. They responded to approximately 4,000 crisis calls in 1999, a 124 percent increase from 1,787 calls in 1996. Services to Native Americans increased 84 percent from 1996 to 1999.

Though STOP-funded programs have made a significant impact, the need for them continually increases. In fact, the need for services in many areas has increased because of the efficacy of STOP programs. Many victims of domestic violence believed they had no choice but to stay with their abusers. Thanks to increased outreach, successful prosecution, and responsive police officers, thousands of battered women now have the knowledge and the courage to find safety for themselves and their children.

<sup>20</sup>Muskie School of Public Service, State Profiles: Communities Respond to Domestic Violence, U.S. Department of Justice, Office of Justice Programs, Violence Against Women Office (2001).

- By 1999, The Los Angeles, California Commission on Assaults Against Women had seen a 64 percent increase in the number of victims served since the STOP grant funding was received in 1997. Rape Prevention Education program services in LA doubled from 1996 to 1999;
- Education and prevention efforts funded by STOP led to a 358 percent increase in calls to the Columbus, Ohio 24-hour rape helpline—from 361 in 1996 to 1,654 in 1999;
- From fiscal year 1995 to fiscal year 1999, there was a 473 percent increase in law enforcement referrals to the Women's Resource Center of West Virginia after STOP grants funded domestic violence advocates and law enforcement in Nicholas, Raleigh, Fayette and Summers Counties;
- After receiving STOP funding for a community outreach coordinator, the Wintergarden Women's Shelter served 66 percent more women in crisis from 4 rural counties in Southeast Texas. Maverick County alone saw an 88 percent increase, and the number of women seeking services in Dimmit County tripled.
- In the Bristol Bay region of Alaska, a rural area the size of Ohio where victims of domestic violence must be flown to safety, the only battered women's shelter saw its shelter nights double from fiscal year 1999 to fiscal year 2000. Another critical aspect of the STOP Grant program is a set-aside to combat violence in Indian Country. The violent crime rate among Native American females during the period of 1992–1996 was 98 per 1,000 females. This is more than double the rate among white females (40 per 1,000) and almost twice the rate among black women (56 per 1,000).<sup>21</sup> Approximately 75 percent of Native American female homicide victims are killed by someone they knew—a rate significantly higher than the national average.<sup>22</sup> American Indian victims of intimate and family violence are more likely than others to be injured and a greater number of their injuries will require hospital care.<sup>23</sup>

In order to meet the increasing demand for services as well as to reach out to underserved populations, Indian country, and rural communities, funding for STOP grants must increase. Unfortunately, appropriations for STOP grants were actually reduced in the fiscal year 2001 Congressional Budget. Authorized by VAWA 2000 at \$185 million, STOP grants were appropriated at only \$152.02 million for fiscal year 2001 once major earmarks, including Safe Start, Campus Violence Grants, and Civil Legal Assistance, were deducted. This amount, slightly less than had been appropriated for the previous 3 years, was further reduced by appropriation increases for smaller earmarks, which were deducted from the STOP grant funding stream.

Subtracting money earmarked or set aside for various programs, the money left for grants to states was only \$113.118 million—the lowest since 1996. Due to changes in the authorizing statute, many states received a substantial cut in funding this year. Large states were hit hardest by these cuts:

- Texas lost \$1.604 million;
- Florida lost \$1.194 million;
- California lost \$2.701 million;
- North Carolina lost \$.547 million;
- Virginia lost \$.491 million;
- Pennsylvania lost \$.991 million;
- Ohio lost \$.902 million.
- New York lost \$1.538 million.

In all, 42 states and Puerto Rico lost money, with only 8 small states and 5 territories gaining money, usually less than \$100,000.

The President's fiscal year 2002 Budget makes great strides in redressing this grievance. His budget requests \$184.5 million for STOP grants while simultaneously removing all but one of the earmarked programs from the Grants to Combat Violence Against Women section of the budget. This gives the earmarked programs, important in their own right, their own line-item appropriations, and leaves \$173.3 million in STOP grants. We urge Congress to support both full funding for STOP grants and the removal of all earmarked programs from the Grants to Combat Violence Against Women portion of the fiscal year 2002 Congressional Budget to bring the STOP Grants amount up to the full \$185 million authorized.

<sup>21</sup> Lawrence A. Greenfeld and Steven K. Smith, Bureau of Justice Statistics, *American Indians and Crime* (1999).

<sup>22</sup> National Center for Injury Prevention and Control, *Homicide Surveillance: 1979–1988*, Centers for Disease Control. Atlanta, Georgia (1992).

<sup>23</sup> See Lawrence A. Greenfeld and Steven K. Smith, *supra* note 21.

## SAFE HAVENS

Children are often the forgotten victims of domestic violence. Children who witness domestic violence are at a high risk of anxiety and depression, and exhibit more aggressive, antisocial, inhibited and fearful behaviors.<sup>24</sup> It is estimated that between 3 and 10 million children witness acts of domestic violence, typically the father of the child or partner of the mother abusing the mother.<sup>25</sup>

Safe Havens, or supervised visitation centers, play an essential role in breaking the cycle of domestic violence and child abuse. Supervised visitation centers allow non-custodial parents to meet with their children in a protected and neutral environment. In cases of domestic violence, the abusive partner is prevented from making contact with the custodial parent, while still having a safe and positive interaction with the children. Supervised visitation programs provide services including:

- One-on-one supervision (one supervisor assigned to a single family);
- Monitored exchanges (supervision of a child's movement between the residential and the nonresidential parent immediately before and after unsupervised visitation);
- Group supervision (supervision of several families at a time);
- Telephone monitoring (monitoring phone calls from the nonresidential parent to the child); and
- Therapeutic supervision (mental health professionals providing therapy/counseling to the family during the visit).

The services provided by supervised visitation centers are essential. Maureen Sheeran of the National Council of Juvenile and Family Court Judges states that, "many battered women report threats against their lives during visitation and exchanges, and some, in fact, are killed in those contexts"<sup>26</sup>. Supervised visitation centers minimize this risk by facilitating safe contact between perpetrators of domestic violence and their children.

Many families are benefitting from supervised visitation centers. One program in Brockton, Massachusetts served 102 families, 141 children and 205 adults in the fiscal year 2001. Florida supervised visitation centers reported over 30,000 scheduled visits in 1999. A Leesburg, Virginia program reported that 100 percent of participant evaluations indicated that participants were glad that the supervised visitation center was available and that the children had been able to feel safe with the non-custodial parent.

Unfortunately, supervised visitation centers are woefully underfunded. Lack of funding was cited as a "major problem" by 67 percent of surveyed administrators<sup>27</sup>. The Clearinghouse on Supervised Visitation estimates that programs need a minimum of \$90,000 per year to operate, but notes that many programs operate on smaller budgets and cannot afford adequate security—often placing the women and children they serve at great risk. "Visitation services are not available in many communities, and in communities where they are available, the demand for service far outstrips the capacity," says Sheeran.<sup>28</sup> Though Congress authorized \$15 million for supervised visitation centers through the Violence Against Women Act of 2000, no money was appropriated for them in the fiscal year 2001 Congressional budget. VAWA 2000, and the authorized funding levels contained within, was passed with overwhelming, bipartisan support. The President's fiscal year 2002 Budget requests \$15 million for the Safe Haven program. We urge Congress to live up to its promise by fully funding supervised visitation centers in the fiscal year 2002 Congressional budget.

## CIVIL LEGAL ASSISTANCE

In order to provide lasting safety for themselves and their children, victims of domestic violence and sexual assault must seek help from the legal system. Tragically, many battered women are revictimized by the judicial process. Usually, battered women cannot afford the retainers or hourly fees needed to hire private legal rep-

<sup>24</sup> E. Peled, P.G. Jaffe, and J.L. Edelson, *Ending the Cycle of Violence: Community Responses to Battered Women* 4–5 (1995); M. Kenning, A. Merchant, and A. Thompkins, "Research on the Effects of Witnessing Parental Battering: Clinical and Legal Policy Responses." 238–39, in *Woman Battering: Policy Responses* (37) (Michael Steinmen, ed.) (1991).

<sup>25</sup> J. Edelson, "Mothers and Children: Understanding the Links Between Woman Battering and Child Abuse." *Synergy* 1(3) (1995).

<sup>26</sup> M. Sheeran, and S. Hampton, "Supervised Visitation in Cases of Domestic Violence." 13–25, *Juvenile and Family Court Journal* (Spring) (1999).

<sup>27</sup> J. Pearson and N. Thoennes, *Supervised Visitation: A Portrait of Programs and Clients* (1997).

<sup>28</sup> See M. Sheeran, and S. Hampton, *supra* note 26.

resentation. Without any legal representation, many victims of domestic violence are unable to get needed protective orders or custody of their children.

The Legal Assistance Program for Victims funds grassroots efforts to meet the broad civil legal assistance needs of victims of domestic violence and sexual assault. Civil legal representation for battered women in family law, immigration, housing and public benefits matters; training to improve the delivery of civil legal services; collaboration between domestic violence services and legal assistance programs; and the improvement of pro bono civil legal assistance are funded through the Legal Assistance Program. This program is the only Federal funding designed to meet the many legal needs of victims of domestic violence. The Violence Against Women Office has received an overwhelming number of requests for funding; in the first year alone, more than 400 applications were received, but only 57 grants could be approved.<sup>29</sup>

Bay Area Legal Services of Tampa, Florida used their civil legal assistance grant to meet the needs of women in urban Tampa as well as rural Plant City and Dade City, fund Spanish-speaking attorneys and staff to work with the Hispanic community, and train more than 50 domestic violence programs in their area. Demand for services is continually high, and if funding does not continue, Bay Area Legal Services will be forced to turn away many impoverished women. Another legal services program in Hammond, Louisiana served 710 women between October 1998 and March 2000. Three-quarters of those women had children who had been exposed to domestic violence in the home. The Hammond program also uses VAWA funding to collaborate with two domestic violence service providers. Since receiving that VAWA funding, those programs have seen 26–27 percent increases in the numbers of clients served.

A VAWA-funded legal services provider in Los Angeles, California provides legal representation and language access to hundreds of local battered women. One of their clients had been married for 4 years to an extremely abusive man, who was also molesting their children. The woman could not afford legal services and went to a local “notario” service which advertises the provision of legal services but in fact only provides poor quality paralegal work. The notario service did not respond to the allegations of molestation and arranged joint custody for the woman and her husband. The victim was left to choose between allowing her husband to molest the children when he had custody of them or keeping the children with her exclusively and thus violating the court order. Fortunately, the Los Angeles program was able to provide quality pro bono legal services to the victim, who was granted sole custody of her children. She and her children are now able to live violence-free lives.

The Legal Assistance Program was authorized in VAWA 2000 for \$40 million per year. Last year, Congress appropriated only \$31.56 million for legal assistance in the fiscal year 2001 Congressional Budget. The President’s recently-released Budget requests the full \$40 million for this critical program. It is imperative that Congress also include \$40 million for the Legal Assistance Program in the fiscal year 2002 Congressional Budget.

#### EDUCATION/TRAINING TO END VIOLENCE AGAINST AND ABUSE OF WOMEN WITH DISABILITIES AND PROTECTION FOR OLDER AND DISABLED WOMEN

Domestic violence is often portrayed as a crime which affects primarily younger women. However, according to the National Center on Elder Abuse more than two-thirds of all abusers, neglectors, and exploiters of older women are family members.<sup>30</sup> A study on sexual abuse of elders found that 78 percent of suspected offenders were family members.<sup>31</sup> Reports of domestic abuse against the elderly rose from 117,000 in 1986<sup>32</sup> to 293,000 total reports in 1996.<sup>33</sup> After taking the rates of reporting into account, the National Center for Elder Abuse extrapolates that there were 818,000 total elderly domestic abuse victims in 1994.<sup>34</sup>

Disabled women comprise another vulnerable population with unmet needs. Women with disabilities are more likely to be the victims of abuse and violence than women without disabilities because of their increased physical, economic, social, or

<sup>29</sup>Roberta Valente, Campaign for Full Funding of the Violence Against Women Act Fiscal Year 2002 Budget Briefing Book (2001).

<sup>30</sup>Toshio Tatara, Summaries of the Statistical Data on Elder Abuse for Domestic Settings for Fiscal Year 1995 and Fiscal Year 1996, p. ix, National Center on Elder Abuse (November 1997).

<sup>31</sup>H. Ramsey-Klawnsnik, Elder Sexual Abuse: Preliminary Findings, 3(3) Journal of Elder Abuse and Neglect (1991).

<sup>32</sup>Toshio Tatara, Elder Abuse in Domestic Settings: Series#2, National Center on Elder Abuse (1996).

<sup>33</sup>See Toshio Tatara, *supra* note 30, at vii.

<sup>34</sup>See Toshio Tatara, *supra* note 32.

psychological dependence on others.<sup>35</sup> In cases of domestic violence, women with disabilities stay with their batterers almost twice as long as do women without disabilities.<sup>36</sup> Like other victims of domestic violence, they are often unable to leave the abusive relationship because of the inaccessibility of services or the fear of abandoning dependent children.<sup>37</sup> Many women with disabilities also fail to report the abuse, as they are dependent on their abusers and they fear being abandoned or institutionalized.<sup>38</sup>

These elderly and disabled victims often fall through the cracks of traditional services. Many emergency shelters for battered women, operating on shoestring budgets and often located in older buildings, are not handicapped accessible or not designed to meet the special mobility needs of elderly and disabled women. For example, until the city donated a new building, the emergency domestic violence shelter in Greensboro, North Carolina was located in a 3-story house with narrow stairs and no elevator. Bedrooms and bathrooms were all on the top floor, with food storage in the basement. When elderly and handicapped women fled to the shelter, they had to be relocated to the neighboring city of High Point—away from their support systems, their doctors, and their children's schools. A study in Florida, a state with a high percentage of elderly residents, found that fewer than 2 percent of the women using shelters in that state were older women.<sup>39</sup> Law enforcement, the criminal justice system, legal services, health-care providers and victim services are often not equipped or trained to effectively identify and respond to abuse or violence against women with disabilities,<sup>40</sup> and most crimes against the disabled go unreported.<sup>41</sup>

Through VAWA 2000, Congress sought to address the needs of elderly and disabled women. \$5 million per year was authorized for Protection for Older and Disabled Women (PODW), and \$7.5 million per year was authorized for Education and Training to End Violence Against and Abuse of Women with Disabilities (VAAWD). The POWD program provides grants for training programs to assist law enforcement officers, prosecutors and other court officers in recognizing, addressing, investigating, and prosecuting instances of elder abuse, neglect and exploitation, and violence, including domestic violence and sexual assault, against older or disabled individuals. VAAWD established a new grant program to provide education and technical assistance to service providers to better meet the needs of disabled individuals who are victims of domestic violence, sexual assault and stalking. Regrettably, no money was appropriated in the fiscal year 2001 Congressional Budget for either program. President Bush has recognized the urgent need to fund this underserved population by requesting full funding for both programs in his fiscal year 2002 Budget. NCADV asks Congress to follow the President's lead and appropriate \$5 million for POWD and \$7.5 million for VAAWD in its fiscal year 2002 Congressional Budget.

#### CAMPUS VIOLENCE

While many girls endure sexual violence, battering, and harassment, violence against women is typically cast as a problem facing adults. However, sexual assault, dating and domestic violence, and stalking are serious and widespread problems on college and university campuses. More than half of all stalking victims are between 18–29 years old<sup>42</sup> and the highest rate of intimate partner violence is among women ages 16–24.<sup>43</sup> Sexual assault is the second most common violent crime committed on college campuses, with most perpetrators being students known to the victim. Half of all these sexual assaults occur in the victim's residence, with an additional

<sup>35</sup> Nosek, Howland, and Young, *Abuse of Women with Disabilities: Policy Implications*, The Center for Research on Women with Disabilities, Department of Physical Medicine and Rehabilitation, Baylor College of Medicine (1996).

<sup>36</sup> Margaret Nosek, Principal Investigator for Findings on Abuse, for the Center for Research on Women with Disabilities, Department of Physical Medicine and Rehabilitation, Baylor College of Medicine (1999).

<sup>37</sup> See Nosek, Howland and Young, *supra* note 35.

<sup>38</sup> *Ibid.*

<sup>39</sup> L. Vinton, *Abused Older Women: Battered Women or Abused Elders*, 3(3) *Journal of Women and Aging* (1991).

<sup>40</sup> See Nosek, Howland and Young, *supra* note 35.

<sup>41</sup> D. Sobsey, *Violence and Abuse in the Lives of People with Disabilities: The End of Silent Acceptance?*, Baltimore, MD: Paul H. Brookes Publishing Co.

<sup>42</sup> *Stalking and Domestic Violence: Attorney General's Third Annual Report to Congress under the Violence Against Women Act*, U.S. Department of Justice, Office of Justice Programs (1998).

<sup>43</sup> "Violence by Intimates: Analysis of Data on Crimes by Current or Former Spouses, Boyfriends, and Girlfriends." Bureau of Justice Statistics Factbook. U.S. Department of Justice, Office of Justice Programs (1998).

one-third taking place in off-campus student housing, such as fraternities.<sup>44</sup> According to the Bureau of Justice Statistics, 15.5 percent of college women were sexually victimized during the 1996–1997 academic year.<sup>45</sup> Another 13 percent were stalked during the same time period.<sup>46</sup> A study in Jamaica Plain, Massachusetts, found that 41 percent of surveyed students in the Boston area during the 1998–1999 school year had experienced dating violence.<sup>47</sup>

VAWA funding has enabled colleges and universities to respond to domestic violence and sexual assault on campus. For instance, the Oasis Center at the University of Arizona in Tucson has seen a 45 percent increase in the number of college students served since receiving VAWA funding. In the 1998 calendar year, 128 students were served. The Center received VAWA funding in fiscal year 1999, and by fiscal year 2000, the number had increased to 186. Demand for domestic violence and sexual assault services on campus continues to rise. The Oasis Center estimates that approximately 200 students will be served in the first six months of 2001. The Women's Resource Center at the University of Alabama in Tuscaloosa has served nearly as many people in the first quarter of fiscal year 2001 (82) as it did in all of fiscal year 2000 (94).

VAWA 2000 authorized \$10 million for Grants to Combat Violent Crimes Against Women on Campuses. In its fiscal year 2001 Congressional Budget, Congress appropriated nearly \$11 million for this important program. The President's Budget requests \$10 million for Campus Violence programs. NCADV also requests that Congress appropriate at least \$10 million for Grants to Combat Violent Crimes Against Women on Campuses.

#### RURAL DOMESTIC VIOLENCE AND CHILD VICTIMIZATION

Victims of domestic violence in rural and remote communities face unique obstacles in their efforts to escape abusive and dangerous relationships. Rural communities often lack the basic infrastructure needed to assist victims. Social and cultural pressures are strong, and the dynamics of small communities present challenges in the provision of confidential and safe services.<sup>48</sup>

Women in rural areas are often forced to travel over 100 miles to reach safety. For example, the towns of Milford, Tunkhannock and Honesdale, located in rural Northeastern Pennsylvania, all lack emergency shelters for battered women. Residents must travel 45 minutes to an hour to another county in order to be safe. This dislocation requires that a battered woman's children must change schools, the battered woman must either commute or leave her job, and she must return for court hearings to the county she fled. As there is no public transportation in the area, this is very difficult for a woman with little or no money. Marlene Woods of the Tunkhannock Victims Resource Center said that many women choose to stay with their abusers because they know housing is extremely difficult to find in their rural community.

With a VAWA Rural Domestic Violence and Child Victimization Grant, the New Hampshire Coalition Against Domestic and Sexual Violence (NHCADSV) increased contacts with the Division of Children, Youth and Families from 686 cases in calendar year 1998 to 906 cases in calendar year 1999—a 32 percent increase. They were also able to train more members of the community. In calendar year 1998, the NHCADSV trained 2,458 individuals. In calendar year 1999 that number increased 55 percent to 3,820 individuals. Prior to receiving VAWA funding, the Arkansas Valley Resource Center served only 12 percent of the domestic violence victims in Brent and Crowley counties in rural southeastern Colorado. With VAWA funding, they are now able to reach 50 percent of victims in these counties through the establishment of satellite offices. Victims seeking services in rural Colorado's La Plata, Archuleta and San Juan counties increased during the same time period; local domestic violence service provider Alternative Horizons received 872 hotline calls in 1996 and 1,410 calls in 1999, a 62 percent increase.<sup>49</sup>

<sup>44</sup>B. Fisher, J.J. Sloan, III, and F.T. Cullen, Final Report: Understanding Crime Victimization Among College Students: Implications for Crime Prevention, U.S. Department of Justice, Office of Justice Programs (1995).

<sup>45</sup>Bonnie S. Fisher, Francis T. Cullen, and Michael G. Turner, The Sexual Victimization of College Women, U.S. Department of Justice, National Institute of Justice, Bureau of Justice Statistics (December 2000).

<sup>46</sup>Ibid.

<sup>47</sup>National Coalition Against Domestic Violence, Stories and Statistics: The Importance of Including Teen Dating Violence in the Current Federal Definition of Domestic Violence (May 2000).

<sup>48</sup>Lynn Rosenthal, Campaign for Full Funding of the Violence Against Women Act Fiscal Year 2002 Budget Briefing Book (2001).

<sup>49</sup>See Muskie School of Public Service, *supra* note 20.



According to Debbie Bresette, Executive Director of the Bastrop County Women's Center (BCWC) in Bastrop, Texas, the Rural Domestic Violence and Child Victimization funds have greatly impacted victims in her community. The Family Crisis Center, part of (BCWC) provides services for a 4,000 square mile area in Central Texas with a population of 100,000. During fiscal year 2000, the Center reported a 66 percent increase in the number of people requesting services. Ms. Bresette stated that, "this increase directly relates to the funding from the Rural Domestic Violence and Child Victimization program. With the wide breath of services we are able to provide through these funds we are able to touch the lives of a large number of people." The Center provides child abuse prevention programs to 52 rural campuses in a 4 county area in Texas, parent education in English and Spanish, and counseling for children and youth who have been victims of violence.

In Ohio's 29 rural, Appalachian counties, a VAWA-funded program is working to connect law enforcement, prosecution and victim services to combat violence against women and children through three Crisis Response Teams (CRTs). In fiscal year 2000, these CRTs were able to serve 342 individuals. 70 percent of domestic violence providers working with the CRTs stated that the Teams had increased knowledge of domestic violence among criminal justice personal. Unfortunately, a Bowling Green State University review found that the CRTs still lacked the funds to adequately serve their rural region.<sup>50</sup>

This lack of funding was addressed by Congress in passing VAWA 2000. VAWA 2000 authorized \$40 million annually for grants to serve victims of domestic violence in rural areas. Despite this clear mandate to increase funding for rural programs, Congress only appropriated \$24.38 million to the Rural Domestic Violence and Child Victimization program in its fiscal year 2001 Congressional Budget. The President has recognized this problem by requesting full funding for the Rural program in his fiscal year 2002 Presidential Budget. NCADV urges Members of Congress to appropriate the promised \$40 million for Rural Domestic Violence and Child Victimization in the fiscal year 2002 Congressional Budget.

#### CONCLUSION

The investment of \$677.3 million, which represents an additional \$208.87 million over the fiscal year 2001 budget (a small amount compared to the billions spent coping with the effects of domestic violence), in the Congressional Budget for VAWA programs would save untold dollars for businesses of all types and sizes, the government, and taxpayers by working to reduce, and ultimately end, domestic violence. Currently in the United States, there is no group, race, religion, class, age or ethnicity that is free of domestic violence—it occurs nearly equally through all strata of our society. The money spent reducing domestic violence is significantly less than the money this nation will have to spend to pick up the pieces of shattered lives. In appropriating these funds, you will save money overall for business and taxpayers, you will save lives, and you will be heroes in your communities. We urge you to support full funding of all VAWA programs for the fiscal year 2002.

Attached you will find a copy of the Campaign for Full Funding of the Violence Against Women Act fiscal year 2002 Appropriations Chart.

<sup>50</sup>Ohio Office of Criminal Justice Services, Rural Domestic Violence and Child Victimization Evaluation Summary (2000).

**Campaign for Full Funding of the Violence Against Women Act**  
**VAWA Appropriations for Fiscal Years 1999 - 2001, and 2002 Appropriations Requests**

*All numbers listed are reported in millions. FY stands for Fiscal Year.* Updated 11/01

	FY '99	FY '00	FY '01	VAWA 2001 Reauthorization for FY '01 & '02	Campaign's Appropriation Request FY '02	President's Budget Request FY '02
<b>Commerce, Justice, State - Department of Justice (DOJ)</b>						
<b>Grants to Combat Violence Against Women*</b>	209.56	205.88	189.77	229**	225**	284.5
<b>STOP Grants*</b>	157.36	151.35	131.62	169	165	173.5
* STOP Grant Set-Aside	11.05	26.65	24.0	% based	25.80	% based
* STOP Formula Grants to States	118.41	131.67	135.12	149.87	149.60	
* Research and Evaluation (R&E)	5.2	5.2	5.10	not authorized	5.2***	11.2
* Anti-Rape-VAWCP	18	16	8.80	not authorized	10***	0
* Campus Violence Grants	18	18.90	30	18	18	39
* Civil Legal Assistance	23	28	31.70	40	40	40
<b>Rural Domestic Violence</b>	25	25	24.30	40	40	38.0
<b>Violence Abuse</b>						
* CASA	8	10	9	12	12	12
* Judicial Training	2	2	2	2.5	2.5	2.5
* Technical Assistance	1	1	1	1	1	1
<b>Training (See HHS below)</b>	1	1	1	1	1	1
<b>Grants to Encourage Arrest/Pre-Arrest Grant</b>	34	34	35.10	60	60	62.9
<b>Education Training for Judges and Court Personnel</b>						
* Federal			0	0.5	0.5	0
* State			0	5.5	1.3	0
<b>Federal Victim Commissions</b>			0	1	1	0
<b>Safe and Domestic Violence Reduction</b>			0	3	3	3
<b>Supported Violence Centers (new for FY '01)</b>			0	13	13	13
<b>Education Training to End Violence Against and Abuse of Women with Disabilities (new for FY '01)</b>			0	7.5	7.2	7.5
<b>Domestic Violence Research Task Force (new for FY '01)</b>			0	0.5	0.3	0
<b>Protection for Deaf and Disabled Women (new for FY '01)</b>			0	5	4	5
<b>DOJ Total</b>	261.36	282.15	284.78	389.7	389.1	389.7
<b>Justice, HHS, Education</b>						
<b>Children and Family Services (ACF)*</b>	98	118.5	134.08	281	282	334
* IVSWA Programs/Grants	88.0	101.5	118.02	173	173	117
* Transitional Housing (new for FY '01)			0	25	23***	0
* National DV Hotline	1.2	2	2.16	2	2	2
* Domestic Youth Prevention		15	15	not authorized	0	15
<b>Rape Prevention Education (DOR)</b>	40	45	44.73	80	80	40
<b>Community Initiatives (DOR)</b>		6	5.58	5	6	5.5
<b>Justice, HHS, Education Total</b>	133	169.5	184.17	366	364	379
<b>GRAND TOTAL</b>	416.56	452.05	468.95	677.5	677.3	569.3

\* Numbers have been adjusted by a .0022% revision.  
 \*\* These represent total numbers with the breakdown of these funds indicated below in the shaded boxes.  
 \*\*\* Because these programs were not authorized in FARA 2000, these numbers are not included in our totals.  
 † Also in the President's budget request was 2.4 million for studies of parental kidnapping and juvenile courts, bringing the total to \$396.2 million.  
 ‡ Transitional housing was only authorized for FY '01. As it was never funded but remains a necessity, the Campaign is asking that it be appropriated in FY '02.  
 § The 2002 request represents the exact amount authorized in FARA 2000 and passed by Congress with overwhelming bipartisan support.  
 Prepared by the National Coalition Against Domestic Violence, Public Policy Office. For more information, please contact Inley Toliver at 302-741-0211.

PREPARED STATEMENT OF BERNARD H. BERNE, M.D., PH.D.

I am a resident of Arlington, Virginia. I serve the Food and Drug Administration (FDA) as a Medical Officer and as a reviewer medical device approval applications. I am testifying as a private individual.

I ask your Subcommittee to deny the Administration's request to provide \$9,060,000 to the General Services Administration's (GSA's) Federal Buildings Fund for the construction of a FDA Consolidation in Montgomery County, Maryland. This request appears on p. 983 of the President's Budget for Fiscal Year 2002.

The General Services Administration (GSA) is now starting to design and construct this facility. GSA would use the additional funds to design the next phase of this wasteful project in suburban White Oak, Maryland. Please deny these funds for the following reasons:

*Economic Considerations*

FDA will need to pay rent to GSA if it occupies this facility. The rents would likely be higher than rents that GSA and FDA pay to private property owners, since GSA would not need to enter into competitive bidding processes.

Congressional authorizing committees need to evaluate the current costs of the consolidation and compare them to the costs of maintaining FDA's current facilities. No Congressional committee has done this during the past ten years.

All or nearly all of FDA's offices that would move to White Oak are presently located in satisfactory leased facilities. Some, such as my own, are now in excellent buildings. There is no clear need or economic reason to relocate these offices to White Oak or to consolidate any part of FDA at this location.

*Location*

White Oak is an unsatisfactory location for FDA's headquarters consolidation. The project would promote urban sprawl.

FDA's White Oak facility would occupy 125 acres next to a golf course in a suburban residential neighborhood in Montgomery County, Maryland. The FDA site is outside of the Capital Beltway on a largely forested 750-acre property surrounded by heavily congested roads and highways. The site is three miles from the nearest Metro station, and has only infrequent bus service.

An FDA consolidation at White Oak would bring 6,000 FDA employees to this Washington area suburb. Most would need to commute for much longer times and distances than they presently do. White Oak is more than 20 miles from most present FDA facilities.

I and thousands of other FDA employees presently commute to work by Metro, as our workplaces are near Metro stations. This will be impossible at White Oak.

FDA employees driving to White Oak will add traffic congestion and air pollution to the Washington Metropolitan Area. This is especially unfortunate because the Washington Metropolitan Area already has the second worst traffic congestion of all urban areas in the United States. The federal government will need to subsidize many improvements to roads and public transit to accommodate the many FDA employees and associated businesses that would relocate from better locations to this distant suburb.

FDA employee surveys have revealed widespread opposition to this relocation. Last July, a survey of those employees who would relocate first to White Oak showed that 70 percent opposed the move. Many stated that the relocation would impair FDA's ability to regulate drugs and medical devices. It is clear that the location of this facility will have long-lasting adverse effects on FDA's ability to recruit and retain qualified employees.

The Washington Metropolitan area has a number of better sites at which FDA can consolidate. Among these is the Southeast Federal Center in downtown Washington, D.C. This underutilized 50-acre federally-owned property is adjacent to the Navy Yard Metro Station. It is only one mile from the U.S. Capitol and the headquarters of the U.S. Department of Health and Human Services (HHS).

*Legal Issues*

On February 23, 2001, I and a number of other FDA employees joined the Sierra Club and the Forest Conservation Council in a law suit that is intended to stop the White Oak project. For a number of reasons, FDA's occupancy of any buildings at White Oak would be illegal. The U.S. District Court for the District of Columbia is presently considering this suit.

The White Oak facility would house the Office of the Commissioner of Food and Drugs, as well as most other FDA headquarters offices. This would violate 4 U.S.C. § 72, which states:

"All offices attached to the seat of government shall be exercised in the District of Columbia, and not elsewhere, except as otherwise expressly provided in law."

4 U.S.C. § 72 is derived from the 1790 Act that established the District of Columbia as the Nation's capital. The first Congress enacted this law, which President George Washington signed.

There is no law that expressly provides that FDA's headquarters offices shall be exercised outside of the District of Columbia.

The FDA Revitalization Act (Public Law 101-635; 21 U.S.C. § 369b), authorizes the Secretary of HHS to enter into contracts to acquire property and to construct and operate a consolidated FDA headquarters facility. This Act does not provide the location of the consolidated facility.

I ask Congress not to appropriate funds to support an illegal activity. The 1790 Act had the worthy purpose of ensuring that all central offices of the federal government would consolidate in the federal capital District, and not elsewhere. The con-

solidated FDA facility would be one such office that is “attached to the seat of government”.

Article 1, Section 8, of the Constitution gives Congress exclusive jurisdiction over the District of Columbia. Your Committee should take no action to support the location of FDA’s headquarters at a location that is outside of the District. Any such action would tend to vitiate this section of the Constitution, which 4 U.S.C. § 72 is intended to support.

Executive Order 12072, Aug. 16, 1978, (40 U.S.C. § 490 note) states in Section 1–1, Subsection 101:

“Federal facilities and Federal use of space in urban areas shall serve to strengthen the nation’s cities and to make them attractive places to live and work. Such Federal space shall conserve existing urban resources and encourage the development and redevelopment of cities.”

White Oak is not in or near any city. An FDA consolidation at White Oak (which is in an “urban area”, the Washington Metropolitan Area) would not strengthen any cities. The FDA facility would not encourage the development or redevelopment of any cities.

Executive Order 12072, Section 1–1, Subsection 101, contains the word “shall” in several locations. FDA therefore can not legally locate its headquarters in suburban White Oak.

Executive Order 12072 and several federal statutes require that heads of federal agencies consult with local city officials to obtain their recommendations for and objections to all proposed new federal facilities. Neither GSA nor FDA officials ever consulted with officials of the District of Columbia or of the City of Rockville in Montgomery County, Maryland, concerning the White Oak facility.

This lack of consultation violated Executive Order 12072 and several laws. It prevented District and Rockville officials from recommending alternative sites for the consolidated facility within their own jurisdictions and from objecting to the selection of the White Oak site.

The Public Buildings Act of 1959, as amended, requires that the Committee on Environment and Public Works of the U.S. Senate approve prospectuses that describe the location and maximum costs of any large buildings that GSA may wish to construct before Congress can appropriate funds to design and construct such buildings. That Committee has never approved a prospectus that describes FDA’s White Oak facility.

Paragraph 7 of Senate Rule XVI requires that Committee reports on general appropriations bills identify each provision “which proposes an item of appropriation which is not made to carry out the provisions of an existing law, a treaty stipulation, or an act or resolution previously passed by the Senate during that session.” If your Committee proposes any appropriation of funds for an FDA consolidation, your Committee Report needs to identify this appropriation as being one that is not made to carry out the provisions of any existing law, treaty, or act or resolution that the Senate has previously passed during this session.

The Treasury and General Government Appropriations Act, 2000 (Public Law 101–58) and the Consolidated Appropriations Act, 2001 (Public Law 106–544), appropriated funds to GSA that could support the first two phases of FDA’s consolidation in Montgomery County, Maryland. However, both Appropriations Acts contain provisions that state:

“Provided further, That funds available to the General Services Administration shall not be available for expenses in connection with any construction, repair, alteration, or acquisition project for which a prospectus, if required by the Public Buildings Act of 1959, as amended, has not been approved, except that necessary funds may be expended for each project for required expenses in connection with the development of a proposed prospectus.”

The Public Buildings Act of 1959, as amended, requires a prospectus that describes FDA’s White Oak facility because the project’s cost exceeds \$1,500,000. No prospectus that described this facility had been approved before Public Law 101–58 was enacted into law. Therefore, GSA may only legally use the funds appropriated in these Acts for “required expenses in connection with the development of a proposed prospectus”. GSA cannot legally use the funds to design and construct any buildings.

Despite this prohibition, GSA is presently designing and starting to construct the first phase of the FDA consolidation without an approved prospectus. This is illegal.

Some GSA officials claim that the FDA Revitalization Act (Public Law 101–635) authorizes appropriations to GSA without the need for prospectus approvals. This claim is incorrect. Public Law 101–635, which amended the Federal Food, Drug and Cosmetic Act, authorized appropriations that permit the Secretary of HHS to enter into contracts to construct and operate a consolidated FDA facility.

Public Law 101-635 specifically limits the role of the Administrator of General Services in the FDA consolidation to consultation with the Secretary of HHS. Public Law 101-635 does not authorize any appropriations that can permit GSA to conduct any such activities, nor does it authorize any appropriations to GSA's Federal Buildings Fund.

Your Subcommittee should not initiate the appropriation of any new funds for this facility. GSA has no intention of submitting a prospectus for Congressional approval. GSA will use any new funds illegally, just as it is using the previously appropriated funds.

The National Environmental Policy Act (NEPA) of 1969 requires that federal agencies compare in an Environmental Impact Statement (EIS) alternative locations for any large new federal facility. However, the EIS for the White Oak FDA facility did not make any such comparisons.

The EIS only compared the environmental impacts of an FDA consolidation at White Oak with the "no action" alternative. Following this legally inadequate comparison, GSA and FDA officials selected White Oak as the location for the facility.

GSA and FDA officials therefore violated NEPA when they selected the White Oak site. Congress should not appropriate funds to support this illegal selection.

A federal court may prevent FDA from consolidating its facilities at White Oak for one or more of the above reasons. Congress should not provide funds for FDA to occupy the White Oak facility until the federal courts decide whether the project can proceed.

I therefore ask that your Subcommittee not provide the requested \$9,060,000 to GSA in this legislation. Thank you.



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