

**EXPORT LICENSING PROCESS:
Progress Has Been Made But
Better Cooperation And
Coordination Are Needed**

OIG-02-065

March 14, 2002



Office of Inspector General

The Department of the Treasury

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Abbreviations

AES	Automated Export System
ATF	Bureau of Alcohol, Tobacco and Firearms
BXA	Bureau of Export Administration

Contents

CCL	Commerce Control List
CENSUS	Census Bureau
CIA	Central Intelligence Agency
COMMERCE	Department of Commerce
CUSTOMS	United States Customs Service
DoD	Department of Defense
DoE	Department of Energy
MOU	Memorandum of Understanding
NFA	National Firearms Act
NFRTR	National Firearms Registration and Transfer Record
OFAC	Office of Foreign Assets Control
OIG	Office of Inspector General
SDN	Specially Designated Nationals
SED	Shipper's Export Declaration
STATE DEPARTMENT	Department of State
TECS	Treasury Enforcement Communications System
TREASURY	Department of the Treasury
USXPORTS	U.S. Export Systems
USML	United States Munitions List
U.S.	United States



*The Department of the Treasury
Office of Inspector General*

March 14, 2002

Robert C. Bonner
Commissioner, United States Customs Service

Bradley A. Buckles
Director, Bureau of Alcohol, Tobacco and Firearms

R. Richard Newcomb
Director, Office of Foreign Assets Control

This report presents the results of the Office of Inspector General's review of the export licensing process at the Department of the Treasury (Treasury). This review was conducted in partnership with the Inspectors General at the Departments of Commerce, State, Defense, and Energy. The overall objective of the interagency group was to determine whether the U.S. Export System's Program Management Office is establishing a common electronic interface to create an automated Federal export licensing system in accordance with Federal policies and regulations. Our audit coverage included defining Treasury's role in the approval and issuance of export licenses and the systems, both automated and manual, used to facilitate this role. Along with this we determined the costs involved with operating, the age, and whether plans exist to upgrade the various systems.

We conducted our audit at the U.S. Customs Service, Office of Foreign Assets Control, and the Bureau of Alcohol, Tobacco and



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Firearms. This audit covered the period of June 2001 through November 2001. We met with representatives from each of the aforementioned Bureaus that facilitate the export licensing process. We conducted a

walkthrough of each Bureau's role in the export licensing process. Also, we determined system connectivity requirements and other system description information regarding the automated systems used to facilitate the export licensing process. A more detailed description of our objectives, scope, and methodology is provided in Appendix 1.

Results in Brief

Our review found that the Automation Initiative has progressed, however, systems can be enhanced. The United States Customs Service (Customs) has moved forward with the Automation Initiative by reaching out to exporters and other agencies to facilitate a more effective and efficient export licensing system. With the implementation of Customs Automated Export System (AES), many exporters have been given the opportunity to speed the lengthy approval process of goods exported outside of the United States (U.S.). However, manual processes performed at the Department of State (State Department) and the Bureau of Alcohol, Tobacco and Firearms (ATF) prevent the goal of a totally automated process. Despite the goal of the Automation Initiative, the State Department maintains that a paper copy of the Shipper's Export Declaration (SED) continue to be used. The State Department's requirement for a paper SED has slowed the electronic export licensing process. Similarly, ATF relies on manual processes to perform daily functions associated with weapons exports. ATF has not embraced the Automation Initiative due to concerns that a link would share sensitive information recorded in its system.

Along with this, the Office of Foreign Assets Control (OFAC) requests data stored in Customs' AES on an as needed basis. We believe that direct access to AES would enhance OFAC's ability to enforce economic and trade sanctions. Also, our review found that agencies were not fully participating with one another and that they have not capitalized on opportunities to share resources to accomplish common goals.

We recommended that (1) Customs coordinate with the State Department to ascertain the feasibility of eliminating the paper SED requirement, (2) Customs continue its efforts to encourage

participation in AES with agencies involved in the export licensing process, (3) ATF coordinate with the State Department to determine the feasibility of connectivity with the State Department, and (4) OFAC pursue an agreement with Customs that will provide direct access to AES.

Background

In 1998, Senator Fred Thompson asked six Inspectors General to evaluate the export licensing processes for dual-use commodities and munitions to determine whether current practices and procedures are consistent with national security and foreign policy objectives. The six Inspectors General found that the various Federal agencies' computer systems have trouble communicating with each other, making it difficult for licensing officers to obtain accurate and up-to-date information. In addition, at that time no overall integrated system existed or was planned. As a result of the 1999 Inspectors' General report, the U.S. Exports System (USXPORTS) interagency initiative to modernize and accelerate the license review process, while protecting U.S. sensitive technology was initiated. The Department of Defense (DoD) has been authorized to spend \$30 million over three years to accomplish this effort.

The National Defense Authorization Act for Fiscal Year 2000 (Public Law 105-65), Section 1402, October 5, 1999, contains a requirement that beginning in year 2000 and ending in year 2007, the Inspectors General of the Departments of Commerce, Defense, Energy, and State, in consultation with the Director of the Central Intelligence Agency (CIA) and the Director of the Federal Bureau of Investigation, conduct an audit to address the policies and procedures of the U.S. Government with respect to the export of technologies and technical information to countries and entities of concern. As a result of this requirement, the Inspectors General from the Departments of Commerce, Defense, Energy, State and the Treasury formed an Interagency Working Group to conduct annual reviews of the export licensing process. The FY 2002

review topic is export licensing Automation Initiatives. The objective of the interagency review is to determine whether the USXPORTS' Program Management Office is establishing a common electronic interface to connect the Federal Departments' automated export licensing systems.

Also, the Proliferation Prevention Enhancement Act was signed into law on November 29, 1999. This legislation gave the Secretary of the Treasury the right, under regulation, to require that a SED be filed electronically through AES. It also required the Secretary of Commerce and the Secretary of State to publish regulations in the Federal Register in accordance with the aforementioned requirement. This filing requirement is only applicable to items on the United States Munitions List (USML) and the Commerce Control List (CCL).

The filing requirement became effective at the end of February 2002 after legislative requirements were met. However, according to Customs' management, implementation of this legislative requirement will occur later in 2002 once Office of Management and Budget approval is obtained for the new Office of Defense Trade Controls data elements and the trade community has commented on the Federal Register Notice of Proposed Rulemaking for mandatory filing. The Act required that the Secretary of Commerce, Treasury and the Director of National Institute of Standards and Technology provide certification to Congress that a system is available through the Internet and capable of handling the volume of information, both from voluntary and required use, and that the system is fully functional with respect to the items on the USML, their quantities and destinations. The certification report titled "Automated Export System (AES) Certification Report" was issued July 30, 2000.

Additionally, this Act required the Secretary of Treasury, Commerce, State, Defense, Energy and the Director of the CIA to submit a report to Congress stating the feasibility of mandating electronic filing through AES. The Act stipulated that the report

contain best practices for ways to collect and file data through AES with a focus on confidentiality, the existing automated systems, and a timetable for completion of the project. The feasibility study was conducted and reported on in a report titled "Feasibility of Mandatory Automated Export System (AES) Filing" dated June 7, 2000.

The Department Of The Treasury's Involvement In The Export Process

The Department of the Treasury (Treasury) is not a participant in the policy making or technical review aspects of the dual-use and munitions export license review and approval processes. Treasury provides law enforcement support to the application screening process and is responsible for enforcing license controls at exportation. Customs is responsible for ensuring that all U.S. exports comply with licensing requirements with the exception of outbound mail. Also, Customs agents assigned to overseas posts assist in end-use checks when requested and coordinate foreign investigations. Customs supports the export application screening process by periodically providing the Department of Commerce's (Commerce) Bureau of Export Administration (BXA) with the subjects of open Customs investigations of trade violations to update Commerce's watch list. Treasury's Office of Foreign Assets Control supplements Commerce's and the State Department's watch lists with the names of specially designated nationals and persons that are barred from U.S. trade due to embargoes or economic sanctions. Also, Treasury's Bureau of Alcohol, Tobacco and Firearms issues export permits for certain firearms included in the National Firearms Registration and Transfer Record (NFRTR) database that require a munitions license. However, the purpose of these permits is to update the NFRTR and not to authorize the exportation.

United States Customs Service

Customs developed AES as a joint venture with the Census Bureau. AES was designed to (1) improve the accuracy of trade statistics, (2) increase overall compliance with export control laws and license requirements of other agencies, and (3) streamline the trade process. This system was implemented in July 1995 with participation at five vessel ports. In June 1996, upon successful completion of the pilot vessel ports, AES expanded to include all vessel ports. In 1997, AES expanded to receive air and overland commodity data, as well as vessel shipments from all ports. AES is widely used because of its user-friendly design. Customs has promoted the use of AES and has presented specific details for exporters to process SED's electronically on the AES website (customs.gov/aes).

Currently, Customs has a formalized Information Security Agreement process in place. The AES Team, along with other Custom's components, is currently modifying the process to accommodate the large number of AES filers. The ultimate goal is to eliminate manual processing and the unnecessary paper review of export licensing data. This will result in more efficient handling of export shipments at the ports and improved compliance and error rates.

AES Process

The exporter, freight forwarder or other agent files a letter of intent with the Department of Commerce's Census Bureau (Census). This letter contains information on the company and is maintained by Census for statistical purposes. The freight forwarder or other agent does not have to be licensed to perform as an agent for the exporter and many forwarders take over the responsibility for filing all documents. Once the letter of intent has been submitted, the filer is required to pass two examinations. The first is a communications test administered by Customs. The purpose of this test is to ensure that the exporter's computer system is equipped to handle AES. It is not uncommon for a system to fail this test

several times before working out the problems. The second test is administered by Census. This exam tests the freight forwarders' or exporters' working knowledge of AES and how to use it. Once these tests are passed, the exporter is assigned two client representatives, one from Customs and one from Census. There are 40 client representatives at Customs and 15 at Census. The Census representative is the primary and assists the clients with the basic operations of the system. The primary client representative also administers the identification and password. The representative from Customs is the secondary representative who assists mostly with software or communication. Once the preliminary requirements have been met, the exporter can immediately begin exporting goods outside the U.S., via AES. The exporter has four options available to file the Shippers Export Declaration:

Option 1 – *Paper SED, Pre-departure* – All data elements are filed manually prior to the departure of goods outside of the U.S.

Option 2 – *AES with full pre-departure information*- All data elements are filed electronically prior to the departure of goods outside of the U.S.

Option 3- *AES with partial pre-departure information*- 14 of the 39 required data elements are filed prior to departure of goods outside of the U.S. and the remaining documents are sent post-departure.

Option 4- *AES with post-departure information*-All data elements are filed after the departure of goods outside of the U.S. (An exporter must have an excellent track record to use this option).

Office Of Foreign Assets Control

Treasury's Office of Foreign Assets Control administers and enforces economic and trade sanctions against targeted foreign countries, terrorism sponsoring organizations and international narcotics traffickers based on U.S. foreign policy and national

security goals. OFAC maintains the Specially Designated Nationals and Blocked Persons list. This list is a worldwide compilation of individuals, governments, companies and merchant vessels that serve as agents or representatives of countries with which U.S. businesses and citizens are prohibited from engaging in trade. OFAC operates under two primary statutes (Trading with the Enemy Act 50 U.S.C. App. 1-44 and the International Emergency Economic Powers Act 50 U.S.C. 1701-06), both of which authorize the President to regulate trade and other financial transactions with foreign countries or groups. These statutes also enable OFAC to conduct investigations and require information and reports relative to transactions with target countries or groups. OFAC supplements Commerce's and the State Department's watch lists by providing the names of specially designated nationals (SDN) and persons that are barred from U.S. trade due to embargoes or economic sanctions.

Bureau Of Alcohol, Tobacco And Firearms

The Bureau of Alcohol, Tobacco and Firearms is a tax-collecting enforcement and regulatory arm of the Treasury. ATF's responsibilities include regulating firearms and explosives, collecting excise tax on alcohol, tobacco and other regulated products, and protecting the public. ATF's involvement in the licensing process is to enforce the National Firearms Act (NFA), which requires certain weapons to be registered in the U.S. The list includes, but is not limited to, assault weapons, grenades and silencers. These weapons and any change of possession of these weapons must be registered with ATF. If an exporter wishes to export items listed in the NFA, they must file a license application and a SED with the State Department. If the State Department approves the license, it then forwards the license to ATF's NFA Branch.

The NFA Branch is charged with the responsibility of ensuring that the weapons are legally registered by requiring the exporter to complete a Form 9 (Application For Permanent Exportation Of Firearms). The exporter must list all weapons that will be exported,

where they are being exported to, and the registration numbers for each weapon. Once the completed form has been returned to ATF, an examiner checks the information and compares the Form 9 to the approved license sent from the State Department. If the registration numbers are correct, the Form 9 is almost always approved. A copy of the approved form is sent to the exporter. ATF retains one copy for their records, which is kept indefinitely (even if the weapons are destroyed). Once the permit has been approved, the exporter has 6 months to provide ATF with proof of exportation. When a Form 9 is received by ATF, the information is entered manually into the NFRTR database.

Findings and Recommendations

Finding 1 Operational Efficiency Improvements Are Needed In The Export Process

Improvements are needed to enhance the efficiency of the overall export licensing process. We found that Customs, using the AES, is ready to move forward with the Automation Initiative. AES was designed to assure compliance with and enforcement of laws relating to exporting, improve trade statistics, reduce duplicate reporting to multiple agencies and improve customer service. Customs has the goal of total paperless reporting of export information by the year 2005. However, the State Department continues to require that a paper copy of the SED accompany each export. This requirement delays SED processing. Customs believes that the discontinuance of this paper requirement would greatly enhance SED processing.

A SED is a Census form used to disclose items being shipped outside of the U.S. This form is used by Customs to facilitate their enforcement of agencies' export laws and regulations. The State Department forwards partial license information to Customs at the end of each operating day. This data is subsequently downloaded into AES. Similarly, the Department of Commerce forwards license information to Customs. This information is subsequently

downloaded into the Treasury Enforcement Communications Systems (TECS). Once downloaded into TECS, AES checks TECS to validate information received on SEDs from the exporter. Customs currently works in conjunction with the State Department and Census in different capacities regarding the licensing process. The State Department validates outbound munitions shipments against previously approved licenses (State Department licensed shipments require a SED). Census extracts AES data to compile and publish export trade statistics.

Census and Customs share a common goal of eliminating manual processing and paper review of the SED by providing accurate data electronically, to be used for analytical and statistical reporting. The implementation of Customs' AES has streamlined the processing of SEDs. Since this data is captured electronically, errors are immediately detected and corrected at the time of filing. Customs processes, approximately, 24 million SEDs per year. Eighty percent of these exports are automated and filed via AES. The balance use paper SEDs. As of the end of February 2002, the Proliferation Prevention Enhancement Act requires the use of AES for munitions exports, which are approved by the State Department and Control List commodities¹ approved by Commerce. However, Customs' management informed us that actual implementation would occur later in 2002. Munitions licenses represent, approximately 1.5 million SEDs annually which the State Department requires in paper format even though 60 percent of the associated licenses are filed electronically. Customs officials informed us that it takes additional time to process a paper SED as opposed to an electronic SED. The difference in the processing time required for a manual versus an automated SED, along with the voluminous SEDs received, represents an area where efficiencies of operations can be improved. We believe that eliminating the paper requirement would save both time and money. Therefore, it is our opinion that the requirement, by the State Department, for a paper SED should be eliminated in accordance with the Government Paperwork

¹ Control List commodities include technologies requiring approval by Commerce prior to exportation.

Elimination Act (enacted 10/21/98) and the Proliferation Prevention Enhancement Act of 1999.

Recommendation

In accordance with the Automation Initiative and the Government Paperwork Elimination Act, Customs should coordinate with the State Department to ascertain the feasibility of eliminating the paper SED requirement.

Management Comments

Customs' management concurred with our recommendation.

Finding 2

Increased Participation In AES Is Needed Among Export Licensing Agencies

Customs' process to implement agreements with Federal Agencies to participate in the Automated Export System, as required by the Proliferation Prevention Enhancement Act of 1999, has been slowed. Specifically, the Act requires mandatory use of AES for exports requiring an export license. The process has been slowed because of budgetary constraints, lack of coordination and communication, and lack of enhancements by participating agencies to existing automated systems. Accordingly, the efficiency of the AES has not been optimized and will reduce the ability of AES to monitor export transactions.

AES is a joint venture between Customs and Census that was designed to automate and streamline the process of filing a SED and the outbound manifest. AES is currently used for exports being sent by all modes of transportation. As of the end of February 2002, all exporters requiring an export license must use AES for filing the SED. This mandatory filing requirement was established by the Proliferation Prevention Enhancement Act of 1999 under Section 301 of United States Code Title 13.

A feasibility study was conducted to (1) assess the advisability and feasibility of mandating the electronic filing through AES for all SEDs, and (2) determine the manner in which data gathered through AES can most effectively be used, consistent with the need to ensure the confidentiality of business information by other federal agencies' automated licensing systems. The following eight agencies participated in the AES feasibility effort: The Department of the Treasury's United States Customs Service and Office of Foreign Assets Control's Enforcement Division, the Department of Commerce's Bureau of Export Administration (BXA) and U.S. Census Bureau, the Department of State, the Department of Energy (DoE), the Department of Defense, and the Central Intelligence Agency (CIA). These agencies that participated in the AES feasibility effort shared ideas that would enhance the Government's ability to enforce U.S. export control laws and regulations, facilitate legitimate trade, and improve export trade information.

Status of Federal Agencies Participating in the AES

Currently, Census and Customs collaborate fully on AES as their joint venture. Census is working with the State Department and Customs to ensure that AES implementation includes all commodities appearing on the Commerce Control List, and the United States Munitions List. The Proliferation Prevention Enhancement Act of 1999 requires mandatory AES filing for export commodities appearing on these lists.

Our audit found that there is no electronic interface between AES and the State Department's Debarred Persons List, Commerce's Denied Parties List, and OFAC's Specially Designated Nationals and Blocked Persons List. Accordingly, the efficiency of AES' ability to identify prohibited parties is reduced because these separate prohibited persons lists must be manually screened to ensure exporters are not prohibited parties. Customs is in the process of finding a way to match each transaction with these prohibited parties' lists so that an exporter whose name is on any of these lists will be recognized automatically and the appropriate action taken.

BXA has instituted some system edit checks within AES to ensure the export requirements are met and BXA staff have on-line access to AES. Specifically, there is a memorandum of understanding (MOU) between BXA and Customs that provides BXA with read-only access to records filed by the trade community. Census is currently working on an MOU to provide the BXA with authorization to access specific Census databases and reference files which contain Census foreign trade data, or information over which Census has authority. Access to AES will be in accordance with Census security standards. A National Interest Determination Letter, which authorizes export data to be given for public release, currently exists between the Census and BXA.

Regarding the State Department, discussions have continued with Customs to address the requirements needed for system compatibility and to improve relationships. Customs management informed us that the State Department would be provided, via AES, a download of data elements for which it has regulatory requirements. The State Department, Customs and Census system requirements staff are designing the exact method of this data download.

Also, Customs is working with the Army Corp of Engineers to include data on exports in transit in AES. Customs is currently receiving 80 percent of the Army Corp of Engineers data for processing in AES.

Customs has met with DoD to discuss USXPORTS effort of reprogramming computer information to enable monitoring licenses of all exports and on how to share information. There has been preliminary communication with the law enforcement offices of OFAC, ATF and the Drug Enforcement Administration regarding the mandatory filing and participation in AES. While the CIA is in agreement with making SED filings mandatory, no progress has been made to date with CIA's participation in AES.

In addition to AES partnerships with the agencies previously discussed, Customs is working with other agencies that have export permit/license requirements. These efforts include exploring the potential for interfacing with these agencies to enhance export monitoring and reporting responsibilities. Specifically, nine additional agencies have been approached regarding future partnerships (see chart on p.12), the goal being to validate licenses and shipment data by electronic comparison.

Universe of Future AES Agency Partnerships

	AGENCY	FUNCTION	STATUS
1	Treasury/Office of Foreign Assets Control	Sanctioned countries; specially designated national/terrorist table	System enhancements planned
2	Agriculture/Food Safety and Inspection Service	Meat poultry products export permits	Feasibility study
3	Treasury/Bureau of Alcohol, Tobacco and Firearms	Tobacco and firearms export permits	System enhancements planned
4	Justice/Drug Enforcement Administration	Precursor chemicals and controlled substances	Currently, interface not feasible
5	Energy/Office of Arms Control & Nonproliferation	Receives information on BXA, State Department and Nuclear Regulatory Commission licensed shipments; Monitors non-controlled exports (e.g., concrete, steel) to sensitive countries (e.g., Iran, Iraq)	System enhancements planned
6	Transportation/Maritime Administration	Ensures U.S. flag carriers are used for government shipments	System enhancements planned
7	Energy/Energy Information Administration	Collects data on all transactions, sales, exchanges or shipments of coal, crude oil, petroleum products	System enhancements planned
8	Defense/Defense Security Assistance Agency	Foreign military sales	System enhancements planned
9	Agriculture/Foreign Agricultural Service	Sugar permits	Currently, interface not feasible

Including additional agencies in the AES export process will improve the processing of export permits/licenses and the export monitoring/reporting process. As previously discussed, a number of

agencies have worked out agreements, or are formulating agreements to participate in AES. However, many agencies participation has been slowed by a lack of funding. Customs efforts to pursue and establish future partnerships with AES have also been slowed by a lack of funding.

As for the proposed integration of AES with other agencies, tentative plans have been established, AES enhancements have been planned or the feasibility of interface has been determined. Accordingly, initial progress has been made toward formulating agreements to participate in AES. Customs has definite plans to include many more agencies in AES and is in the process of pursuing this goal. It is expected that implementation of AES will be ongoing through at least 2005.

Recommendation

Customs should continue its efforts to encourage participation in AES with agencies involved in the export licensing process.

Management Comments

Customs' management concurred with our recommendation. Customs' management stated that implementation of mandatory AES filing for both USML and CCL commodities would set precedence that can be used to encourage other licensing agencies who are not as far along in automating their procedures.

Finding 3

ATF's NFA Weapons Export Approval Process May Be Enhanced By Use Of An Automated System And Connectivity With The State Department

Currently, ATF's NFA weapons export approval process operates in a manually facilitated automated environment. There is no connectivity with the State Department to allow electronic input of the license approval/denial information into ATF's system database. The Government Paperwork Elimination Act states that agencies

should eliminate the amount of paper to facilitate government business by use of electronic forms, electronic filing and electronic signatures to conduct official business. We believe that automation would save time and money. In addition, automation could be used to enhance ATF's ability to track NFA weapons that have been exported.

ATF's NFA Branch is charged with the responsibility of ensuring that weapons to be exported are legally registered by requiring the exporter to complete an ATF Form 9 (Application For Permanent Exportation Of Firearms). During FY 1999², 28,128 applications for exporting NFA weapons were processed by the State Department and ATF. ATF uses a manual imaging process to scan certain Form 9 NFA weapons export information into the NFRTR database. Substantial cost is associated with ATF's manual processing of this export permit information received from the exporter. Annually, ATF spends approximately \$490,000 to operate and maintain the manual imaging process. We believe that automation would save time, and money. Accordingly, with the volume of export permit applications processed manually and the high cost of maintaining the current process, we believe that ATF should conduct a cost-benefit analysis to substantiate continuance in manual processing. ATF management informed us that the ATF Form 9 would be part of their Firearms Integrated Technology program, which will collapse 16 stand-alone systems into three. Currently, ATF has started data scrubbing and standardization of different data entry fields and other items. ATF management added that after the initial phase of integration, the Form 9 would be one of the public use forms that may be E-filed by exporters to ATF.

In addition, automation could be used to enhance ATF's ability to track weapons that have been exported. ATF's NFA Branch receives license approval/denial information from the State Department in paper format. Although hard copy documentation providing proof of export is maintained on file, the NFRTR database is not updated after the weapons are exported. Electronic inclusion

² FY 2000 statistics were not available at the time of this report

of license approval/denial information received from the State Department in the NFRTR database would provide real time answers to inquiries performed by ATF staff and enhance ATF's ability to track weapons that have been exported.

ATF officials stated that they have major concerns about being part of a single system in which all agencies involved in exports would have access. ATF's management doubts that their involvement in a single system would be possible due to the sensitive nature of the information contained in their database. Specifically, section 6103 (o) of the Internal Revenue Code, restricts the disclosure of tax information, including the release of Special Occupational Tax information which is captured on the ATF Form 9. We believe that the establishment of security profiles could address the concerns regarding system sensitivity.

In accordance with the Government Paperwork Elimination Act, "Executive agencies, commencing not later than five years after the date of enactment, must provide (1) the option of the electronic maintenance, submission, or disclosure of information, when practicable as a substitute for paper and (2) for the use and acceptance of electronic signatures, when practicable". We believe that ATF should determine the feasibility of enhancing the NFRTR database to include connectivity with the State Department.

Recommendation

ATF should coordinate with the State Department to determine the feasibility of enhancing the NFRTR database to include connectivity with the State Department.

Management Comments

ATF management concurred with our recommendation and stated that they will explore connectivity with the State Department. However, ATF management added that both ATF and the State

Department must accomplish internal system enhancements before connectivity could occur.

Finding 4 OFAC's Systems Can Be Enhanced

OFAC's process can be enhanced with direct access to AES. OFAC has edit checks within Customs' AES and certain shipments are flagged using these edit checks, however, Customs personnel must be tasked with assisting OFAC when an inquiry is needed. Direct access will allow OFAC to receive real-time answers to inquiries by logging onto AES on an as needed basis.

OFAC issues licenses under two major licensing programs; Iraq (goods exported to Iraq) and the Agriculture Medicine Program (which represents goods to Libya, Sudan and Iran). Under these programs, applications are scrutinized by OFAC in conjunction with the Commerce Department. Commerce makes a determination as to whether the goods are non-critical³. Only non-critical goods are granted export into these countries. The State Department acts as a liaison by forwarding these licensing applications to the United Nations.

In discussions with OFAC, enforcement personnel stated that information filed by exporters would provide a means to detect possible diversion routes utilized to evade OFAC sanctions for current programs. Also, as new embargo programs are announced in the future, information in AES would provide details on the type of goods exported to the target country in the past, as well as the identity of the U.S. exporters. In the feasibility report dated June 7, 2000, OFAC stated that AES access would be beneficial during investigations of possible OFAC violations. Access would also provide data containing the type and extent of U.S. goods that were exported to a target country. In addition, the identity of these exporters would assist OFAC in developing enforcement strategies

³ Non-critical goods are commodities that are humanitarian in nature and do not involve computer technology, weapons systems, etc.

by identifying possible front companies and diversion routes as new sanctions are implemented.

Recommendation

OFAC should pursue a partnership agreement with Customs/Census that will provide direct access to AES and stipulate the data that will be accessible by OFAC personnel.

Management Comments

OFAC's management concurred with our recommendation. OFAC's Enforcement Division will begin discussions with Customs aimed at completing any required agreements to obtain on-line access to the AES. Also, OFAC management stated that they will determine the equipment requirements necessary for such access and work toward procuring such equipment.

* * * * *

We would like to extend our appreciation to the United States Customs Service, Office of Foreign Assets Control and the Bureau of Alcohol, Tobacco and Firearms for the cooperation and courtesies extended to our staff during the review. If you have any questions, please contact me at (202) 927-5591, or a member of your staff may contact Joseph L. Hardy, Jr., Auditor-In-Charge at (202) 927-5814. Major contributors to this report are listed in Appendix 6.

Alexander Best, Jr.
Director, Enforcement Program Audits

The objective of this audit was to determine 1) the Treasury Department's role in the approval and issuance of export licenses and the systems, both automated and manual, used to facilitate this role and 2) the costs involved with operating, the age, and whether plans exist to upgrade the systems. The objective of the interagency group was to determine whether the U.S. Export System's Program Management Office is establishing a common electronic interface to create an automated federal exporting licensing system in accordance with federal policies and regulations.

We conducted our audit at Customs, OFAC, and ATF. This audit covered the period of June 2001 through November 2001. We met with representatives from each of the aforementioned agencies who are responsible for the export licensing process.

For each of these agencies, we conducted a walkthrough of their particular role in the export licensing process. In addition, we determined system connectivity requirements and obtained information on the automated system used to monitor export licensing, including associated costs. We met with Treasury officials to determine their role in the overall export licensing process. To further facilitate our study, we obtained copies of prior audits, re-engineering studies etc., that were conducted regarding the export licensing process. Through interviews, we documented existing inter-agency interfaces and information security assurance standards for export data exchange. We obtained operating policies/procedures and statistical data sufficient to determine the age and functionality of each system.

In order to assess the feasibility of a link to other systems, we determined the internal and external requirements of data processed through the various agencies. We also determined whether there were existing plans available to upgrade the current system and whether the bureaus conducted an assessment as to the reasonableness of such plans.

We conducted our audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States, and included such audit tests as were deemed necessary.

Customs Automated Export System

System Functionality

- AES was developed using existing mainframe capabilities allowing easy transition to future Customs Distributed Computing 2000 technology and distributed processing. The Security Profile determines the level of access. Government agencies that have a MOU with Customs receive flat files with the information specified in the MOU.
- Receipt, edit, translation and update of export data electronically transmitted to Customs by outside parties such as freight forwarders, carriers, exporters and others;
- Online query of shipment, license, manifest, bill of lading and notification information by government users;
- Verification and analysis of export information for enforcement purposes to increase the interdiction of stolen vehicles, currency, agents used in chemical/biological warfare, illegal export of dual use technology and other prohibited exports;
- Notice back to the transmitter whether the information was accepted or rejected with appropriate error messages; and
- Information gateway for export data required by other U.S. agencies such as Commerce's Bureaus of Census and Export Administration and the State Department's Office of Defense Trade Controls.

System Classification

AES is sensitive but unclassified, Level II.

System Cost

AES has been operable since 1995 with an initial outlay by Customs and Census of \$20M and \$10M, respectively. The AES yearly maintenance is \$4.5 million, which is predominately for contract labor/Government Full Time Equivalents, travel and training.

System Environment and Special Considerations

- AES operates in an IBM environment with terminal locations at various ports.
- Eventually, AES will link to the Automated Broker Interface and the Automated Manifest System in an import-export system called the Automated Commercial Environment.

Alcohol Tobacco and Firearms

System Functionality

- ATF has one system that has three functions: licensing, taxes and criminal history. The system contains section 6103(o) Internal Revenue Code tax information, therefore the system is highly sensitive. The system encompasses three interconnected systems: the Federal Licensing System, the Special Occupational Tax System, and the Criminal History Check System. The Federal Licensing System is rated high as a mission critical system.

System Classification

Sensitive; unclassified

System Imaging Cost

NFA imaging project was awarded to PEC (Contractor) for the amount of \$501,128. Hardware and software maintenance costs (\$20,850 & \$5,261) associated with the NFA imaging system are based on the number of licenses purchased for each site location. The total yearly maintenance and operational cost to support the NFA imaging project is \$488,688.

System Environment and Special Considerations

ATF has plans to implement an Oracle platform before June 2002, which will facilitate future technological changes. A contingency

plan was implemented March 2001, however, no backup library site has been identified.

Office of Foreign Assets Control

System Functionality

OFAC uses Treasury's R-base system to facilitate their operations. This system is somewhat outdated and requires supplemental software (Excel and/or Access) to track dates. This system will be merged into an Oracle platform.

System Classification

Unclassified

System Cost

OFAC uses a combination of Treasury's R-base system and Excel to perform daily functions. Therefore, specific system costs could not be determined.

System Environment and Special Considerations

OFAC has future plans to implement a new system, using Oracle.



U.S. Customs Service

Memorandum

DATE: March 5, 2002

FILE: AUD-1-OP CN

MEMORANDUM FOR LYNN G. RICHARDSON
ACTING DIRECTOR, ENFORCEMENT PROGRAM
AUDITS

FROM: Director,
Office of Planning

SUBJECT: Comments on Draft Audit Report Entitled Export Licensing
Process: Progress Has Been Made But Better Cooperation
And Coordination Are Needed

Thank you for providing us with a copy of your draft report entitled "Export Licensing Process: Progress Has Been Made But Better Cooperation And Coordination Are Needed" and the opportunity to discuss the issues in this report.

Customs has taken a number of steps to address the issues identified during your review. These steps, and additional on-going actions, are outlined in the attached document, as are Customs comments on this draft report.

We have determined that the information in the audit does not warrant protection under the Freedom of Information Act.

If you have any questions regarding the comments, please have a member of your staff contact Ms. Michele Donahue at (202) 927-0957.

A handwritten signature in black ink, appearing to read "William F. Riley".
William F. Riley

TRADITION

★

SERVICE

★

HONOR

Attachment

**Comments Regarding the
Treasury Office of Inspector General Report on the
Export Licensing Process**

Finding 1 Improvements in Export Process Operational Efficiencies are Needed

Recommendation

In accordance with the automation initiative and the Government Paperwork Elimination Act, Customs should coordinate with the State Department to ascertain the feasibility of eliminating the paper SED requirement.

Management Comments

Customs concurs with this recommendation. In fact, this recommendation will be accomplished with the implementation of mandatory filing for U.S. Munitions List (USML) items via AES. (Mandatory filing requirements extend to commodities on the Bureau of Export Administration's Commerce Control List as well.) The legislation will take effect on March 31, 2002 with an actual implementation projected for later in 2002.

Finding 2 Increased Participation in AES is Needed Among Export Licensing Agencies

Recommendation

Customs should continue its efforts to encourage participation in AES with agencies involved in the export licensing process.

Management Comments

Customs concurs with this recommendation. The implementation of mandatory AES filing for both USML and Commerce Control List (CCL) commodities is expected to reduce paper SED's by automating two major issuers of export licenses. Additionally, this will set precedent that can then be used to encourage other licensing agencies who are not as far along in automating their procedures.

Appendix 3
Management Comments



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

FEB 28 2002

FAC No GEN - 200087

MEMORANDUM FOR LYNN G. RICHARDSON
ACTING DIRECTOR
ENFORCEMENT PROGRAM AUDITS
OFFICE OF THE INSPECTOR GENERAL

FROM: *Karen L. Mahan, Deputy Director*
acting for R. RICHARD NEWCOMB
DIRECTOR
OFFICE OF FOREIGN ASSETS CONTROL

SUBJECT: OFAC Comments on the IG Audit of OFAC Records

This memo is in response to your February 20, 2002, draft audit report, which presented the results of your review of the Department of Treasury's export licensing process. Your report recommended that OFAC pursue an agreement with Census that will provide access to AES and stipulate that data that will be accessible by OFAC personnel. OFAC's Enforcement Division, which is the relevant section of OFAC that were audited by the IG, is responding to your report as follows:

OFAC's Enforcement Division will begin discussions with the U.S. Customs Service aimed at completing any required agreements with Customs to obtain on-line access to the Automated Export System (AES). We will also determine the equipment requirements necessary for such access and work toward procuring such equipment.

Appendix 4
Major Contributors To This Report

Alexander Best, Jr., Director, Enforcement Program Audits
Joseph L. Hardy, Jr., Lead Auditor, Program Audits
Mary Yarborough, Former Lead Auditor, Financial Management
Audits
Sarah Stevens, Intern, Program Audits

The Department of the Treasury

Under Secretary for Enforcement
Assistant Secretary for Legislative Affairs
Office of the General Counsel
Office of Accounting and Internal Control
Office of Budget

U.S. Customs Service

Commissioner

Office of Foreign Assets Control

Director

The Bureau of Alcohol, Tobacco and Firearms

Director

Office of Management and Budget

OIG Budget Examiner