

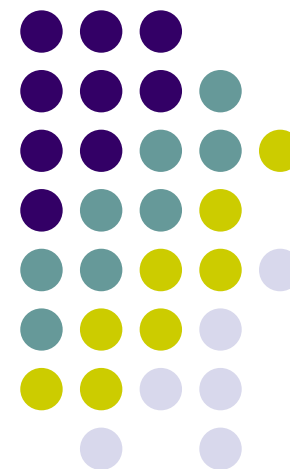
# Understanding and Preparing for Customs Audits & the Importer Self-Assessment Program

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February 20, 2013

Presented by

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# About the Speaker



## **George R. Tuttle, III, Esq.**

**George R. Tuttle, III** is an attorney with the San Francisco law firm of George R. Tuttle, P.C.

For the past 25 plus years his practice has focused on Customs and import matters. He has a wide range of experience handling valuation and classification determinations, regulatory interpretations, audits and enforcement matters, disclosures, investigations, and penalty cases. He also assists importers review, develop, and implement compliance programs.

Mr. Tuttle is a frequent speaker and instructor on Customs and export matters for various trade groups, including: AAEL, the Professional Association of Exporters and Importers (PAEI), Women-in-International Trade-Northern California (WIT-NC), San Francisco Customs Brokers and Freight Forwarders Association and the International Compliance Professionals Association (ICPA).

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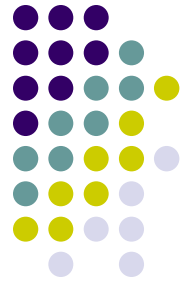
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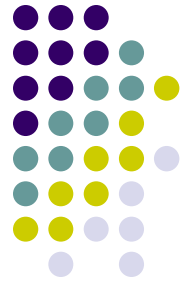
# The Importance of Customs Audits

- What is Customs mission today compared to 15 years ago?
- Resource limitations 🕒
- Trade partnerships and the rise of the “trusted trader” programs
- “Risk” mitigation
- More efficient enforcement and revenue collection



# Selecting The QRA or FA Candidate

- Compliance strategy of Customs
  - Shift from entry-by-entry review to Account Based Management
  - Shift in Customs compliance resources from Local I/S to Regulatory Audit Staff
  - Focuses on identifying companies with moderate to high risk and auditing them



# The QRA or FA Candidate

- The Focused Assessment Candidate
  - Major Account (\$10 million or more in import value)
  - Involvement in a Trade priority area, including (revenue):
    - Classification
    - Value (Related parties, buying agents/ deductions, Assists, etc)
    - GSP or high use of Trade Preference claims
    - 9801 or 9802
- Quick Review Audits (QRA): Single Issue Audits
  - Referrals from I/S or Account Managers
  - High number of errors in entry documents or PEAS
  - High value Prior Disclosures
  - Poor or incomplete responses to CF 28's and 29's.



## Trade

[Automated Systems and Operational Support](#)

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### Audits (Regulatory Audit)

A risk-based approach to assess import compliance with trade laws and regulations. The audit reviews provide a systematic approach to data collection and an analysis of data to determine the likelihood of noncompliance, which includes assessing risks by reviewing corporate controls over trade compliance.

▶ **Regulatory Audit Field Offices**

Regulatory Audit Field and Branch Offices are responsible for auditing major importers and other entities involved in international trade compliance with laws and regulations governing the importation and exportation of merchandise.

▶ **Focused Assessment Program (FA)**

A Risk Based Approach to Audit

- **Quick Response Audits**

- 05/17/2006

Quick Response Audits (QRA) are single-issue audits with a narrow focus. QRA is a term used to cover a variety of audits that will have limited objectives as opposed to the complete evaluation of a company's Customs and Border Protection (CBP) activities in the focused assessment program.

▶ **Supply Chain Security Observations**

Overview and Supply Chain Security Questionnaire

▶ **Archive**

# Supply Chain Security Review



The screenshot shows the CBP.gov website with the header "Securing America's Borders". The navigation bar includes "About CBP", "Newsroom", "Border Security", and "Trade". The left sidebar has a "Trade" section with links to "Automated Systems and Operational Support", "Basic Importing and Exporting", "Cargo Security", "Legal Decisions/Publications", "Priority Trade Issues", and "Quicklinks". The main content area shows a breadcrumb trail: "Home / Trade / Trade Programs / Audits (Regulatory Audit) /". The title is "Supply Chain Security Observations" with a subtitle "Overview and Supply Chain Security Questionnaire". Below this are two links: "Supply Chain Security Overview" (dated 10/08/2009, 109 KB ppt) and "Supply Chain Security Questionnaire" (dated 10/08/2009, 109 KB pdf).

**Trade**

- Automated Systems and Operational Support
- Basic Importing and Exporting
- Cargo Security
- Legal Decisions/Publications
- Priority Trade Issues
- Quicklinks

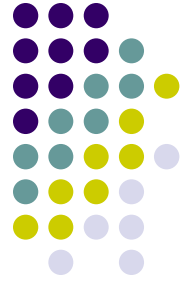
Home / Trade / Trade Programs / Audits (Regulatory Audit) /

## Supply Chain Security Observations

Overview and Supply Chain Security Questionnaire

- **Supply Chain Security Overview**  
- 10/08/2009  
ppt - 109 KB.
- **Supply Chain Security Questionnaire**  
- 10/08/2009  
pdf - 109 KB.



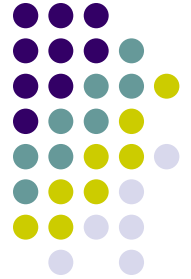


# QRA and FA Target Areas

- Value
- Classification
- 9801 and 9802 Tariff provisions
- Special Trade Programs and GSP
- Transshipment
- Anti-dumping/Countervailing Duties
- Intellectual Property Rights (electronics, consumer goods, etc.)
- Foreign Trade Zone
- Bonded Warehouse
- Health & Safety

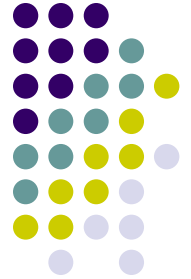


# QRA & Focused Assessments



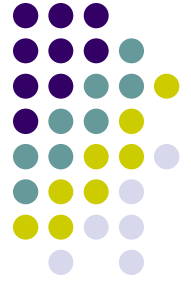
- Risk Management
  - Not all importers present the same level of risk for noncompliance and allocation of CBP resources
  - Fulfills goal of managing risks by focusing on companies and trade areas that represent the greatest risk of non-compliance
  - Long term monitoring of importer activities to reduce risks and improve compliance in high risk areas
  - Move importer to low risk and trusted trader program

# QRA & Focused Assessments



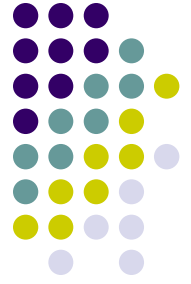
- Importers have very limited means to challenge decisions and findings by auditors during a review
  - No protest procedure available
  - Limited access to internal advice and HQ ruling process
  - Errors can result in demand for duties for past entries (5 years)
  - Audit findings often result in large duty liability that needs to be reported on financial statements
  - Errors can result in multi-year reviews

# QRA's & Focused Assessments

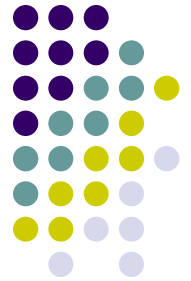


- Provide Customs with
  - A systematic approach of gathering and analyzing of data to determine likelihood of risk of noncompliance
  - Once risks are identified and analyzed action plans and assignment of resources can occur to mitigate risk

# Common Importer Errors Found By Customs During Audits



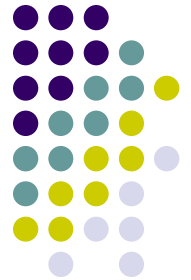
- Failure to report assists
- Failure to report supplemental payments
- Failure to justify deduction of non-dutiable costs (i.e., CIF costs)
- Errors in classification
- Lack of documentation to support 9801 or 9802 claims for U.S. Goods Returned
- Lack of support for transaction value in related party transactions
- Failure to disclose 3<sup>rd</sup> party commissions
- Record keeping errors



# Focused Assessment

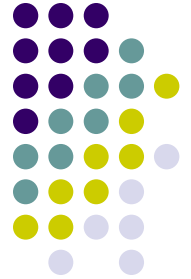
- FA's consists of two parts
  - Pre-Assessment Survey (PAS)
  - Assessment Compliance Testing (ACT)
- PAS identifies areas of risk by evaluating the adequacy of the importer's internal controls and testing controls against selected transactions
- ACT identifies the extent of compliance and/ or computes the loss of revenue for areas of risk

# The Pre-Assessment Survey



- Steps
  - Notification – Telephone and mail: 30 days
  - Requests
    - general ledger chart of accounts, working trial balance and/or post closing trial balance
    - Descriptive narrative and/or flowchart for Customs-related activities listed in the questionnaire
    - Company's documented internal control policies and procedures for Customs-related activities
  - Schedule date for the advance conference

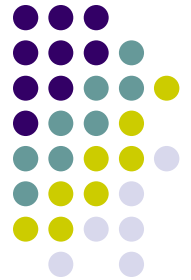
# The PAS Phase: The Advance Conference



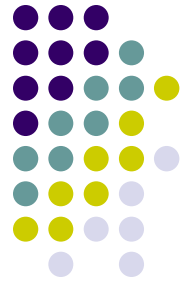
- The Advance Conference
  - Meet the Audit Team
  - Explain the Focused Assessment Program:
    - PAS process
    - ACT process
  - Review completed questionnaire, general ledger chart of accounts working trial balance, etc.,
  - Discuss need for timely completion of the Focused Assessment, including responsibilities for timeliness and responsiveness of information
  - Establish dates for:
    - Entrance conference and work requirements
    - PAS completion date



# The PAS Phase: The Entrance Conference

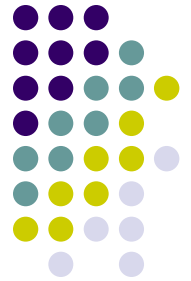


- Request Sample import transactions for Walk-through (1 to 4)
- Discuss **specific** PAS objectives
- “Walk-through” the Customs entry process determine the company’s procedures and weaknesses in:
  - Ordering and purchasing foreign merchandise
  - Receiving foreign merchandise
  - Recording receipt in inventory
  - Declaring merchandise to Customs
  - Paying foreign vendors
  - Distribution to customer, if applicable (e.g., drop shipments)
  - Export of merchandise, if applicable (e.g., assists, Chapter 98)



# Judgmental Samples

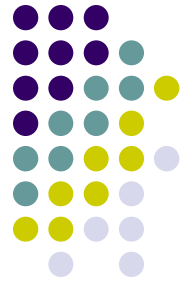
- PAS portion includes selection of judgmental samples to determine level of risk for each area
  - 1-20 Samples per category of review
    - Entry line items
      - Classification, Value, quantity
    - General ledger accounts (specific journal entries)
    - Accounts payable for foreign Vendors
    - Special duty or preference classifications (9801/ 9802, GSP, etc.,)
- Errors or evidence of non-compliance can lead to ACT or agreement by importer to quantify LOR



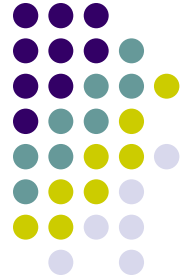
# Judgmental Sample Review

- Entry line review
  - Classification
    - Data sheets or specifications
    - Importer analysis of classification
  - Value
    - Contracts or purchase agreement
    - Invoice
    - P.O.
    - Check or other payment record
  - Quantity
    - Receiving report
    - Inventory record

# Focused Assessments-- Do you have the records?

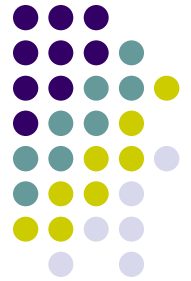


- Typical document request:
  - Entry Summary
  - Commercial invoice
  - Purchase order/ contract
  - Airway bill/ bill of lading
  - Packing list
  - Receiving report
  - Inventory record showing merchandise entering inventory
- Accounts payable and disbursement record for entry
- Parts catalog containing description of part, specifications
- Documentation to support transaction value (for related party transactions)
- Records of payments associated with import
- Documents to support special entry (I.e, 9802, 9801, GSP)



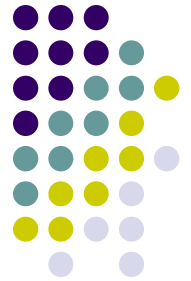
# Judgmental Sample Review

- General ledger accounts (specific journal entries)
  - Need explanation of G/L accounting practice
  - Customs will select specific accounts to review
  - Within selected account, Customs will pick journal transactions:
    - Invoice
    - Payment
    - Explanation



# Judgmental Sample Review

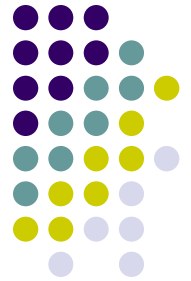
- Accounts Payable Records For Foreign Vendors
  - Vendor Payments
    - What is a foreign vendor?
    - Sorting vendors by status
    - Do vendor payments = (+/-) entered values?
  - Sample Selection
    - Tie to import entry?
    - Invoice
    - Payment record
    - Explanation for transaction
    - Is it an assist or supplemental payment, etc.?



# Judgmental Sample Review

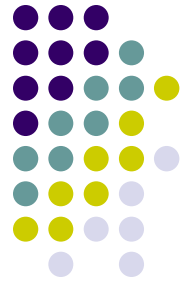
- Special duty or preference claims
  - 9801/ 9802
  - GSP
  - Free Trade Agreements
  - Major problems with supporting documentation
    - No shipper or assembler declarations
    - No U.S. Manufacturer declarations
    - No U.S. export document records
    - No independent contemporaneous analysis of claims





# Focused Assessments--

- Establish good written document request procedures with auditors
- Each request should be consecutively numbered, and dated, identify the document requested with specificity
- When responding with requested document, always refer to original document request number
- Maintain a copy of each document response provided to auditors



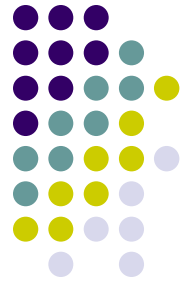
# Closure Of PAS Phase

- Audit Prepares draft findings for each review area
  - Importer reviews and is requested to comment on findings (agree/ disagree & reason for errors)
- Close-out Meeting
  - Customs holds closure meeting
    - Reviews results of findings and response by importer
    - Reviews need for Compliance Improvement Plan (CIP)
    - Is there a need for calculation of LOR? Who will do it?




# Post PAS (ACT)

- FA Team will require Revenue Loss Quantification when:
  - Not able to confirm company maintains adequate internal controls and ACT Testing is necessary to determine level of compliance
  - Not able to confirm that internal controls are adequate to control risks
  - Revenue issues are involved but LOR can not be determined without additional testing
- Customs will give importer opportunity to quantify revenue loss using statistical methods
- Customs will schedule follow-up audit in 6-8 months to verify CIP and review revenue loss quantification



# Preparing For Your Audit

- Limited Time period: 30 days or less
- CBP's web page:  
[http://www.cbp.gov/xp/cgov/trade/trade\\_programs/audits/](http://www.cbp.gov/xp/cgov/trade/trade_programs/audits/)



**Securing America's Borders**

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## Trade

- Automated Systems and Operational Support
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- Trade Outreach
- Trade Programs

Report Suspicious Activity to  
**1-800-BE-ALERT**



**E-ALLEGATIONS**  
Online Trade Violation Reporting System






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### Focused Assessment Program (FA) - Documents

(October 2003 version)  
 (Exhibit 6A revised - October 2004)  
 (Exhibit 3J revised - September 2005)  
 (Exhibit 5U revised - December 2007)


Focused Assessment Program (FA) Documents are used by CBP regulatory auditors when conducting focused assessments. While these documents contain the audit program, sampling methodology and technical information for pre-assessment survey, they also provide guidance for importers.

The FA documents can be viewed and downloaded in PDF format.


- FA Documents Download Entire File**  
 - 02/21/2008  
 Warning: This is a large PDF file. You may wish to right-click on the link and save it to your desktop before opening.  
 pdf - 3,693 KB.
- Exhibit 1 - Introduction**  
 - 10/01/2003  
 pdf - 35 KB.
- Exhibit 2A - Internal Control Questionnaire for Focused Assessments**  
 - 10/01/2003  
 pdf - 49 KB.
- Exhibit 2B - Electronic Data Processing (EDP) Questionnaire for Focused Assessments**  
 - 10/01/2003  
 pdf - 23 KB.
- Exhibit 2C - Pre-Assessment Survey Audit Program**  
 - 10/01/2003  
 pdf - 21 KB.

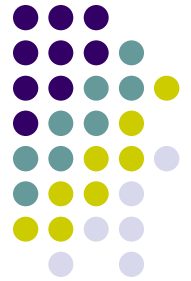
**section sitemap for**  
*Focused Assessment Program (FA) - Documents*

### see also:

 **in Focused Assessment Program (FA):**  
[Focused Assessment Program \(FA\)- Overview \(ppt - 299 KB.\) \(pdf - 106 KB.\)](#)

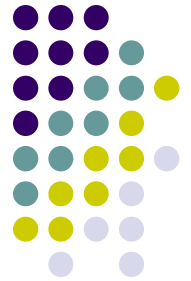
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 [News Feeds](#)



# Preparing For Your Audit

- Preparing and Responding to the Audit Questionnaire
  - General Information and Organization of Company and Trade Compliance functions
    - Who should be responsible for completing?
    - Who should be the primary contact person?
    - Identification of related foreign and/or domestic companies, such as the company's parent, sister, subsidiaries, or joint ventures
    - Key roles and responsibilities for trade compliance?
    - Employee Awareness & Training

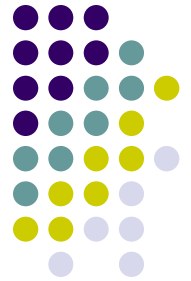


# Preparing For Your Audit

- **Risk Assessment**

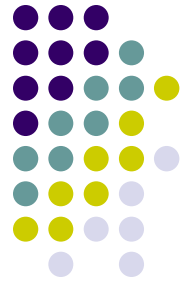
- Describe how the company identifies, analyzes, and manages risks related to Customs activities
- Describe what risks related to Customs activities has the company identified
- what control mechanisms has it implemented?
- Note: Auditors often ask for copies of self-testing and reports to management on testing





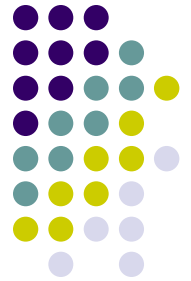
# Preparing For Your Audit

- **Control Procedures**
  - Provide a description and/or flowchart of the company's activities for acquisition of foreign merchandise
  - Describe procedures and responsible parties for
    - Customs valuation and basis of appraisement
      - Price paid
      - Assists and supplemental payments
      - Royalties or license fees for patents, trademarks, etc.
      - Price adjustments
      - Indirect payments for imported goods



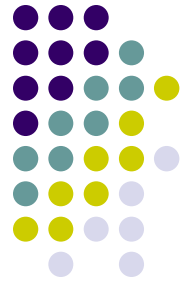
# Preparing For Your Audit

- Describe procedures and responsible parties for
  - Classification
  - Quantity
  - Reconciliation
  - Trade Agreements
  - Special Trade Programs, i.e., 9801/9802
  - Antidumping/Countervailing Duties
- Note: use ACE or ITRAC reports to review classifications and FTA/ SPI activity



# Preparing For Your Audit

- Information and Communication
  - How does Trade Compliance communicate needs or requirements with other company departments or 3<sup>rd</sup> parties?
  - How do other company departments or 3<sup>rd</sup> parties communicate information with Trade Compliance?
  - How does Import Department participate in major planning activities involving importation, i.e, selection of vendors, new products, sourcing decisions, and FTA eligibility claims
  - Note: Audit will ask for examples and interview



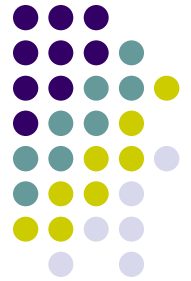
# Preparing For Your Audit

- Monitoring of Import Activities
  - What methods of oversight and monitoring does the Import Department management use to ensure compliance?
  - Provide information and/or reports on the review and evaluation of compliance
  - What level of management are these self-reviews reported to ?
  - What corrective actions have been taken?

# Prior Disclosures During a Focused Assessment

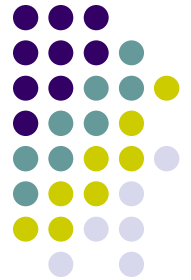


- **Focused Assessment Exhibit 4C**
  - Focused Assessment is not a Formal Investigation of an importer
  - A Prior Disclosure may be submitted at any time either before or during a FA up to identification and documentation of violation by Auditor
  - When in doubt submit prior disclosure and quantify later
- **Elements of a Prior Disclosure**
  - Identification of merchandise involved
  - Identification of the importations by entry or by period and Port
  - Description of errors or nature of violation(s)
  - Identification of information that should have been reported
  - Agreement to tender duties and fees when determined
- A Prior Disclosure may not apply to the subject matter of a QRA unless it is outside the stated scope of the Audit



# Quantifying The Loss of Revenue

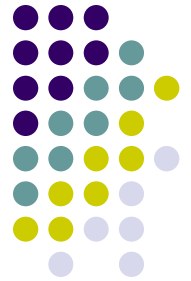
- Errors in a judgmental sample
  - Indicator of likelihood of additional errors
  - Quantification Process
- Entry by Entry Review or Sampling?
  - Entry Line Review
    - Time period of review or quantity of entries may make entry by entry review unrealistic or unfeasible
  - Statistical Sampling
    - “Most practical and expeditious way to reliably assess voluminous numbers of transactions”



# Quantifying The Loss of Revenue

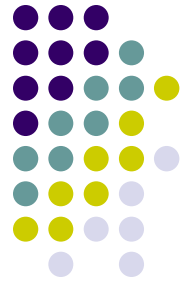
- **CBP Federal Register Notice 76 F.R. 65953, October 25,2011, Audit Procedures; Use of Sampling Methods and Offsetting of Overpayments and Over-Declarations**
- **§ 163.11 Audit procedures**
  - CBP auditors have the sole discretion to determine the time period and scope of the audit
  - CBP auditors, at their sole discretion, may use statistical sampling methods
  - Results of sampling may be projected to the universe of entries to determine loss of revenue or other compliance
  - Audited person's acceptance of the sampling plan and methodology [must be in writing](#) and signed by a management official with authority to bind the company.





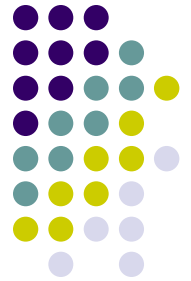
# Quantifying The Loss of Revenue

- Once the sampling plan is defined and accepted:
  - Audited person waives the ability to contest the validity of the sampling plan or its methodology at a later date
  - Challenges of the sampling is limited to challenging computational and clerical errors.
- Not a waiver of the audited person's right to later contest substantive issues, such as misclassification, undervaluation, etc.,
  - Request for CBP Headquarters advice
  - response to a prepenalty notice issued



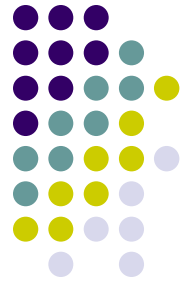
# Quantifying The Loss of Revenue

- Self-testing by Auditee
  - CBP may authorize a person being audited to conduct self-testing under CBP supervision
  - CBP will determine the time period and scope of the self-testing
  - Explain any sampling plan to be employed.
  - Execution and results of the self-testing and the sampling plan are subject to CBP approval
  - Audited person is subject to the waiver



# Quantifying The Loss of Revenue

- Use of Statistical Sampling in Prior Disclosure
  - Private party may use statistical sampling for purposes of prior disclosure to:
    - “disclose the circumstances of a violation” and
    - calculation of lost duties, taxes, and fees or lost revenue
  - Statistical sampling method must satisfy the criteria in 19 CFR 163.11(c)(3).
  - Must include an explanation of the sampling plan and methodology that meets with CBP’s approval.
  - Time period, scope, and any sampling plan, as well as the execution and results of the self-review, are subject to CBP review and approval.



# Quantifying The Loss of Revenue

- Use of Statistical Sampling in Prior Disclosure and Self Testing
  - Small errors in sample can result in large LOR when projected to Universe
  - Importance of stratification of universe or entry data
    - By year
    - By supplier
    - By HTS or product
  - Should you test each year or all years together?
  - Size of the sample?
    - 80 – 120 samples
    - Dollar unit vs. physical unit sampling
    - Sampling programs– EZ-Quant

# Preparing Your Internal Controls and Procedures

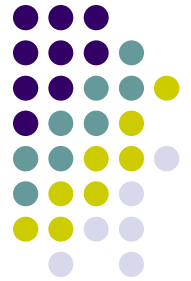


What Are “Internal Controls”?

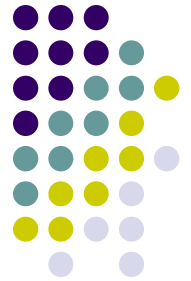
## Definition

- A process directed by management and other personnel
- Designed and implemented to provide reasonable assurance that any given import transaction fully complies with U.S. import requirements.

# Preparing Your Internal Controls and Procedures



- Where to start?
  - Conduct a “Risk Assessment”
    - Risk is “[what can go wrong?](#)” plus
    - What is the [consequence/ effect](#) if something goes wrong?
    - Risk is uncertainty that [matters](#)
  - Once you have identified a “risk” develop a “Control Procedure”



# Risk Reviews

- Risk Review vs. Self-testing
- Create your own Risk Review Plan
- How frequently should you conduct your Risk Review?
- Risk Areas
  - New suppliers
  - New products
  - Broker compliance/ reviews
  - Changing business environment



# Where to Begin Your Risk Review

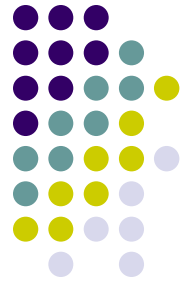
- Select a Subject (i.e., Class, Value, FTA, etc)
  - Where should my data come from?
    - ACE/ ITRAC/ Special Broker Reports
    - Company Business Reports
    - Purchase Order Reports
    - Payment Records Reports
    - Receiving Records Reports
  - Period of Review?
  - What is my sample size?
    - Statistical
    - Judgmental





# Create A Risk Matrix

Subject Area	Transactions	Cost of Noncompliance	Risk
Classification	All	High	High
Value	All	Medium	Medium
Origin	Few	Medium	Low
Special Trade	None	None	None
Recordkeeping	All	Medium	Medium



# Preparing Your Internal Controls

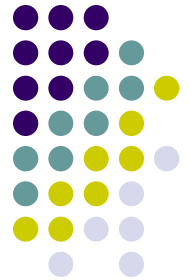
- Each control should include:
  - A statement of purpose (why control is necessary)
  - Define accountability and responsibility for reporting in internal control documents and job descriptions.
  - Description of procedure(s) to be followed
  - Explanation of verification process
  - Process for reporting & correcting errors, as appropriate using PEA or similar program



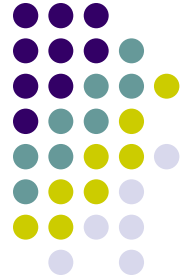
# Preparing Your Internal Controls

- Each process should explain . . .
  - Who does what?
  - What do they do?
  - When do they do it?
  - How do they document it occurred?
  - Who checks that they did it?

# Preparing your Internal Controls

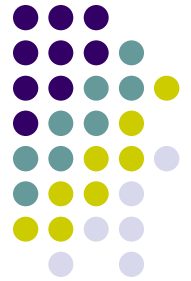


- Keep procedures simple!
- Don't reinvent the Wheel
- Say what you are going to do  
& Do what you say!
- Test and verify to make sure you  
have done what you said you were  
going to do!



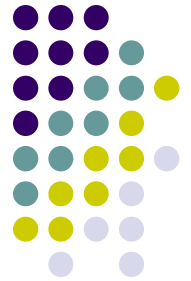
# Preparing Internal Controls

- What is your objective/goal?
- Study:
  - Customs FA Guidelines
  - Best Practices
  - Model Internal Controls Manual
  - Consult experts & peers for ideas



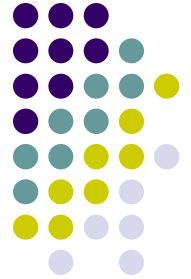
# Core Risk Areas

- Valuation
  - Payment records don't match invoices
  - Supplemental payments or year end adjustments (Standard cost issues) are unreported
  - Assists are unreported
  - Royalty payments to third parties are unreported
  - Interest payments
  - Commissions are unreported
  - CIF costs undocumented
  - Non-transaction value goods (samples, repairs and returns)



# Review of Internal Control

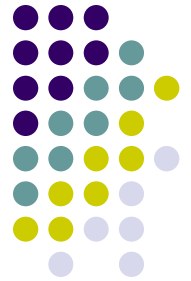
- Assessing the effectiveness of controls
  - What controls exist, if any?
  - Effectiveness of controls
    - What were results of previous review?
  - Assessing control design
    - Are controls reasonably likely to ensure compliance?
  - Assessing control implementation
    - Are the controls really used?
  - Proper Transaction Documentation



# Key Elements of Controls

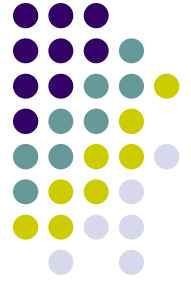
- What is the Control Environment?
  - Positive and supportive attitude by management and employees towards internal controls
  - Management support for development and support of controls
  - Message of integrity and ethical values
  - Commitment to competence of personnel
  - Organizational structure that contributes to effective controls





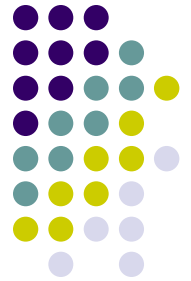
# Key Elements of Controls

- Information and Communication
  - Are individual roles and responsibilities for Customs Compliance communicated through policy and procedures?
  - Is appropriate information and procedures distributed to management and employees?
  - Are there effective communications internal and external between groups to achieve compliance?



# Key Elements of Controls

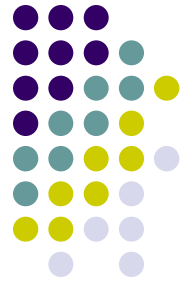
- Monitoring
  - Monitoring is evidenced by:
    - Procedures to monitor internal controls on an ongoing basis
    - Separate evaluations occur on a regular basis. Deficiencies found are investigated
    - Procedures are in place to ensure that findings are promptly evaluated and corrective action taken



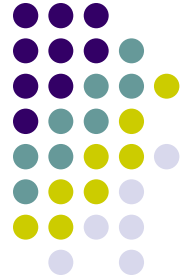
# Documentation of Controls

- Are internal control objectives formalized and in writing?
- Are transactions and events adequately documented?
- Does documentation show personnel involved monitoring, evaluation methods used, key factors considered and conclusions reached?
- Does documentation show corrective action taken?
- Are follow-ups to verify adequacy of corrective action taken?

# Preparing Internal Controls: Valuation

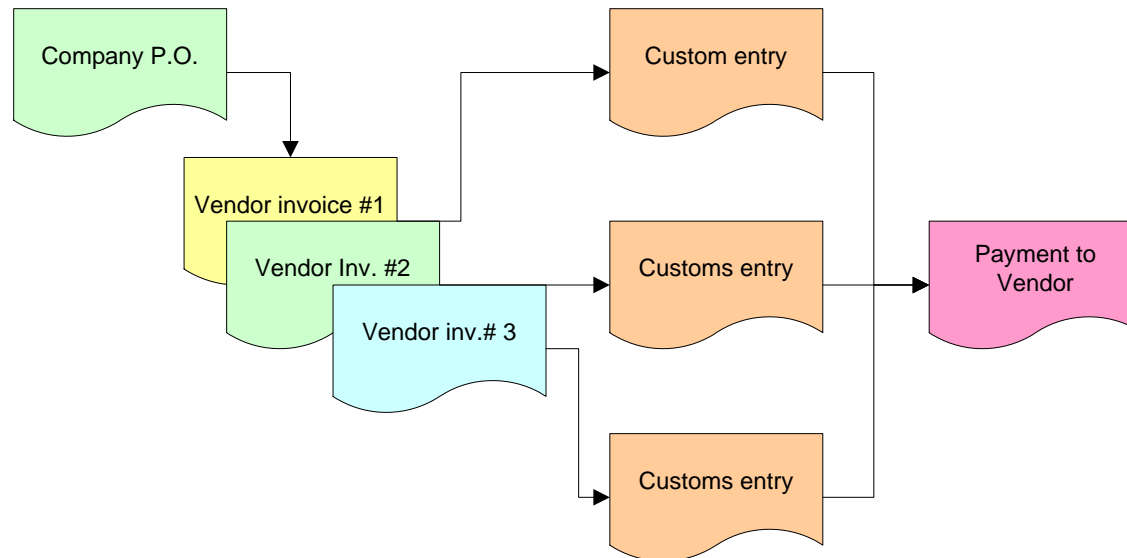


- Develop system to link payments to invoices and invoices to entries
  - Supplemental Payments
  - Additions to price--
    - Assists (parts, components, tools, etc.)
    - Royalty & License fees
    - Packing costs
    - Commissions



# Adequacy of Controls

- Company data systems link specific purchase orders, invoices, and payment records to Customs entry numbers.
- The purchase order matches the invoice, or differences are explained with written documentation.



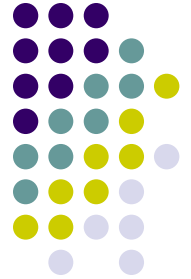
# Internal Controls



## Conduct periodic verifications

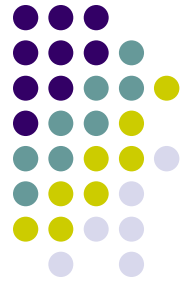
- Sample, test & analyze
- Determine cause of any error
- Report errors to management
- Correct errors with CBP
- Revise process to account for error

# Final Thoughts



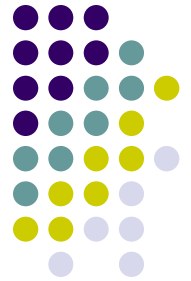
- Start small
- Don't try to do everything right a way
- Work with experts who can bring a fresh perspective and/ or broader experience

# The Importer Self-Assessment Program (“ISA”). How it can help you and are you ready for it?



- A “self-administered” compliance and audit program intended to improve trade compliance on the part of importers.
- ISA is voluntary and allows importers to
  - maximize control of their Customs compliance.
  - assume responsibilities for self assessment in exchange for less Customs oversight
  - ISA has no “audit” verification feature, but is built on knowledge, trust, and willingness to maintain an ongoing Customs/company relationship

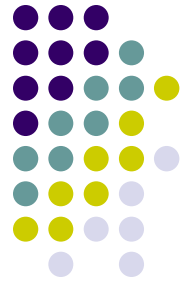




# What does ISA Require?

Company must:

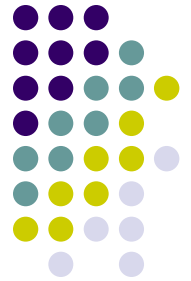
- Become a member of the Customs-Trade Partnership against Terrorism (C-TPAT);
- Complete an [ISA Memorandum of Understanding \(MOU\)](#) and an [ISA Questionnaire](#);
  - The MOU is an agreement between the Account and Customs that establishes their respective roles and responsibilities.
  - The ISA Questionnaire is a brief series of questions designed to ensure that the importer has implemented or plans to implement key internal controls that are important for Customs compliance.
  - Company presents its self-testing plan



# What Does Participation in ISA Require?

ISA participants are expected to:

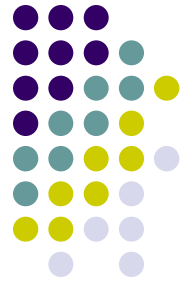
- Identify risk as it relates to CBP transactions
- Conduct self-testing based on identified risk factors
- Take action to mitigate risk and report non-compliance to CBP
- Continuously assess internal control to determine if they are sufficient, effective, and are working as intended



# Benefits of Participation in ISA

- ISA Benefits:
  - Consultation, guidance, and training by Customs, as requested
  - Opportunity to apply for coverage of multiple business units
  - Removal from audit pools established for comprehensive audits, including Focused Assessments, Drawbacks and Foreign Trade Zones
  - Entitled to receive entry summary trade data, including analysis support, from Customs free of charge
  - Participation in CBP Trusted Trader Programs such as CEEs

# Application Review Meeting

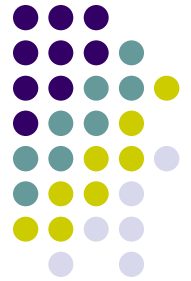


- Usually 2-Day Visit
- Presentation from CBP
  - ISA history and background information
  - Importer Trade Activity (I-TRAC) Data
- Presentation from Importer
  - Demonstrate the areas using the 5 Components of Effective Internal Controls
  - Review of automated systems
  - Walk-through sample transactions (purchase order to payment)
  - Explain ISA Self-Testing Plan

# Application Review Meeting

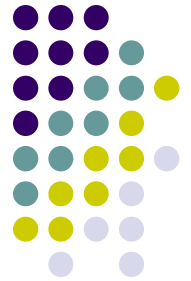


- Demonstrate ISA Readiness
  - Illustrate self-test plan based on risk
  - Obtain documentation on each of the walk-through entries (from purchase order – to proof of payment)
- If while preparing/reviewing the presentation or walk-through entries an error is identified:
  - Review the error to determine the cause.
  - Identify whether the error is systemic or a one-time occurrence.
    - If systemic, go back for a 5-year period to determine the extent of the error and loss of revenue due CBP.
  - Be prepared to discuss the error, in depth, at the ARM and provide either a verbal disclosure or completed prior disclosure, if applicable.



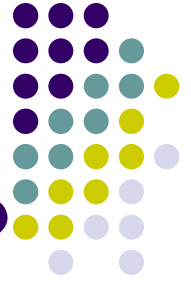
# Ongoing ISA Requirements

- Annual Notification Letter (ANL) Due 13 months from the date of the ISA acceptance and every 12 months thereafter.
- The ANL must include:
  - Summary of self-testing results and corrective actions taken
  - Changes to their internal controls based on test results and identified risk
  - Changes in the organization structure (e.g., customs compliance dept, ownership, acquisitions, Divestitures, etc.) and/or personnel
  - Changes in import processes
  - Special Trade Program's
  - Disclosures, Post entry amendments



# Audit & On-site Reviews

- ISA participants remain subject to on-site review of a specific issue related to an identified trade compliance risk.
- ISA participant is required to advise Regulatory Audit of a major changes to the company corporate structure through reorganization, merger, consolidation, etc. before changes are implemented.



# What Should We Do To Join?

- Are you really ready?
  - Does your company maintain an internal Customs group dedicated to maintaining and updating regulations, laws, and procedures that will affect your Customs operations?
  - Does your company maintain an audit trail from accounting records and payments to Customs entry records?
  - Company has develop its self-testing plan