U.S. CUSTOMS SERVICE

ELECTRONIC BOND REQUIREMENTS

FINAL REPORT

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1 INTRODUCTION

The Customs Modernization and Informed Compliance Act (Mod Act) became effective December 8, 1993 and is changing Customs relationship with the importing community. The Mod Act requires:

- Customs to inform importers of their legal obligations
- Importers to take "reasonable care" in their efforts to comply with regulations.

The Mod Act recognized an increase in importation and gave Customs authority to modernize through automation. Customs has begun an Automated Commercial Environment (ACE) Program intended to achieve greater automation of data associated with both Customs and the importing communities' actions related to importation of merchandise.

ACE is designed as a primarily transactional system to support the Trade Compliance process. Five key processes are identified in Trade Compliance:

- Account Services
- Target and Analyze
- Verify
- Enforce
- Revenue.

Revenue activities include all collection, management, and reporting of revenue received and disbursed during Custom's business functions. A significant element of the Revenue process will be the bond component.

Within the bond component:

- Sureties and their agents will be able to file bonds electronically and have this electronic filing represent the legal instrument binding surety, Principal and Customs.
- Customs will be able to more effectively monitor adequacy and sufficiency of bonds.
- Sureties, Brokers and Principals can access bonds on file in the system in their normal course of business with Customs.
- Access will be available based on specific authority of the business entity involved.

By allowing users faster access to data, decisions are made better and more efficient. These enhancements also result in improvement of the bond sufficiency process through increased compliance and reduced costs.

This report addresses requirements for implementation of the electronic bond in ACE.

1.1 Study Objectives

The objective of this project is to develop user specifications supporting design and development of an electronic bond system within ACE. This project is part of Customs Quality Management Initiative to improve timeliness and quality of business processes throughout the Service, and, more specifically, to improve efficiency and effectiveness of Customs bond program. It will enhance the automated bond management being developed in ACE and permit Customs to more effectively carry out its surety program responsibilities.

1.2 Report Outline

This document presents requirements for a bond system within ACE. The chapters of this report are:

- *Overview* – a high-level narrative of the bond system.
- *Electronic Bond System* – explanation of the process of accepting and posting electronic surety bonds.
- *Bond Review and Analysis* – explanation of the process to determine bond sufficiency
- *Implementation Considerations* – discussion of issues involved in implementation.

Appendix A, *Electronic Bond Specifications*, shows the workflow process, identifying proposed system files and components of the bond process. Appendix A is separately bound but considered an integral part of this report.

Appendix B, *Study Process*, gives a brief summary of the tasks performed during this study.

1.3 Glossary

ACH
Acronym for Automated Clearing House, an electronic method of submitting/transmitting payment.

Activity Codes
Term used to reference the 12 different bonds currently used by Customs to cover activities of various parties involved in importation. Current Activity Codes include:

Activity Code	Bond Description
1	Importer or Broker Bond
1A	Drawback Payment Refunds
2	Custodian of Bonded Merchandise
3	International Carrier
3A	Instruments of International Traffic
3A3	International Carrier/ Instruments of International Traffic
4	Foreign Trade Zone Operator
5	Public Gauger
6	Wool and Fur Products Labeling Act
7	Bill of Lading
8	Detention of Copyrighted Material
9	Neutrality
10	Court Costs for Condemned Goods

Bond
A three party contract between a Principal, a Surety, and the obligee (U.S. Customs) in which the Surety agrees to guarantee payment (limited to amount obligated under the bond) of all lawful duties, taxes and liquidated damages/penalties in the case of a default by the Principal.

Bond Management
Entity within Customs responsible for bond analysis, approval, review and sufficiency. Currently, these functions are the responsibility of the Port Director, but Customs organizational structure is adapting to establish National Account Managers and Port Account Management Teams with responsibility for importers that bring in the majority value of importation. This report does not address Customs internal organizational structure; but the functionality required to support operational needs. ACE must recognize the entity designated with responsibility for analysis, approval, review and acceptance of each bond.

Bond Sufficiency
Bond amount that provides reasonable assurance that potential loss is covered when a bond Principal does not fulfill payment obligations.

Power of Attorney
A legal document authorizing a party to act as agent of the grantor.

Surety/Sureties
A party/parties, jointly and severally, liable for debts, defaults or failure of another's responsibility. Treasury Department Circular 570 contains a list of corporations authorized to act as sureties on bonds, with the amount in which each may be accepted.

2 OVERVIEW

Customs current procedures require posting a bond using Customs Form 301 to secure Customs transaction(s). Bonds are filed with Port Directors who determine whether bonds are in proper form and sufficient for transactions.

The bond itself and associated processes will be automated in the Automated Commercial Environment (ACE). ACE is being designed to maximize electronic data processing and automated transfer of data among importing parties and subsystems.

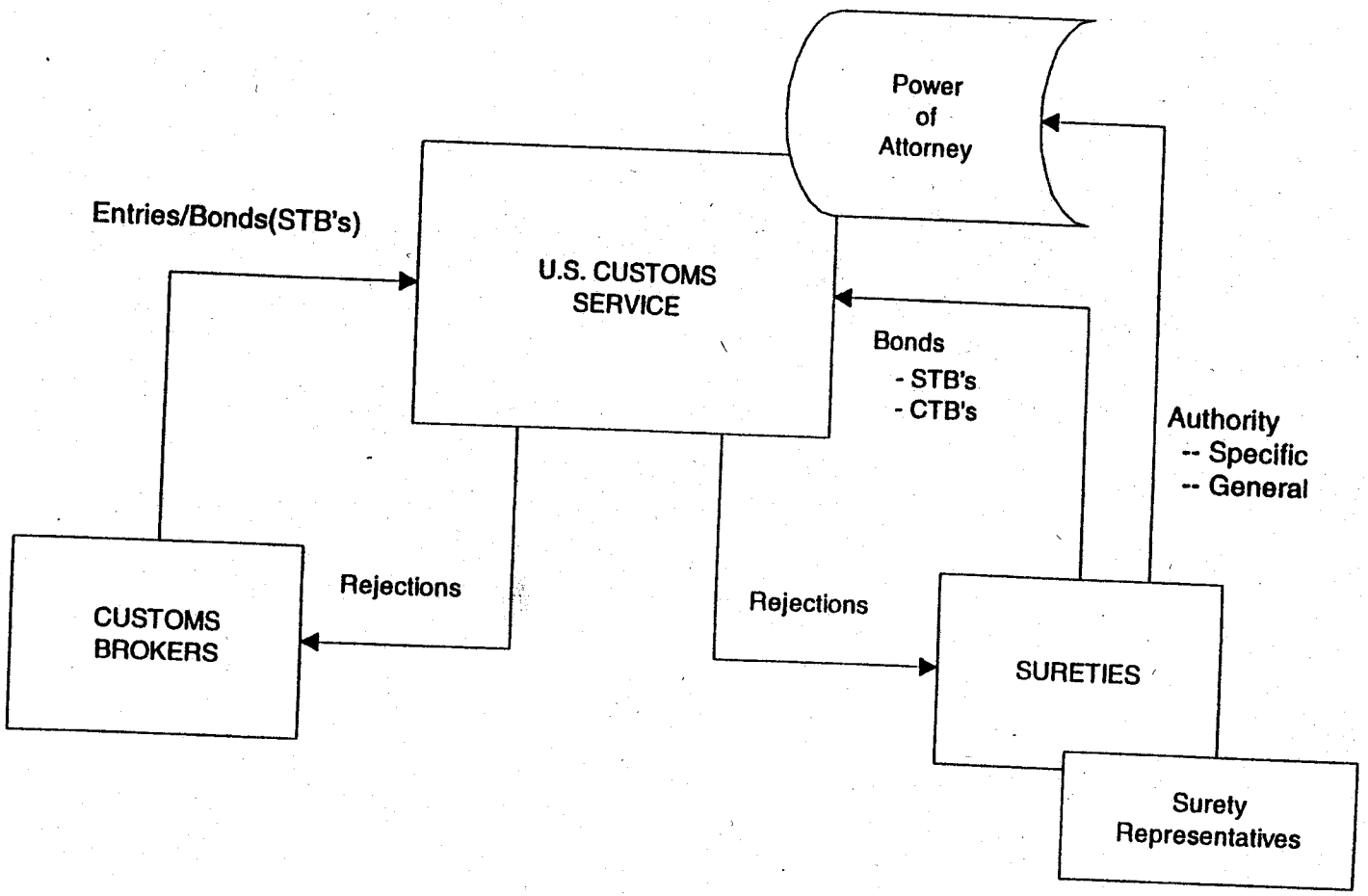
Customs will retain its current two bond types:

- *Single transaction bonds* – secure one transaction relating to importation or entry of merchandise at one port.
- *Continuous transaction bonds* – secure multiple transactions relating to importation or entry of merchandise at unlimited ports.

This section provides an overview of the process in terms of two major components:

1. **Electronic Bond System**
2. **Bond Review and Analysis.**

EXHIBIT I ELECTRONIC BOND SYSTEM



2.1 Electronic Bond System

The **Electronic Bond System** involves accepting and posting electronic surety bonds in ACE. Electronic surety bonds and their riders handled by the system will be the legal contract between the parties and will be enforceable.

Processing within the system is dependent on identification of the type of bond submitted, i.e., single transaction bond or continuous transaction bond.

- Customs brokers, surety representatives and sureties file *single transaction bonds.*
- Sureties and surety representatives file *continuous transaction bonds.*

Customs brokers usually submit *single transaction bonds* as part of an entry package. (The system will also accept single transaction bonds submitted by sureties or surety representatives.) Acceptance of these bonds by the system will be based on the Power of Attorney File through which sureties give brokers authority to execute these bonds within certain limits. The authorities established in this file could be general or specific for a single entry.

Sureties or surety representatives submit *continuous transaction bonds.* The system will verify that these bonds are adequate and sufficient and contain the information required by Customs. Bonds meeting these criteria are posted to the bond file.

A flowchart of the Electronic Bond System is shown on the facing page.

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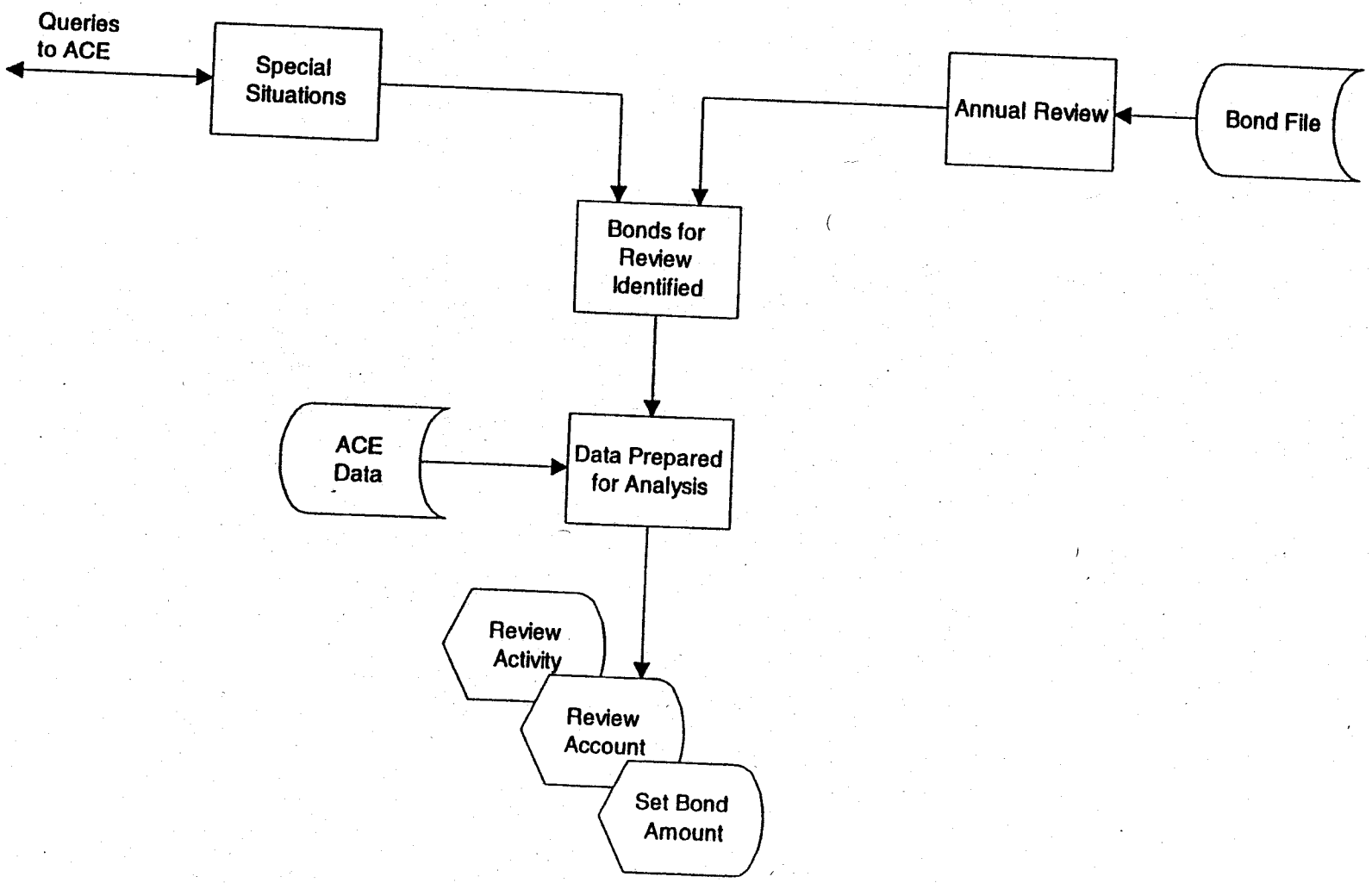
EXHIBIT II BOND REVIEW AND ANALYSIS



2.2 Bond Review and Analysis

The **Bond Review and Analysis** function determines the required amounts for continuous bonds. This function analyzes activity on continuous bonds and applies selected formulas to determine whether the bond is sufficient to cover duties, taxes and fees and other appropriate charges.

Two types of actions result in continuous bonds being chosen for review and analysis:

- Annual review
- Special situations.

Annual reviews are necessary to determine the bonds' estimated adequacy for future import activity prior to renewal.

Special situations and potential problem areas are circumstances where Customs has identified an issue related to importation that may warrant additional analysis of a bond's adequacy.

Before selected bonds are subject to review a basic record of information for each bond will be assembled. The record will include account data, activity data, liquidated damages data and financial data. The record for each bond being reviewed and analyzed is reported to the manager responsible for bond approval. The manager reviews the information provided by ACE and determines whether the bond amount is adequate or needs to be increased.

A flowchart of Bond Review and Analysis is provided on the facing page.

* * * * *

The following chapters of this report address these functions. These requirements were developed based on an analysis of current bond processes and working sessions and meetings with:

- Port personnel with responsibility for bond processing
- Field operations
- Financial management
- Importing community.

It is important to note that these requirements provide the basic structure for the development of a "To-be" process. We have attempted to retain flexibility in the processes to allow needed changes and modifications as ACE continues in its development.

It is also noted that requirements and processing identified in this report should adhere to ACE technical architecture and infrastructure requirements.

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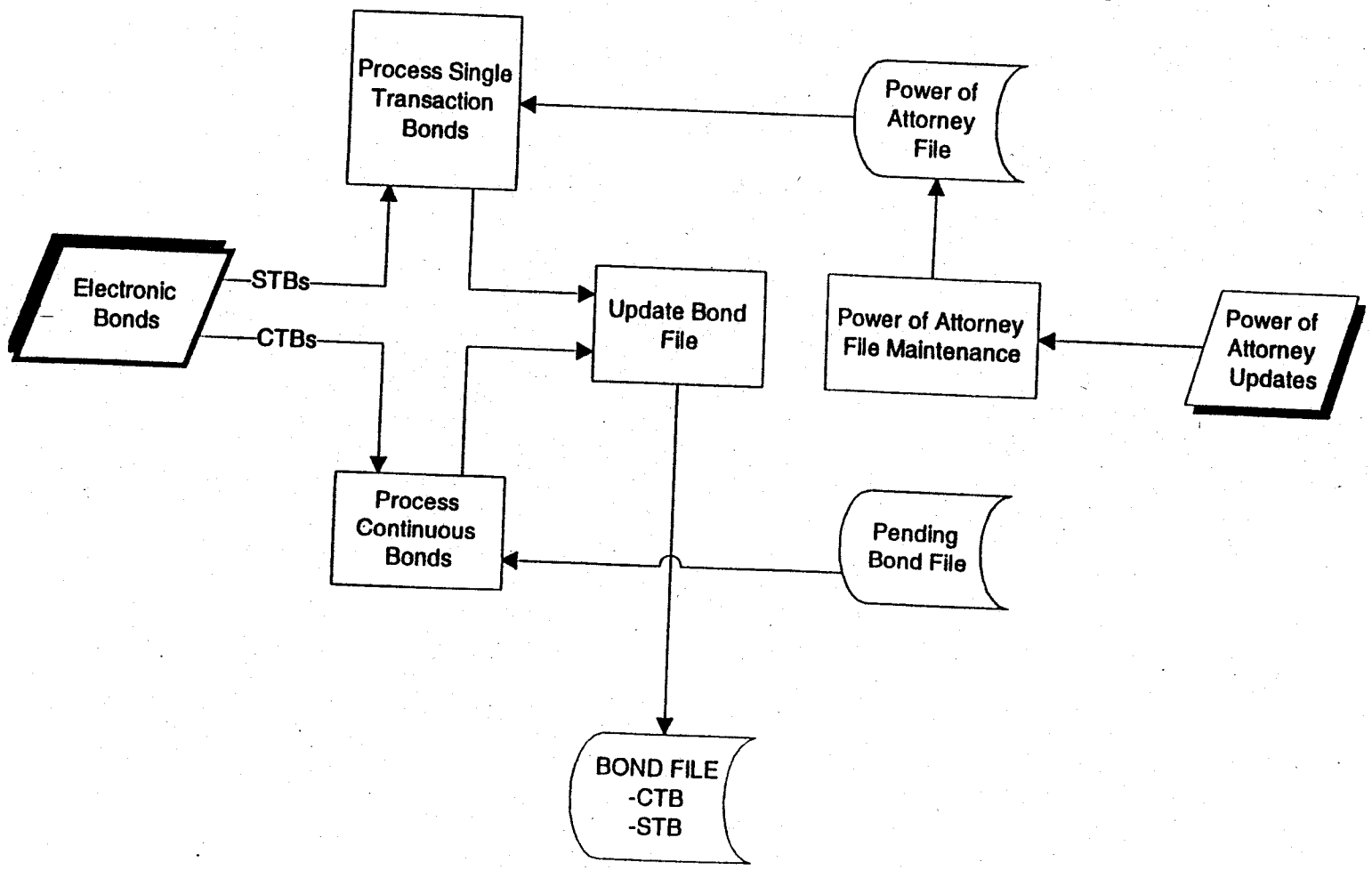
EXHIBIT III ELECTRONIC BOND SYSTEM



3 ELECTRONIC BOND SYSTEM

Electronic Bond System verifies bonds are authorized, adequate, and contain information required by Customs. An overview of the process is shown on the flowchart Electronic Bond System above.

This section addresses system requirements to perform acceptance and posting functions for single transaction and continuous bonds[1]. The discussion of single transaction bonds includes Power of Attorney File functions as well as the bond processing functions.

[1] Certain Customs transactions can be secured by filing financial collateral with a Port. In these cases the bond system would be used to indicate this fact and the system would track the collateral.

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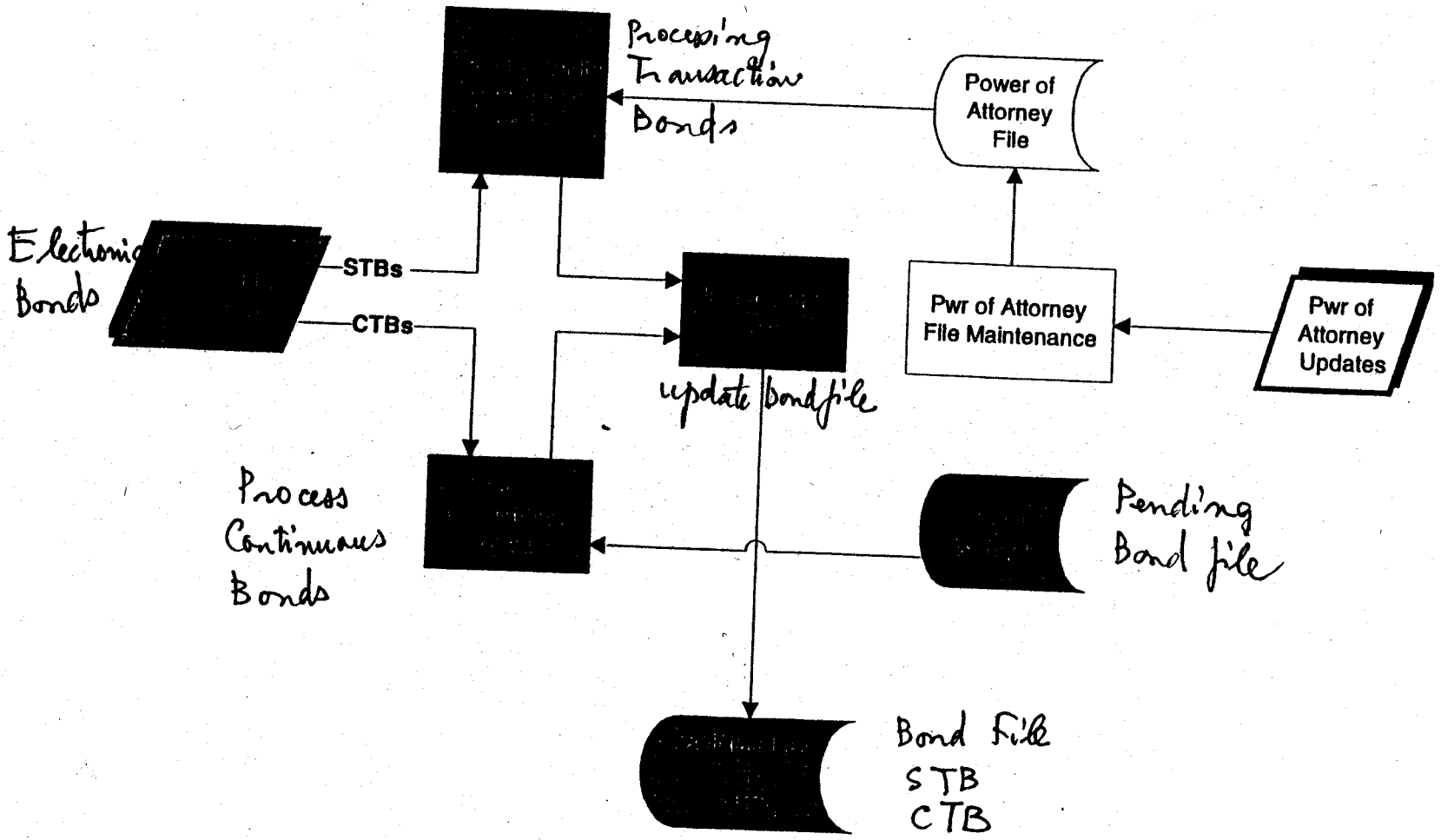
EXHIBIT III ELECTRONIC BOND SYSTEM



3.1 Single Transaction Bonds

3.1.1 Power of Attorney File

The Power of Attorney File authorizes acceptance of single transaction bonds. This file, controlled by sureties, contains information on Customs brokers authorized to submit bonds to Customs. Before sureties can authorize Customs brokers to submit bonds, the system will verify that the surety is operating within limits established by Treasury Circular 570.

Through this file sureties can:

- Establish authority for brokers to issue various bond types with or without time limits
- Set dollar limits on issuing bonds for each broker
- Give authority for brokers to issue one-time bonds for special situations
- Perform necessary file maintenance for changes, additions and deletions.

In establishing this file the surety can provide general authority to a Customs broker to issue specific bonds within a given ceiling. In addition, the surety can authorize a Customs broker to issue a specific bond that might exceed general authority.

For example, a surety might authorize a particular Customs broker to issue general and specific bonds within the following parameters:

Category	General	Specific
Bond Activity	Entry	Entry
Dollar Limit	$75,000	$200,000
Principal	N/A	XYZ, Inc.
Time Period	N/A	October 1998
Entry Number	N/A	4A5B6C

This file serves as the basis for processing of single transaction bonds.

The Power of Attorney File functions are highlighted in the Electronic Bond System flowchart shown on the facing page.

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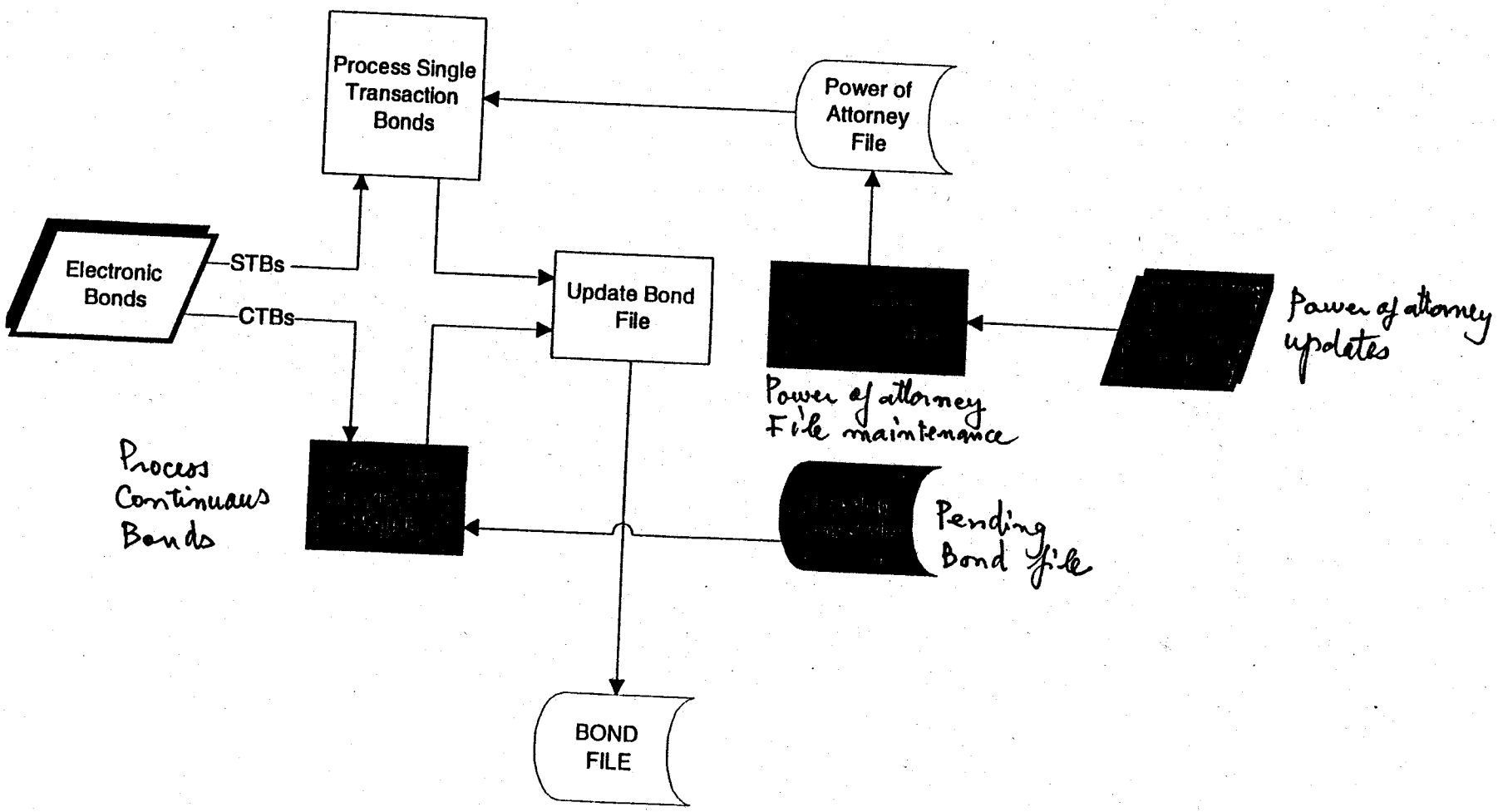
EXHIBIT III ELECTRONIC BOND SYSTEM



3.1.2 Single Transaction Bond Processing

Single transaction bonds secure one transaction relating to importation or entry of merchandise at one port. These bonds will be accepted into ACE from approved sureties, surety representatives or their authorized brokers.

In cases where single transaction bonds are submitted with an entry, the bond system receives a message from the declaration system requesting approval of the bond. These processes are highlighted in the Electronic Bond System flowchart shown above.

Current procedures require single transaction bonds to include:

• Bond Type	• Entry Number
• Port Code	• Date of Transaction
• Importer Number *	• Activity Code
• Bond Amount	• Importer Name *
• Surety Number	• Surety Name and Address
• Broker Identification Number	• Broker
	• Principal Name and Address

* Used to assure that the Principal name on the bond is equal to the importer of record on the entry secured by the bond. Any legal updates to the importer name must be accommodated with a corresponding update to the bond Principal name. All updates/ changes must be incorporated as part of a separate name/address change record to support current actions necessary to manage the entry and bond file.

It is anticipated that under ACE the same information would be forwarded by the Declaration System for approval of the single transaction bond. Upon receipt of the bond the system performs edits to confirm:

- Surety is Treasury approved and operating within its limits[2]
- Bond information is complete and within proper formats required by Customs regulations
- Bond information is accurate
- Bond principal is the importer of record.

Then using the Power of Attorney file the system confirms that:

- Submitter is an authorized surety representative
- Submitter has authority to issue bonds of the particular activity code
- Submitter has authority to issue bonds of the size indicated.

If the bond fails because the submitter does not have the authority to issue bonds of this activity code, or for this amount the system checks the Power of Attorney file for special situations related only to the bond being submitted. These special situations permit the surety to:

- Authorize a broker to issue a bond in an amount that exceeds the broker's customary limit for this bond only
- Write a bond for a specified entry on a one-time basis
- Issue a bond for a limited period of time.

[2] ACE will maintain information on situations involving co-sureties and reinsurance as part of the overall account files.

Bonds that are rejected are returned to the broker with an explanation of the problem. If the problem is related to authority limitations the broker must have the surety enter the necessary approvals to the Power of Attorney file before the entry and bond can be resubmitted.

In addition to normal single transaction bonds the system will accommodate bond cancellations, superceding bonds, replacement/ superceding bonds and bond updates, as appropriate.

When an acceptable transaction is processed the bond system notifies the declaration system and the surety transaction files are updated. After receipt of assurance that the bond exists, the declaration system can then release the merchandise.

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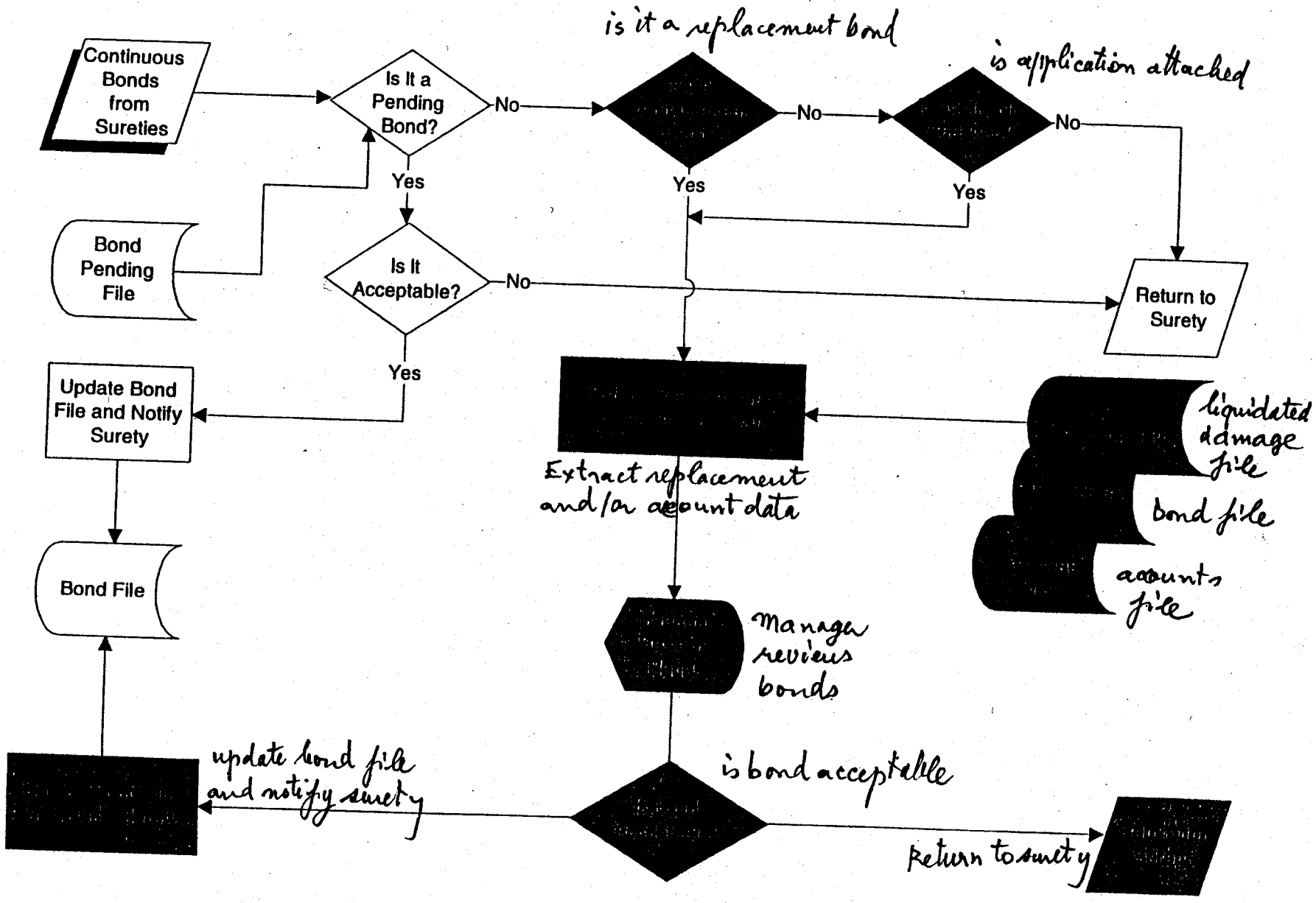
EXHIBIT IV CONTINUOUS TRANSACTION BOND PROCESSING



3.2 Continuous Transaction Bond Processing

Continuous bonds secure multiple transactions relating to importation or entry of merchandise at unlimited ports and cover import related transactions for an established period of time. Continuous transaction bonds are currently associated with the following Activity Codes:

Bond	Activity Code
Importer or Broker Bond	1
Drawback Payment Refunds	1A
Custodian of Bonded Merchandise	2
International Carrier	3
Instruments of International Traffic	3A
International Carrier/ Instruments of International Traffic	3A3
Foreign Trade Zone Operator	4
Public Gauger	5

The processes associated with the continuous transaction bond are shown on the flowchart facing this page.

Current procedures require bonds submitted to Customs to include:

- Bond Type
- Effective Date
- Surety Number
- Broker Identification
- Principal Name/Address
- Replacement Bond Number
- Activity Code
- Bond Amount
- Surety Name/Address
- Broker Name
- Importer Name and Number (IRS Number)

It is anticipated that the same types of information would be required on an electronic bond with the exception that the Broker information would not be required since they would not be submitting electronic continuous transaction bonds. In cases where a new bond is being submitted the surety will also be required to submit the application information which will be used to update the principals account file.

Upon receipt of the bond the system performs edits to confirm:

- Surety is Treasury approved and operating within its limits, or with appropriate reinsurance arrangements[3]
- Bond information is complete and within proper formats required by Customs regulations
- Bond information is accurate.

Bond submittals that do not meet the edit conditions are returned to the surety or surety representative with an explanation.

Bonds are submitted to Customs in response to a request by Customs for a new bond or because the Principal makes changes that require a new bond. When Customs requests a

3 ACE will maintain information on situations involving co-sureties and reinsurance as part of the overall account files.

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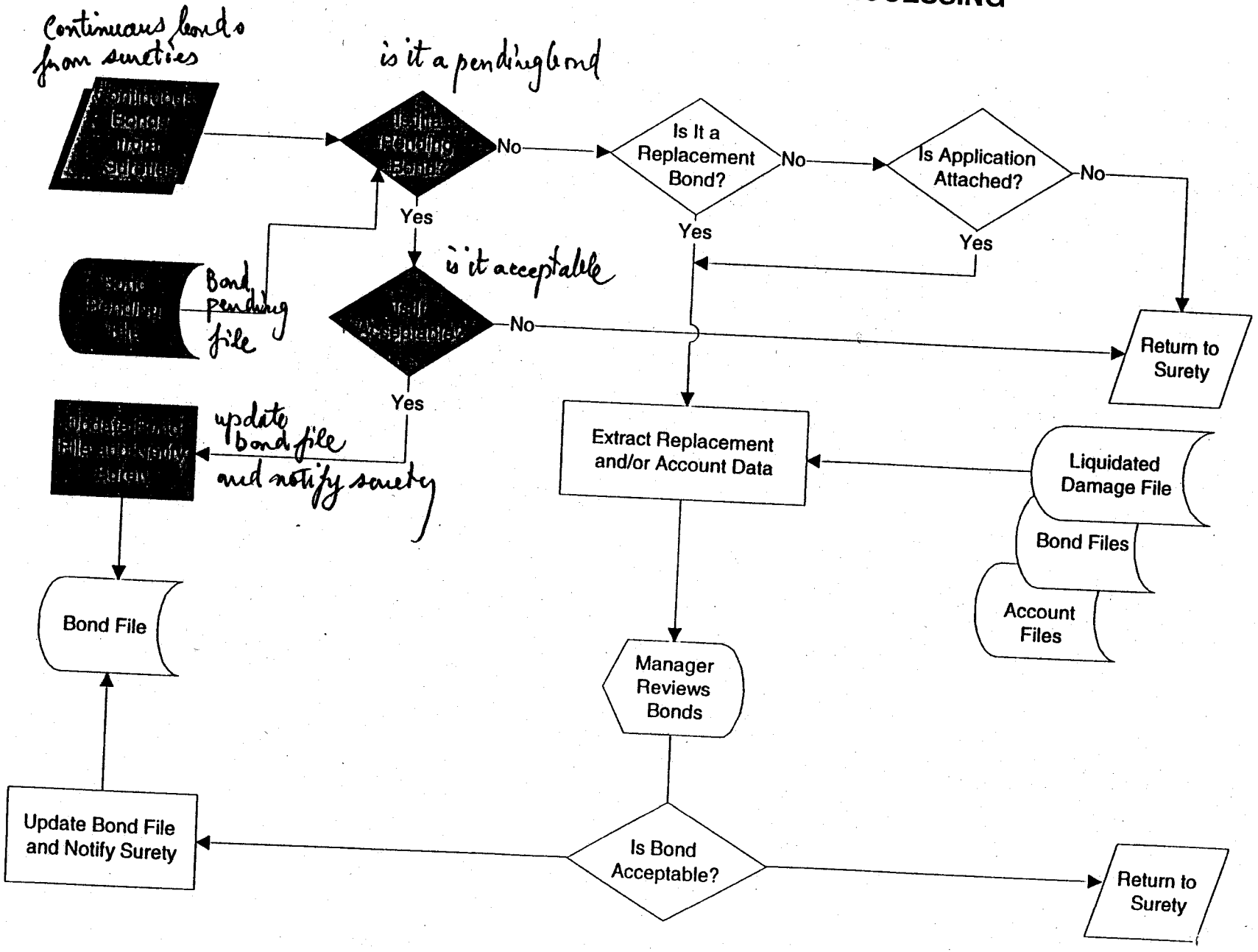
EXHIBIT IV CONTINUOUS TRANSACTION BOND PROCESSING



new bond on the part of a Principal it records the fact in a bond pending file and establishes parameters for the bond in the file[4].

Continuous bonds are checked against this file to:

- Determine if the bond was requested by Customs
- Verify the parameters of the bond submitted **match** those specified in the file.

If the bond is on the bond pending file and matches—the bond is accepted. Accepted bonds are posted to the bond file and the responsible parties, including the manager, surety and broker are notified.

The system will also accept bonds submitted under other conditions—either as **replacement/ superceding bonds** or as **new bonds.** In either case when the bond can not be found on the bond pending file the system will collect appropriate information and route it to the proper party for approval.

As highlighted on the flow chart facing this page, the system checks to determine if a bond is a **replacement/ superceding bond** which could change the surety or the amount. In these cases the system will use the bond number being replaced to extract:

- Account data
- Liquidated damage data
- Bond history.

This information is associated with the replacement/superceding bond and is stored in a pending file for subsequent review. The unit responsible for management of that bond is notified of the pending action.

In the case of **new bonds** the system verifies that bond application information is associated with the bond and, using the IRS number of the Principal and the designated users, collects any additional information that may be in the account files. This application information is accumulated with the bond and the pending file is updated. The unit responsible for management of that bond is notified of the pending action.

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4 Requests for increases in bond amount as a result of the Bond Review and Analysis process will be recorded in a the bond pending file. Manual input by Customs personnel would create pending records in cases where Customs personnel were consulted prior to the submittal of formal application and new bonds.

The system will also accommodate transaction types used to keep the system current. Included are bond terminations and the filing of Riders to add or delete a division or change a Principal's name and address. Mechanisms will also have to handle current and future special situations such as Reconciliation Riders that alter the current bond structure to permit special processing of entries. The system will also accommodate transaction types used to keep the system current. Included are bond terminations and the filing of Riders to add or delete a division or change a Principal's name and address. Mechanisms will also have to handle current and future special situations such as Reconciliation Riders that alter the current bond structure to permit special processing of entries.

Managers review the pending file for **replacement/ superceding bonds** and **new bonds** and determine if the bonds are satisfactory. If they are approved the surety is notified and the bond file is updated. In the case of rejections the pending bond is returned to the surety.

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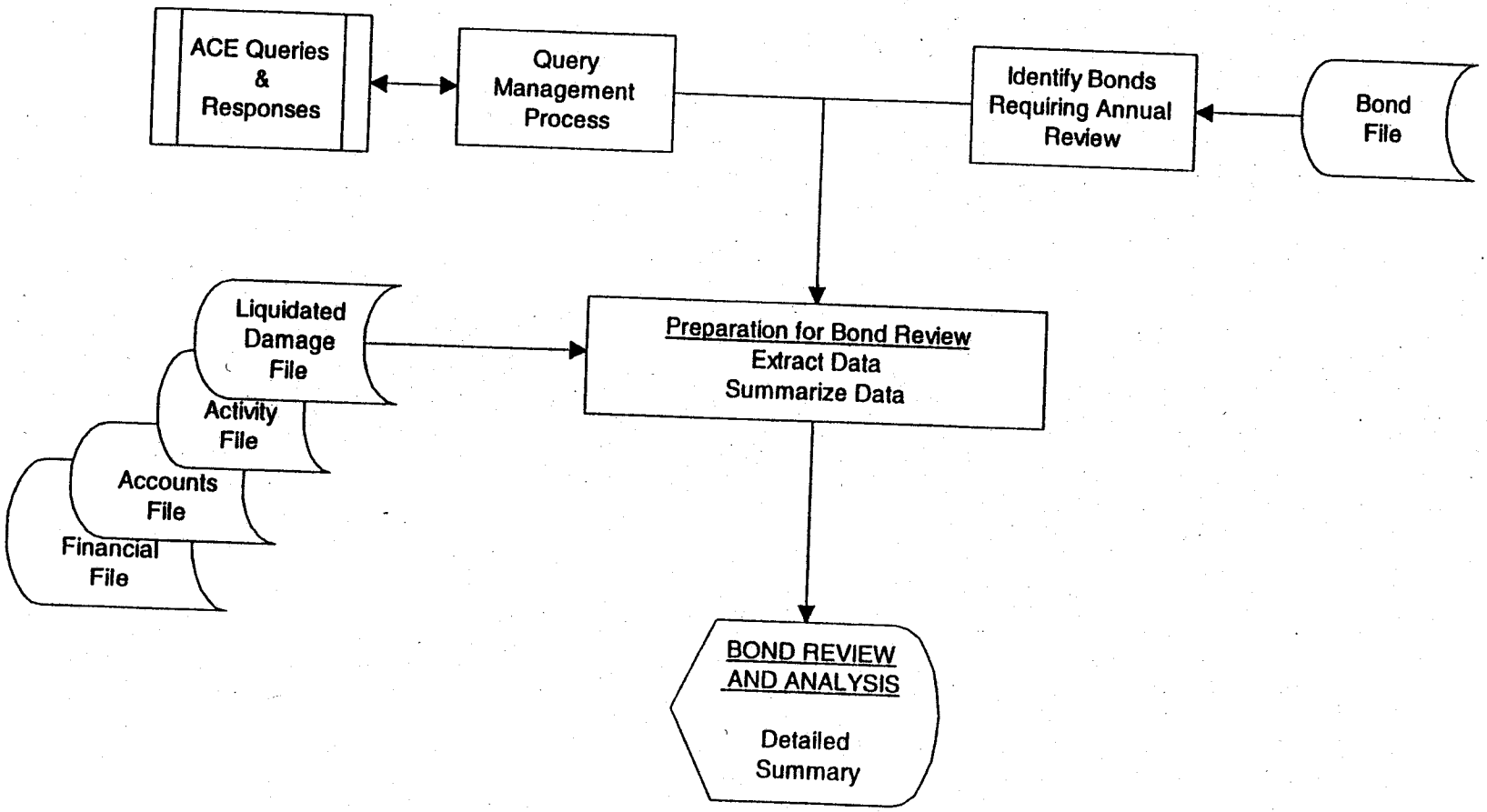
EXHIBIT V BOND REVIEW AND ANALYSIS



4 BOND REVIEW AND ANALYSIS

This section illustrates processes involving:

- Bond Selection
- Bond Record Preparation
- Bond Review.

A flowchart of these processes is presented above in Exhibit V, Bond Review and Analysis.

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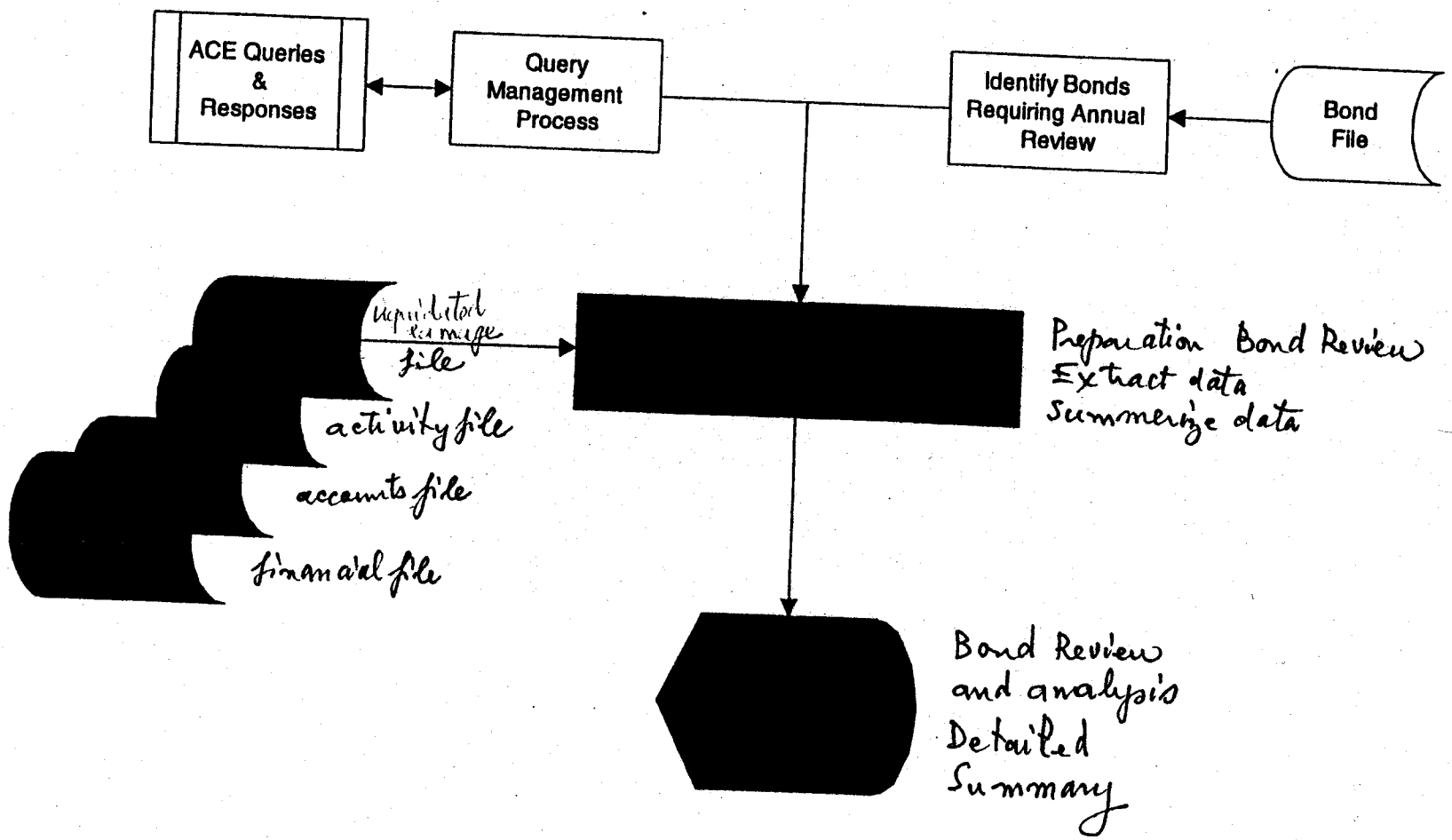
EXHIBIT V BOND REVIEW AND ANALYSIS



4.1 How bonds are selected for review

Two independent circumstances cause a bond to be channeled through bond review and analysis:

1. Annual Review – bonds coming up for renewal.
2. Special Situations – bonds identified as a result of queries formulated for special situations or problem areas identified by Customs.

4.1.1 Annual Review

All bonds in the system are reviewed annually before their normal renewal date. Effective dates for continuous bonds are included in the Bond File. On a periodic basis (weekly or monthly) the system identifies continuous bonds with an anniversary date within a specified time frame - currently 60 days from the processing date.

4.1.2 Special Situations

The system will have the capability to run queries against the ACE files to identify bonds that need to be examined on a special basis. These queries will be formulated in response to special situations or problem areas identified by Customs.

Some queries may be *standardized* and run on a periodic basis. Examples might be:

Query	Target	File Data Checked
Determine bonds that have multiple marking violation cases opened against them since the last review of the bond.	Activity Code 1	Liquidated Damage File
Determine bonds that do not cover six months of passenger fees.	Activity Code 3 and 3A3	Revenue File
Determine bonds that have three or more peak balance violations during current bond year.	Activity Code 1	Activity File and Financial Data File
Determine bonds of Principals who bounced checks or exhibit collection problems.	All Continuous Bond Activity Codes	Financial Data File

It is anticipated that standard queries will be run every week or month depending upon the normal production cycle.

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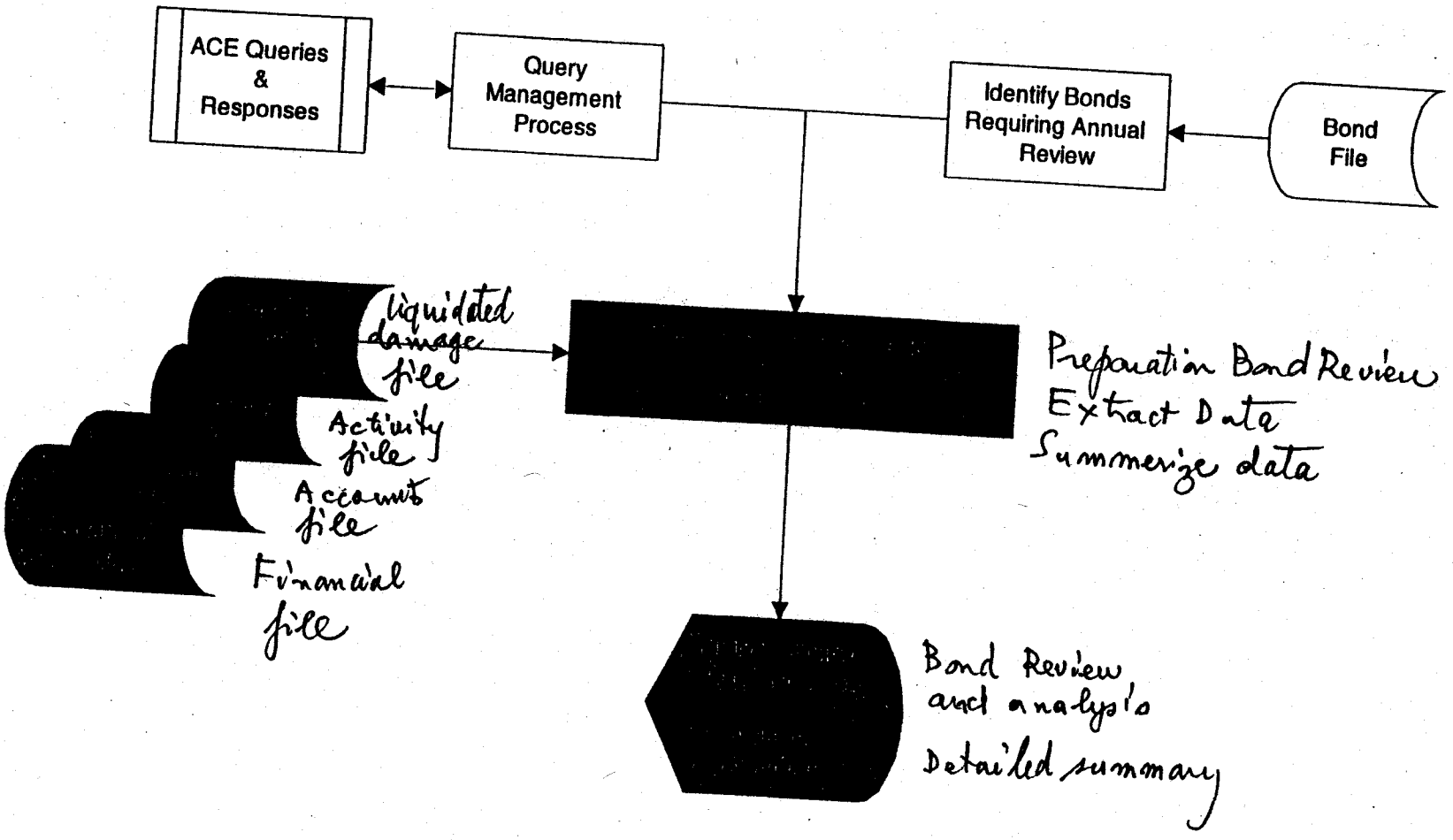
EXHIBIT V BOND REVIEW AND ANALYSIS



Special queries might be run in response to real or perceived problems. Such a query might identify bonds that are being used to import fresh fruit or vegetables from particular countries.

Query	Target	File Data Checked
Determine bonds that cover importation of strawberries from Mexico	Activity Code 1	Activity File
Determine bonds that have vessel repair entries greater than $100,000 during the past year	Activity Code 3	Activity File
Determine bonds that have multiple GSP entries filed.	Activity Code 1	Activity File

Special situations could be defined in relation to changes in entry practices. For example, the underlying bond may be analyzed each time a reconciliation rider is filed for that bond.

* * * * *

The bond numbers selected for review are forwarded to the bond review preparation functions where the basic record that will be analyzed is constructed.

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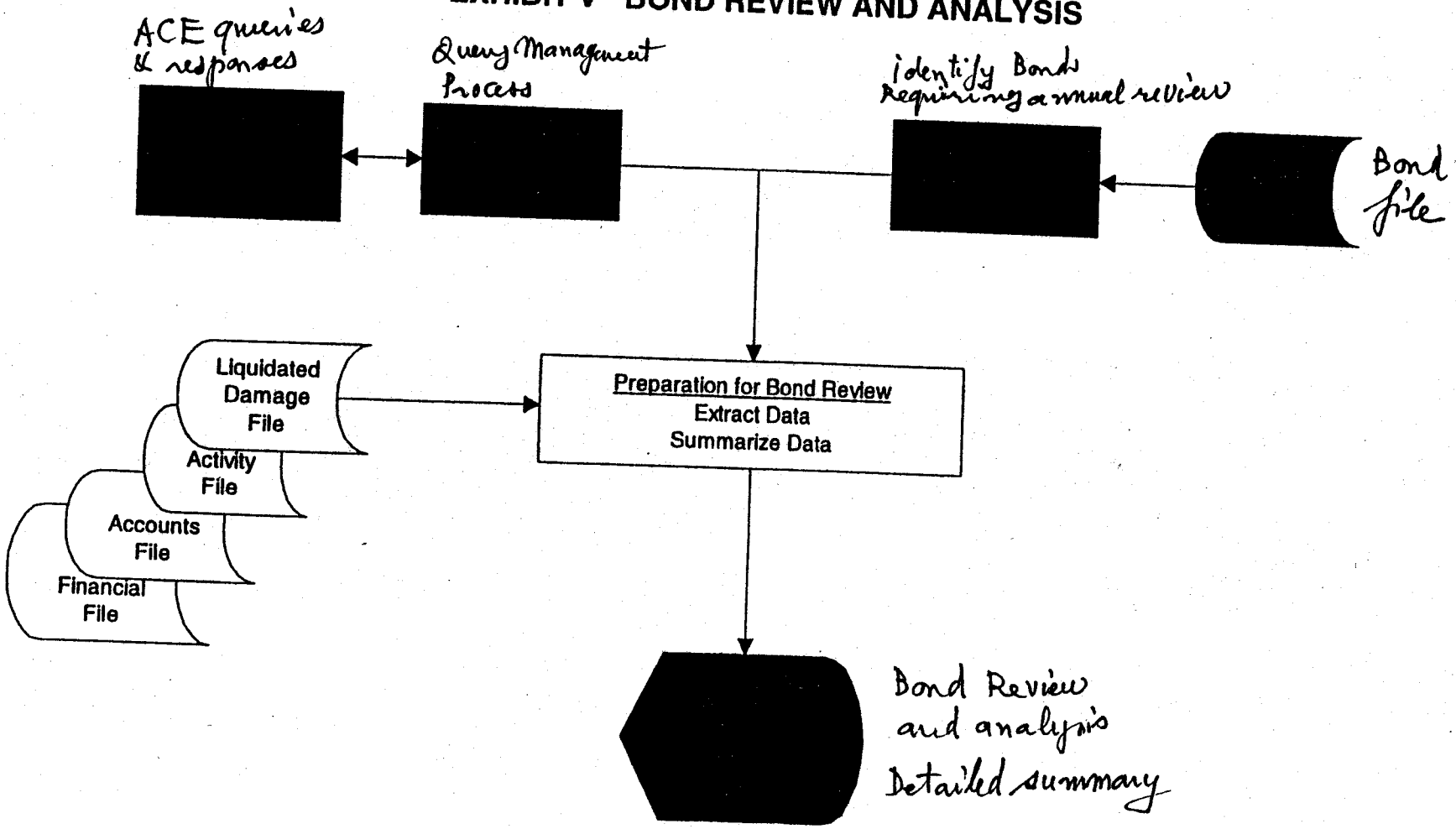
EXHIBIT V BOND REVIEW AND ANALYSIS



4.2 Preparing Bond Analysis Records

Once the bonds that are to be reviewed have been identified the system will develop a record which will be used to perform an analysis of the adequacy and sufficiency of the bond amount. The record to be constructed will vary by bond activity code and will be based on information from the following system files:

- Accounts File
- Activity File
- Liquidated Damage File
- Financial Data File

4.2.1 Accounts File

ACE retains basic information related to the Principal in the Account File. This would include information such as:

- Principal name and description
- Principal's activities involved with Customs
- Principal's bonds and their history and effective dates
- Customs organization responsible for the Principal
- Summary statistics on the Principal's operations
- Tax deferment status
- Anti-dumping and Countervailing Duty status

4.2.2 Activity File

Establishing current year activity is critical for applying rules and formulas in the annual review, as well as determining whether a bond not scheduled for annual review falls within a questionable sufficiency zone.

This file contains bond activity data including total estimated duties, taxes and fees for entry summaries accepted within the specified time period. Liquidated amounts are also contained. In completing this portion of the bond preparation process the system will extract information that will permit the reviewer to analyze all of the past years activity under the current bond.

For the most part this retrieval would only apply to Continuous Entry Bonds. However, vessel repair entries covered by International Carrier Bonds would also be included in activity files. It is anticipated that activity/account information for activity codes 2, 3, 4 and 5 would be maintained on notepad type files at the various ports.

This information would be added to the bond record so that the reviewer would have adequate information on the activities covered by the bond.

4.2.3 Liquidated Damage File

Information on the violations cited against each bond and the

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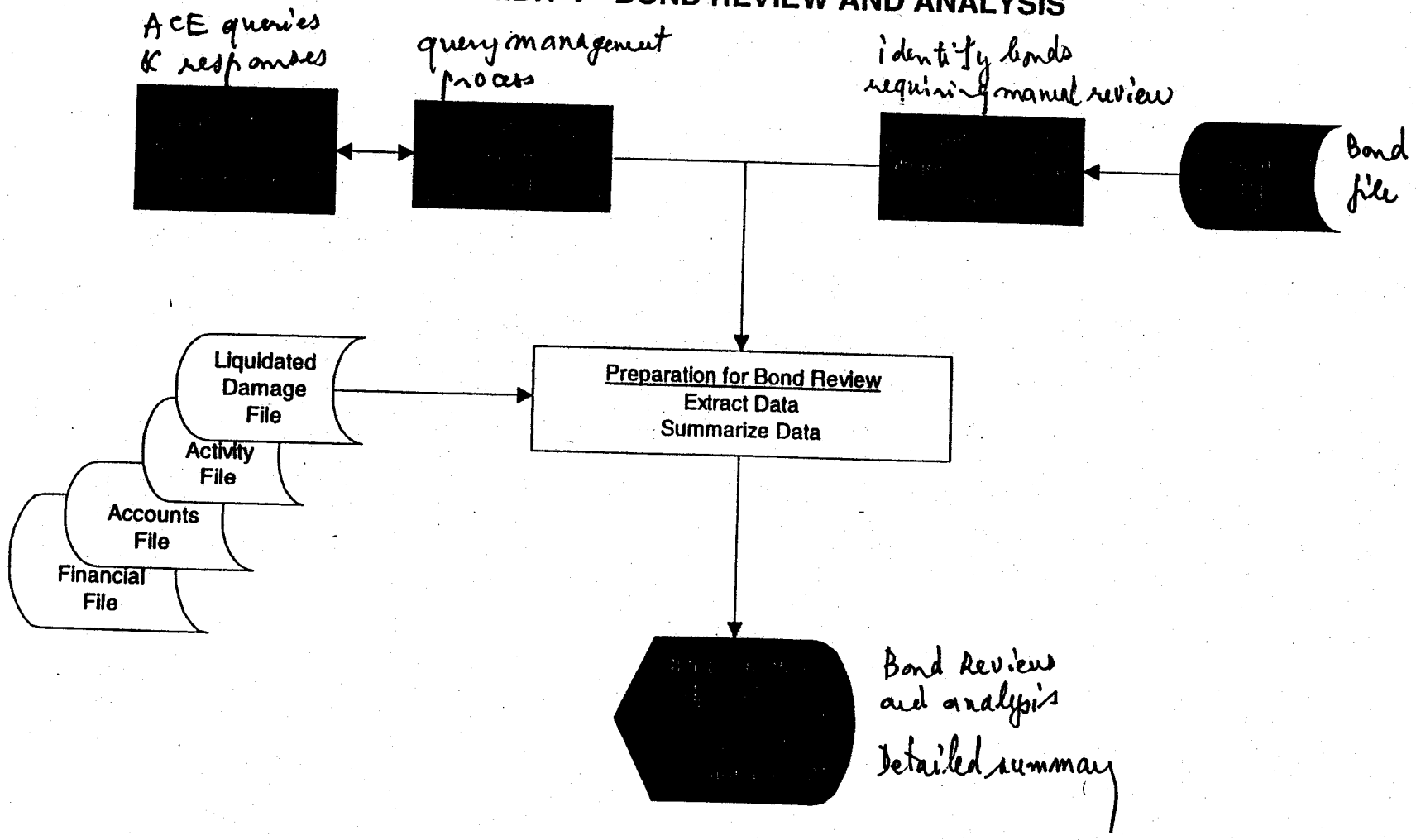
EXHIBIT V BOND REVIEW AND ANALYSIS



subsequent resolution of the claims is contained in the Liquidated Damage files maintained by SEACATS. The bond preparation element would extract the liquidated damage history for the bond and summarize it in terms of citations, dollars involved and status

4.2.4 Financial Data File

Financial files are maintained on Principals dealing with Customs. It will be necessary to extract summary data that show:

- Receivable and Payment history for continuous entry bonds
- Accelerated payment history for drawback bonds
- Payment/collection problems for the Principals
- User fee collections
- Excise tax deferrals.

In addition, the financial data files will be the primary source for activity information for international carriers that submit passenger fees collected. This information will be extracted to support analysis of certain international carrier bonds.

With this data the reviewer will be able to determine if there are special payment problems that need to be addressed by the bond.

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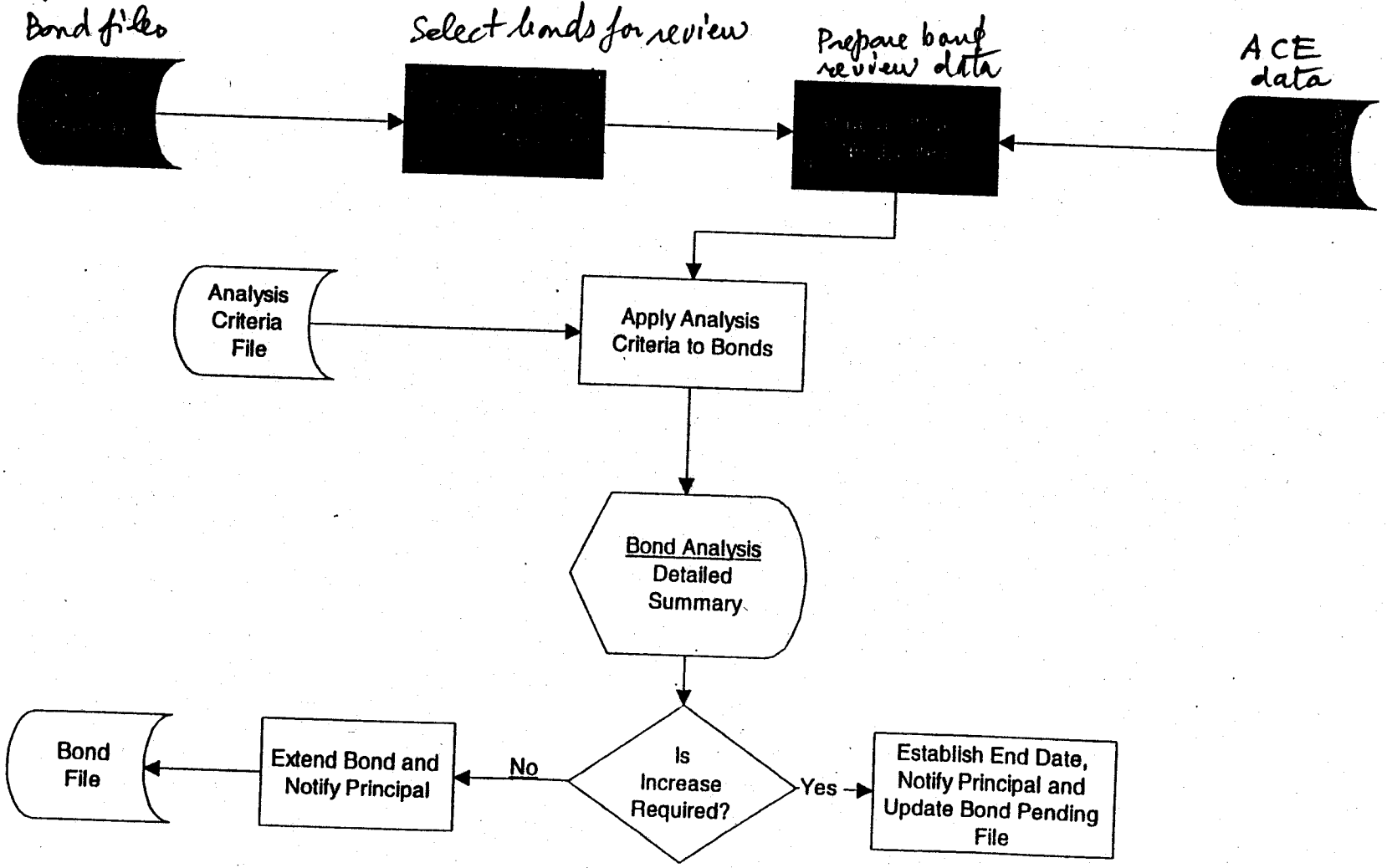
EXHIBIT V BOND REVIEW AND ANALYSIS



4.3 Bond Review

Bond Review contains two separate paths:

1. Summary analysis
2. Detailed analysis.

The distinction is that the summary process is reserved for bonds that appear adequate and sufficient with the definition of "appear adequate and sufficient" left to Customs management. In terms of entry bonds, if the application of the formula results in a minimum bond and there are no liquidated damage charges against the existing bond and no history of payment problems, then the annual review of the bond could be conducted in a summary format. In contrast, if the application of the formula results in a bond that would double in value, and there is a history of liquidated damages and payment problems with the existing bond then the annual review of such a bond could require a detailed analysis. In addition to specific values, criteria could be set so that each bond is subject to a detailed analysis every five years.

The criteria that would distinguish between the two forms of analysis would be left to Customs management and could be changed periodically to insure their workability. It is anticipated that these criteria would be applied to those bonds being reviewed because of their anniversary date. Bonds in the review process because they were identified by special queries would be automatically placed in detailed analysis.

The concept associated with this selection process could be refined to permit individual reviewers/managers to establish criteria that are more stringent (but not more lenient) than those established on a national level. National criteria might place bonds with less than a 20 percent increase in the summary analysis category. An individual manager could require that any of their bonds that showed a potential increase be placed in the detailed analysis category.

As these criteria are applied to the bonds up for review the bond review records are separated into detailed analysis and summary analysis files and the appropriate managers are informed that there are bonds ready for review. Information maintained in these analysis files would be summarized and made available to Principals who might want to inquire about their bond status.

4.3.1 Bonds Requiring Summary Analysis

The bond manager reviews summary information regarding each bond on file. If necessary they check with others involved and make a determination as to whether the bond is sufficient to cover the Principal's activities for next year. If bond managers determine the bond may not be sufficient or needs additional analysis, the bond in question can be flagged for detailed analysis.

Bonds determined to be adequate are noted as "Approved". The Bond File is updated and a notification of approval is sent

to the Principal.

4.3.2 Bonds Requiring Detailed Analysis

Detailed analysis covers bonds that do not comply with Customs supplied criteria for meeting sufficiency requirements. The system anticipates that a modified bond is required, and marks the bond accordingly for bond manager approval.

In performing detailed analysis, the bond manager reviews the system-supplied information related to the bond. If necessary, the bond manager verifies with others that are knowledgeable about the bond activity, such as a particular port that is familiar with warehouse activities related to the bond or an account manager that is aware of bond history. It is anticipated that "notebook" type local files that supply additional account and activity information would support individual bond managers. These files are anticipated for the non-entry type bonds where limited activity information would be available in the ACE files.

Based on the review, the bond manager makes a determination that:

1. Bond is adequate or
2. Bond should be increased.

If the bond is *adequate*:

- The bond manager notes the bonds as "Approved"
- The bond file is updated.

If the bond is determined to be *inadequate:*

- An end date is established in the bond file
- The Principal/Surety is informed of the situation
- A new continuous bond is requested.

As part of the request, the system generates an explanation of the new bond amount in terms of the components. Criteria related to the revised bond are noted and the bond pending file is updated with anticipated information. The bond remains on the bond pending file until the surety submits the revised bond.

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This concludes the discussion of the Bond Review and Analysis Functions. The next chapter in the report deals with system implementation.

5 IMPLEMENTATION CONSIDERATIONS

Implementation of the electronic bond as it is defined in this report is based on Customs overall ACE implementation effort. The requirements for the electronic bond are to be turned over to the ACE team for implementation. The Revenue System Team in the CFO organization is charged with the responsibility to coordinate with the ACE efforts and provide the support required to design the bond system and associated business processes within ACE.

However, there are additional issues that must be addressed in Customs as implementation proceeds. These include:

- Responsibilities in Association with Trade Compliance/Account Management
- Additional Bond Management Responsibilities
- Coordination with Importing Community

A central unit with responsibility for overall bond management within Customs can best address these issues. Given the interrelationship between bond and financial policy it is appropriate that the overall responsibility be placed in the CFO organization.

The remainder of this section will address the issues that must be addressed. The section will conclude with a recommended approach for the development of the bond management capability within the CFO organization.

5.1 Implementation Issues

The approach to bond management within Customs can be strengthened with the implementation of the electronic bond. There are additional initiatives within Customs that will also impact bond management. The impact of these initiatives must be included in the overall approach to bond management. This section will address these issues.

5.1.1 Responsibilities in Association with Trade Compliance/Account Management

Bond review and approval is presently the port directors' responsibility. Customs is realigning responsibilities for the management of importing activities under a Trade Compliance/Account Management program in an effort to raise compliance levels and manage the increasing volume of importation. Although not specifically addressed as part of the Account Management initiative a certain realignment of bond responsibilities will be required.

Account Management will assign a National Account Manager or a Port Account Management Team (PAMT) whose duties include coordination and resolution of large importer's (account) activities in the aggregate. The National Account Manager or PAMT will have responsibility to review account compliance and identify systematic and repetitive problems

related to the importer. Accounts are selected based on strategic needs of Customs, including:

- Volume of importation
- Workload
- Industry focus.

From our discussions with Customs management responsible for implementation of this effort, we understand that 7,172 importers of the 353,618 total importers will be included in the Account Management initiative. Management responsibilities for these selected importers will be different depending on whether they are assigned as National Accounts or to PAMTs.

Information is not available on the number of continuous entry bonds represented by these 7,172 importers since some importers could have two or more continuous entry bonds. Some importers selected for Account Management will also have custodial, international carrier and foreign trade zone bonds. Also some of the 75,000-100,000 continuous entry bonds as well as custodial, international carrier, foreign trade zones and gauger bonds would not be covered by Account Management.

From a bond management perspective, three conditions would exist:

- National Account Managers would be assigned and they would have a "coordination" role. Responsibility for bond management functions for these accounts is not clear.
- PAMT accounts would have a management team assigned with responsibility for all activities associated with these accounts.
- Importers, carriers, warehouses and foreign trade zones not included in the Account Management concept would have no designated managers.

This uneven treatment of various bond principals stresses the need for a realignment of bond management responsibilities as the Account Management approach is implemented. The recommended realignment will be presented in the final section of this chapter.

5.1.2 Additional Bond Management Responsibilities

The approach for dealing with bonds in an ACE environment that is described in this report creates a need for a strong analytical capability to support the bond management function. Two specific responsibilities are identified in this report.

One of these responsibilities deals with the formulation and execution of queries to identify bonds that require special review. As discussed in Section 4 of this report the system will have the capability to generate queries that will be used to select bonds requiring special reviews. If this capability is to make a positive contribution to the bond management function it will require a strong analytical capability to monitor both

bonds and the importing profiles. This function will involve working with various elements of Customs organization in formulating the queries and monitoring bonding and importing trends to identify areas of concern that can be answered by queries.

The second responsibility identified in this report is that of establishing and monitoring criteria to distinguish those bonds that are to be subject to summary analysis from those requiring detailed analysis.

Both of these responsibilities should be assigned to the central bond management unit recommended in this section.

5.1.3 Coordination with Importing Community

The CFO has responsibility to coordinate implementation of the electronic bond with the importing community because of the direct affect and major implications the bond has on the industry. Avenues for this effort include:

- Presentations to the Customs/Surety Executive Council
- Correspondence with trade associations
- Public notice.

5.2 Development of Bond Management Capability

The issues discussed in this section point to a need for a revised approach to bond management within the Customs Service. Implementation of Account Management will diffuse responsibility for bond management from the Ports. The electronic bond will require a central unit providing analytical support to the bonding process. Given these two factors it is appropriate for Customs to provide a strong central presence to bond management. This presence should logically be placed in the CFO organization in recognition of its responsibility for financial policy within Customs. This does not imply that all bond management activities should be handled in this unit.

Management of certain bonds (Entry and drawback bonds) can be accomplished based on information on the principals' activities with Customs. Since the information will be made available by Customs' systems (ACS currently and ACE eventually) any Customs office can have primary responsibility. Other bonds such as custodial, foreign trade zone and guager bonds are based on the physical facilities involved and require field involvement. For these bonds the field people involved with those facilities should have a significant input into the determination of the required bond amount.

The transfer of responsibilities from the field to the CFO should be a gradual one and should not be tied to the ACE implementation schedule. As the Account Management

program is implemented some of these bond management responsibilities should be shifted to the central unit.

The CFO organization is involved in certain aspects of the bond process through current collection efforts. An opportunity exists to build the total capability in the CFO organization as the Account Management system is implemented and have the CFO capability contribute to the current bonding efforts.

As a first step in the building process the CFO organization can acquire copies of the monthly bond review reports currently prepared by ACS for each Port (Bond Report for Anniversary Date Review (B68)). These reports identify all bonds that are up for renewal in the next 60 days and do not meet the ten percent (10%) guidelines. The report includes information on total estimated duties, taxes and fees paid in the past year as well as information on overdue bills and fines. By reviewing these reports and working with the Ports on those bonds requiring increases, the CFO organization can become familiar with the dynamics of the process. Also the CFO organization can more fully integrate information on current collection problems into the process.

Another step that can be used to build this bond management capability within the CFO organization is work with the SEACATS system to assess those bonds that are subject to a large number of liquidated damage cases. As SEACATS is implemented and other initiatives are taken in the liquidated damage area such as violation billing, there is an opportunity to more accurately assess the potential liabilities of liquidated damage cases on bond coverage. This could contribute to the current bond review process as well as the process that will be implemented with the ACE system.

In order to implement this recommendation Customs should proceed to build the capability that will be required in the CFO organization. Three initial steps should be taken:

1. Customs should designate an individual within the CFO organization to head the Bond Management effort.
2. The CFO organization should begin to get copies of the current Anniversary Review reports being distributed to the Ports.
3. The CFO organization should begin developing procedures that can be used throughout the phase-in period and when full responsibility is shifted to the CFO. These procedures should recognize the unique roles of field personnel in dealing with bonds covering specific facilities.
4. CFO organization should coordinate/implement interim bond sufficiency review processes and capabilities that can pilot/lead into new or future systems capabilities and functionality.