



**USAID**  
FROM THE AMERICAN PEOPLE



*Business Plus Initiative*  
USAID funded project implemented by Chemonics International

# Maturity in the implementation of risk management

## Customs General Administration

October 2012  
Ulaanbaatar, Mongolia



Project: Mongolia Business Plus Initiative Project (BPI)  
Report Title: ***Maturity in the Implementation of Risk Management - Customs  
General Administration***  
Main Author: Jorge Montoya  
Contract No. 438-C-11-00001  
Submitted by: BPI Project/Chemonics International Inc., Express Tower, 12<sup>th</sup> Floor,  
Chingeltei District, Ulaanbaatar, Mongolia  
Telephone and fax: (976-11) 32 13 75 Fax: (976-11) 32 78 25  
Contact: Efrain Laureano, Chief of Party  
E-mail address: [elaureano@bpi-chemonics.biz](mailto:elaureano@bpi-chemonics.biz)



## **ABBREVIATIONS AND ACRONYMS**

---

BPI	Business Plus Initiative
CGA	Customs General Administration of Mongolia
HS	Harmonized Schedule
IT	Information Technology
PCA	Post Clearance Audit
RM	Risk Management
USAID	United States Agency for International Development
VIN	Vehicle Identification Number



## TABLE OF CONTENT

---

ABBREVIATIONS AND ACRONYMS .....	i
TABLE OF CONTENT .....	i
GLOSSARY .....	i
SECTION I: BACKGROUND .....	1
SECTION II: POST CLEARANCE AUDIT (PCA) .....	3
SECTION III: RESPONSIBILITIES OF THE LOCAL RM PERSONNEL.....	5
SECTION IV: INVOLVEMENT OF THE TRADE COMMUNITY IN THE RM PROCESS .	7
SECTION V: REPORTS .....	9
SECTION VI: AMENDMENTS .....	23
SECTION VII: OFFENSE.....	25
SECTION VIII: PERMITS.....	27
SECTION IX: PERMITS .....	31
SECTION X: CONCLUSION.....	35



## **GLOSSARY**

---

Criteria	Data elements available in customs declarations such as importer, exporter, country of origin, broker, etc.
Customs System	Computer system used typically for customs to control its operation such as filing, payment of duties and control of clearance
Indicator	Specific criteria which, when taken together, serves as a practical tool to select and target shipments



## **SECTION I: BACKGROUND**

---

Mongolian Customs has successfully implemented RM. Today, in Mongolia, all customs declarations get assigned a stamp based on RM. However, the percentage of shipments inspected is still very high. Therefore, tasks need to be implemented that will allow the CGA to significantly reduce the number of shipments inspected.

As indicated on previous reports, the implementation of RM is a very important milestone, but in reality it is the beginning of a long road towards reaching maturity in the usage of RM. This maturity is reached when the Customs Organization and its users are well advanced in a continuous improvement cycle that will cause processes to gradually be streamlined, risk scenarios to be eliminated by incrementing automation and users will tend to make less mistakes because they are better supervised and trained. As progress is made on these tasks, the organization will gradually release not risk shipments faster and concentrate on what truly represents risk.

Now that the CGA has been using RM for about one year, the tasks required to reach maturity in the implementation of RM are more evident. Currently, indicators have been loaded which force all customs declarations to be assigned a red stamp unless the shipment matches a certified indicator. This is occurring today in all but three ports. This means that nationwide, only shipments that match certified indicators are the ones that have a probability of getting assigned an orange or a green stamp. It also means that in only three ports, all shipments have a probability of getting assigned a green or an orange stamp. In practice, the CGA is not comfortable in removing stated risk indicators mostly because the tasks required to reach maturity in the implementation of RM have not been performed.



## **SECTION II: POST CLEARANCE AUDIT (PCA)**

---

PCA is a very valuable tool in the implementation of RM. It allows the Customs Organization to conduct document reviews on customs declarations after the goods have cleared.

When defining profiles, if it is decided that a certain type of shipment should be stopped for inspection, the Customs Organization needs to make sure that the reason for stopping the shipment is reasonable and it needs to evaluate if the same result can be obtained via PCA without stopping the shipment. If possible, it is better to use PCA since it will help trade flow and it will allow the CGA more time to conduct a thorough document review.

PCA can be performed on any customs declaration regardless of the stamp assigned and one of the most important benefits of PCA is that if there is a finding, then similar customs declarations can be verified to determine if the same error was repeated. Therefore, when using PCA one finding can lead to detecting other shipments with similar findings but when a shipment is inspected at a port, any findings are limited to that one shipment.

PCA is highly recommended in the following cases:

1. Importer well established. If the importer is well established then the document reviews can be performed by using PCA since the importer will be within reach of the authorities.
2. Searching undervaluation or origin offenses. To detect these type of findings it is necessary to access other data such as accounting, bank transactions, results from vender research, etc. Therefore, the detection of these type of findings is more efficient via PCA.

PCA is not recommended in the following cases:

1. Importer not well established. There is risk that the authorities will not be able to find the importer in case of a finding.
2. The finding can only be detected by inspecting the goods. Some type of verifications can only be done by looking at the goods and not by using PCA. For example, does the shipment have non declared goods, are the goods properly labeled, etc.,

There are two types of PCA. One type of PCA is based mainly on the customs declaration and its attachments. This type of PCA verifies that the customs declaration was filed correctly in relation to attached documents. For example, was the correct HS code used, was the correct duty paid, are the descriptions of the goods accurate, if the goods required a permit, was the permit attached, was the permit valid at the time of import, did it exceed allowed quotas, etc.

A second form of PCA is performed by mainly comparing what was declared on the customs declaration with other sources of information. Some of the typical other sources used are accounting information, bank transactions, vender verifications, confirmation of invoices by vendor, verification of license agreements, customs declarations filed in other countries for the same shipment, etc. This type of PCA is very useful for detecting undervaluation and origin problems.

Currently at the CGA, the PCA which uses other sources of information is being performed. However, the PCA which based on the customs declaration and its attachments is missing. Therefore, it is recommended that this type of PCA is implemented at the CGA so that RM has a complete set of verification tools available.

At the CGA, reviewing customs declarations and its attachments centrally is a challenge because the customs declarations and their attachments are kept at the ports. Centrally, the PCA department can access all customs declarations on line but not the attachments. Therefore, it is recommended that the local RM personnel at the ports are assigned the responsibility of searching and scanning or sending the full customs declarations with attachments to the central PCA department upon request.

For every profile which is approved by the CGA, there is a section dedicated to PCA to indicate what tasks should be performed by the PCA department on a shipment that falls within the corresponding profile. For these cases, it is the responsibility of the PCA department to locate the shipment's customs declaration along with its attachments and perform the stated tasks. This is why it is very important that the PCA department is involved in the approval process of the profiles because as a result of an approval of a profile, the PCA department could be acquiring commitments. Also, other departments in the organization such as RM, Operations, etc. can provide input to the PCA department as to types of shipments which could have problems. However, in addition, the PCA department on its own can conduct investigations using the customs declarations on line to target shipments. Therefore, the PCA department selects which shipments to review based on various sources.

The PCA department should keep a detailed record of findings detected during PCA. It is important to keep a log of the customs declaration ID, the type of finding and the stamp that was assigned to the customs declaration. Every finding needs to be analyzed to determine if it is considered reasonable that the finding could have been detected during a document review or an inspection at the port. If this is confirmed and the stamp assigned to the customs declaration was orange or red, then the reason why the problem was not detected at the port needs to be determined and the appropriate corrective measure needs to be implemented.

All findings detected during PCA should be shared with other departments of the CGA specially the RM and the IT departments. RM will use the information to fine tune profiles and the IT department will use the information to evaluate if automation can be added which will eliminate the risk.

### **SECTION III: RESPONSIBILITIES OF THE LOCAL RM PERSONNEL**

---

At the ports, there are personnel from the RM department. It is considered important to clarify their responsibilities and it is recommended that they include the following:

1. Responsible for locating in the port, a customs declaration and its attachments upon request from the PCA department. The requested customs declaration and its attachment should be sent to the central PCA department and a log should be kept by the local RM personnel at the port indicating when the request was received, when it was answered and the customs declaration number.
2. Responsible for reviewing feedback provided by the customs agents to the customs brokers to make sure that it is clear and complete. During a document review, if a mistake is detected, the customs agent will register in the Customs System the mistake detected and send this feedback to the customs broker. If the personnel from the local RM at the port cannot understand what is the mistake detected in the customs declaration by simply reading the feedback registered on the Customs System, then the customs agent did not perform the assigned responsibility correctly and appropriate measures should be implemented. The local RM personnel should have the responsibility of applying these corrective measures and a log should be kept by the local RM personnel to identify Customs Agents which do not perform their work adequately. The feedback sent to the brokers is vital to the RM in the central office to identify problem areas.
3. Responsible for reviewing description of offenses and other findings during physical inspections. All offenses and findings registered should be complete and clear. The actions performed should be similar to the ones stated in the previous numeral, however in addition, the local RM personnel need to analyze if a finding detected during a physical inspection should have been detected during the document review process and they should apply corrective measures accordingly.
4. Monitor established RM procedures. A report should be established obligating the local RM personnel to inform the RM department at the central office the following:
  - a. How thorough are the physical inspections conducted?
  - b. What are the comments or complaints of the customs agents regarding RM?
  - c. Are tasks being performed according to the stamp assigned?
  - d. Are procedures being followed at the ports according to set policy?
5. Constantly interview customs agents, brokers, transport companies, etc. and try to identify illicit practices. This information is very important to the RM in the central office so that profiles can be fine-tuned.

The local RM personnel are a very big asset that can help considerably the implementation of RM. The customs agents will tend to do a better job if they feel constantly supervised. Also, the local RM personnel should inform the level of acceptance of the RM implementation and identify requirements that can make the adoption process simpler.



## **SECTION IV: INVOLVEMENT OF THE TRADE COMMUNITY IN THE RM PROCESS**

---

Profiles and indicators are confidential and should not be shared with the trade community. However, dialog tables need to be established such that the CGA can share types of findings and common mistakes in customs declarations with representatives of the trade community. Typically these meetings are organized by groups for example brokers, transport companies, importers and exporters. The importers and exporters are also divided by type of goods such as construction, chemicals, automotive, etc. It is recommended that the groups are kept separate so that discussions can be held in detail. These type of meetings are highly recommended and encouraged since they make the trade community feel that they are part of the RM process without the CGA disclosing any confidential information. In return, the CGA will receive valuable input from the experts in the different type of shipments since the trade community is well aware of their competition and illicit practices. In other economies, representatives of the trade community, who are specialists in certain goods, actually help the PCA agents to identify problems.



## SECTION V: REPORTS

---

Reports need to be implemented in the Customs System which provide statistical data that is vital for decision making.

1. Number of green, orange and red stamps assigned.

Period (only one option allowed)

- |                            |  |
|----------------------------|--|
| Start Date<br>(DD/MM/YYYY) |  |
|----------------------------|--|
- |  |  |
|--|--|
|  |  |
|--|--|

Report Content (only one option allowed)

- 
- 
- 
- 
- 

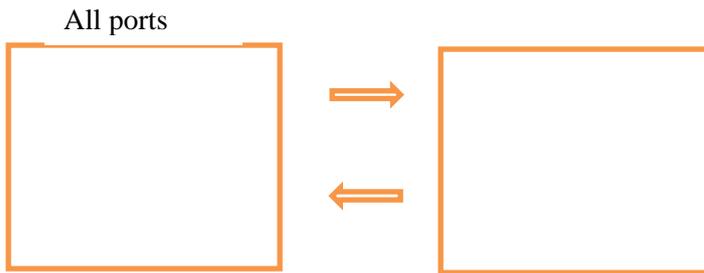
	⇒	
	⇐	

- 

	⇒	
	⇐	

Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



It is recommended that the information is placed in an Excel spreadsheet. The column information depends on the ports selected and the row information will contain dates based on the period selected. If the following selections are made:

Period: 01/09/2012 – 03/09/2012

Report content: All Declarations

Columns: UB port and UB Airport

Then the column and row header information would be the following:

01/09/2012 – 03/09/2012 All Declarations

Date	UB Port			UB Airport		
	G	O	R	G	O	R
01/09/2012						
02/09/2012						
03/09/2012						
TOTAL						

Summary

Green	
Orange	
Red	
Total	

If based on the previous information the following selections are made:

Period: 05/2012 – 08/2012

Report Content: **HS 02**

Columns: UB port and UB Airport

Then the column and row header information would be the following:

05/2012 – 08/2012 **HS 02**

Date	UB Port			UB Airport		
	G	O	R	G	O	R
05/2012						
06/2012						
07/2012						
08/2012						
TOTAL						

Summary

Green	
Orange	
Red	
Total	

The columns should show the number of green (G), orange (O) and red (R) stamps assigned for each one of the ports selected. It should also display summary statistics per port and per period selected (considering all ports selected).

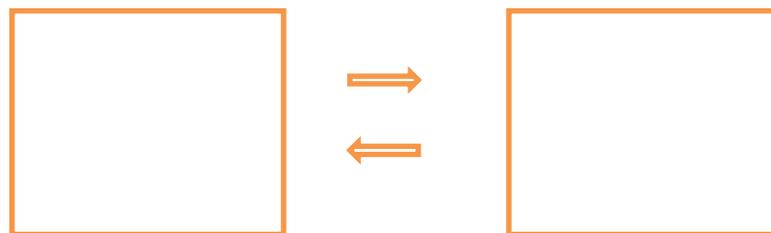
- Number of customs declarations that were changed from orange to red.

Period (only one option allowed)

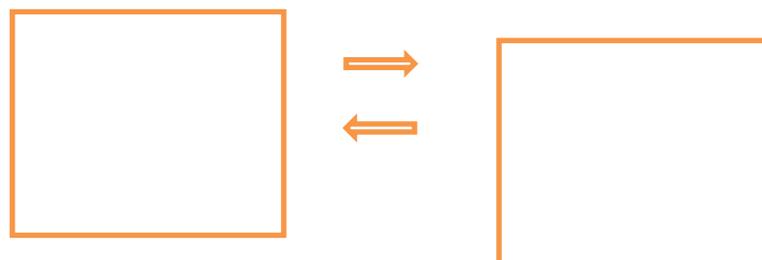
- 
- 

Report Content (only one option allowed)

- 
- 
- 
- 
- 

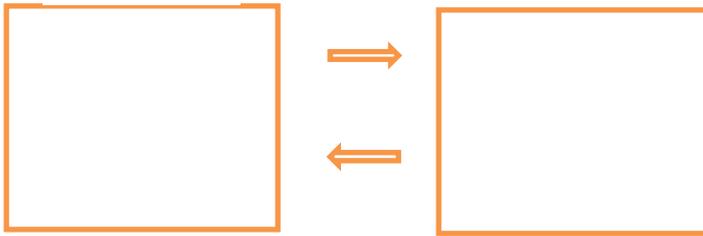


- 



Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



If based on the previous information the following selections are made:

Period: 05/2012 – 08/2012

Report Content: Procedure Code 401

Columns: UB port and UB Airport

Then the column and row header information would be the following:

05/2012 – 08/2012 Procedure code 401

Date	UB Port	UB Airport
	O ->R	O -> R
05/2012		
06/2012		
07/2012		
08/2012		
TOTAL		

The columns should show the number of orange (O) stamps which were changed to red (R).

3. Number of customs declarations with findings.

Findings are generally classified into minor and mayor findings and they can be detected during a document inspection (orange) or a physical inspection (red). Mayor findings are also called offenses. However, based on current procedures, a light document review is performed on green stamps to determine if there are any mistakes in the customs declaration that can skew statistics. Therefore, it's possible that green stamps also have findings.

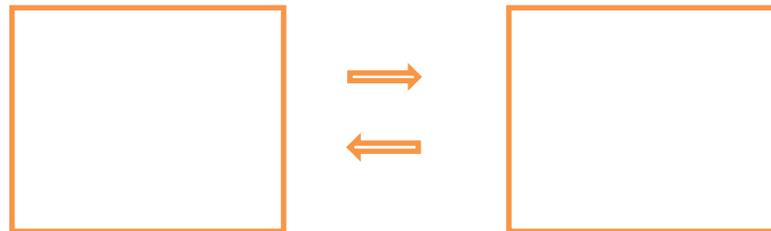
Period (only one option allowed)

- 
- 

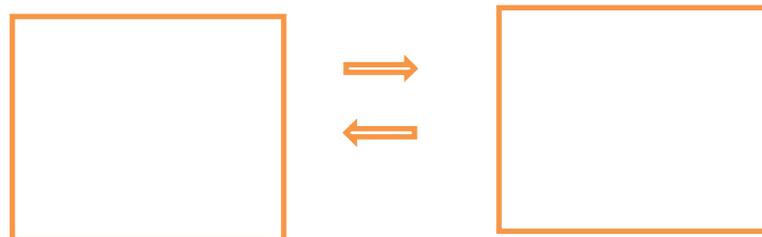
Report Content (only one option allowed)

- 
-

- 
- 
- 

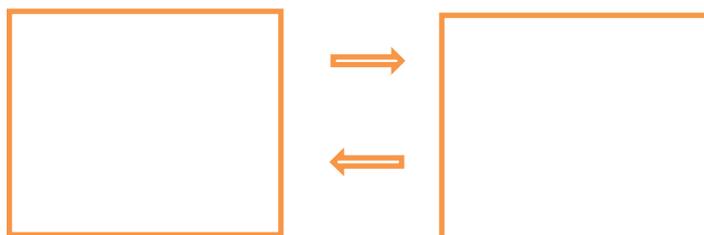


- 



Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



If based on the previous information the following selections are made:

Period: 05/2012 – 08/2012

Report Content: **Individuals**

Columns: UB port and UB Airport

Then the column and row header information would be the following:

05/2012 – 08/2012 **Individuals**

Date	UB Port					UB Airport				
	Green	Orange		Red		Green	Orange		Red	
	MF	MF	O	MF	O	MF	MF	O	MF	O
05/2012										
06/2012										
07/2012										
08/2012										
TOTAL										

The columns should show the number of minor findings (MF) and offenses(O) for each one of the stamps.

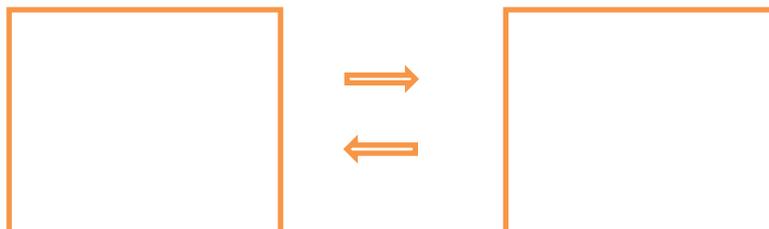
4. Detail of finding and feedback given to the brokers.

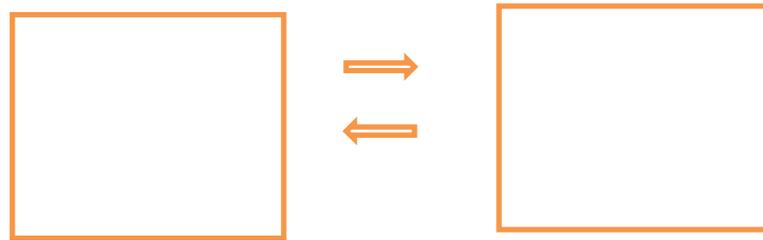
This report can be generated only for a particular day and for one port at a time.

Date

Report Content (only one option allowed)

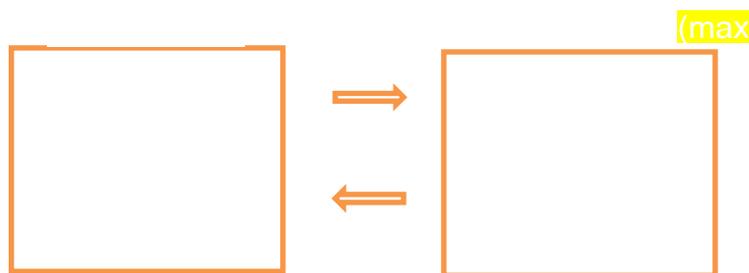
- 
- 
- 
- 
- 





Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



If based on the previous information the following selections are made:

Date: 26/03/2012

Report Content: **New Vehicles**

Columns: UB port

Then the column and row header information would be the following:

26/03/2012 **New Vehicles**

Customs declaration ID	UB Port		
	Stamp	Finding	Feedback
ID 1			
ID 1			
ID 5			
...			
ID n			

For each customs declaration processed, on the date and port selected, the report should state the stamp assigned, the finding registered and the feedback provided to the broker. The report should include only customs declarations with findings (minor or mayor). Therefore, the customs declaration ID will not necessarily be continuous. Also, a single customs declaration could have several reviews and therefore the same customs declaration ID will appear in more than one row. The rows should be ordered by customs declaration ID.

5. Assignment of stamps based on indicators.

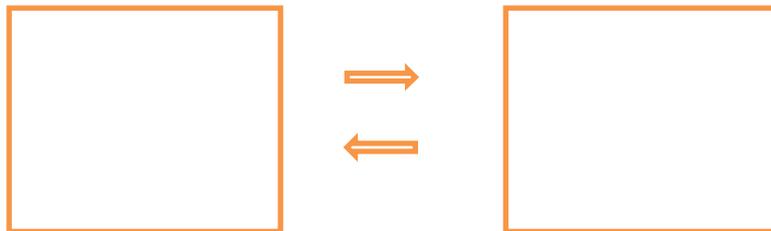
This report should state the total number of customs declarations during the period selected and show how many of these declarations were assigned a stamp based on mandatory, certified, risk and random indicators.

Period (only one option allowed)

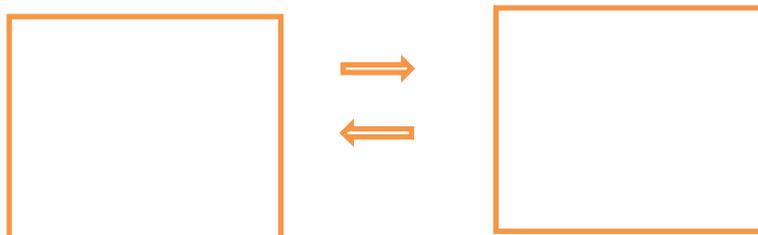
- 
- 

Report Content (only one option allowed)

- 
- 
- 
- 
- 

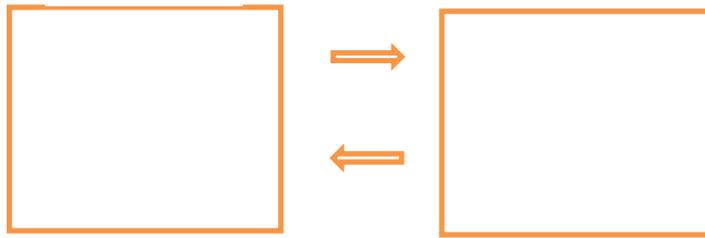


- 



Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



If based on the previous information the following selections are made:

Period: 05/2012 – 08/2012

Report Content: Used Vehicles

Columns: UB port

Then the column and row header information would be the following:

05/2012 – 08/2012 **Used Vehicles**

Date	Total CD	UB port											
		Mandatory			Certified			Risk			Random		
		G	O	R	G	O	R	G	O	R	G	O	R
05/2012													
06/2012													
07/2012													
08/2012													
TOTAL													

The columns should show the number of green (G), orange (O) and red (R) stamps. It should also indicate the total number of customs declaration (Total CD). Obviously the mandatory indicator should only contain information under the red (R) column but it is important to leave the other columns and confirm that the system is working properly.

#### 6. Processing time.

This report should indicate the time it takes to clear a customs declaration as well as the time it takes to conduct a document review and a physical inspection. The time to clear a customs declaration should be measured from the time the broker files the customs declaration until the time the goods are released.

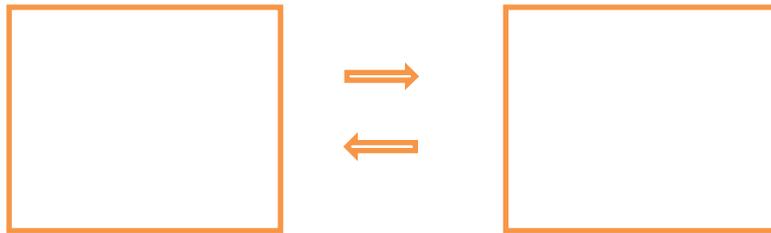
This report can be generated only for a particular day and for one port at a time.

Date

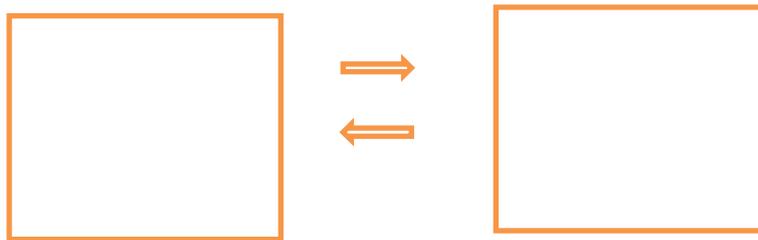
Report Content (only one option allowed)



- 
- 
- 

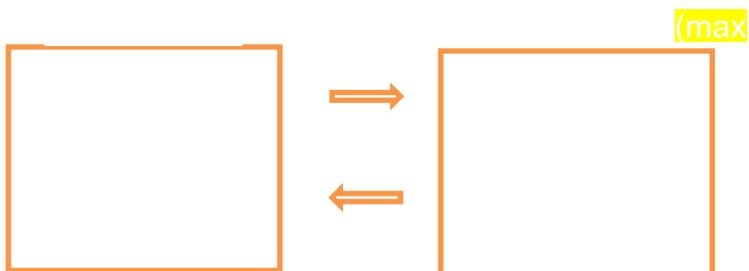


- 



Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



If based on the previous information the following selections are made:

Date: 26/03/2012

Report Content: **All Declarations**

Columns: UB port

Then the column and row header information would be the following:

26/03/2012 **All Declarations**

Customs declaration ID	UB Port			
	Stamp assigned	Clearance Time (min)	Document Review Time (min)	Physical Inspection Time (min)
ID 1				
ID 2				
ID 3				
...				
ID n				

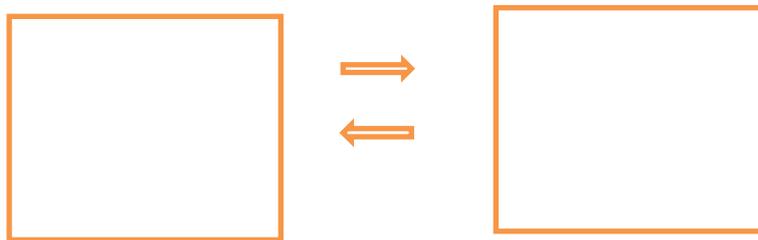
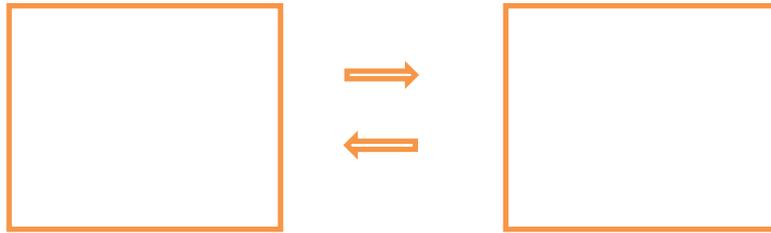
For each customs declaration processed, on the date and port selected, the report should state the stamp assigned, the time to clear the goods (Clearance Time), the time spend on document review (Document Review Time) and the time spent during the physical inspection (Physical Inspection Time). All the times stated should be in minutes.

#### 7. Number of declarations amended after payment

Declarations which are amended after payment have to follow a special procedure to make sure that previous payment is taken into consideration. Also, it's possible for these amendments to occur years after the customs declaration was cleared for example in cases where PCA detected a finding.

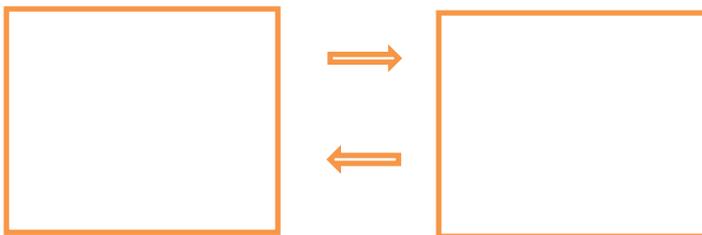
Period (only one option allowed)

Report Content (only one option allowed)



Note. The user should be able to select HS based on 2, 4, 6 or 8 digits.

Columns



If based on the previous information the following selections are made:

Period: 05/2012 – 08/2012

Report Content: **All Declarations**

Columns: All Ports

Then the column and row header information would be the following:

05/2012 – 08/2012 **All Declarations**

Date	Port 1	Port 2	...	Port n
05/2012				
06/2012				
07/2012				
08/2012				
TOTAL				

For each port, the report should state the number of customs declarations amended considering that the original customs declaration had already been paid. It's possible that today an amendment was done of a customs declaration cleared 5 years ago. In the report, the amendment should be reported based on the date that the amendment was filed.



## SECTION VI: AMENDMENTS

---

After a customs declaration has been paid and a mistake is detected, the amendment of the customs declaration needs to be processed separately to make sure that the new customs declaration (amended customs declaration) does not violate permits and that the original payment has been taken into account.

The Customs System should be modified such that in the screen used by the broker to file a customs declaration, a new field should be added titled "amendment". This field cannot be changed by the broker and it is only informative. The value of this field should be numeric (integer) and its initial value should be zero. When the broker files the customs declaration for the first time, the value of the amendment field should remain zero. All modifications done on the customs declaration by the broker before the customs declaration is paid will continue to leave the amendment field set to zero. Once the customs declaration is paid, then the amendment field should be incremented by one. Therefore, if a modification is done by the broker to the customs declaration after it has been paid, then the value of its amendment field will not be zero. The first amendment will have its amendment field set to one. After the amended customs declaration is paid, its amendment field should be set to two. Therefore, if the customs declaration suffers another amendment then the value of its amendment field will be three. If the amended customs declaration does not require payment, for example if the change performed was on the description of the goods, then as soon as the amended customs declaration is filed it should be considered as paid and the value of its amended field should be incremented by one.

If the customs declaration has not cleared customs and the shipment has a finding, the customs agent will send feedback to the customs broker so that the appropriate correction is made. If the customs declaration has already been paid then the corrected customs declaration will be considered an amendment and the value of its amendment field will be greater than zero. The amended customs declaration should be passed through RM to determine if it should keep the same stamp or it requires a stamp change. The random number used to generate the new stamp should be the same random number used with the original customs declaration. For example if the original customs declaration received an orange stamp based on RM and the amended customs declaration simply changed a description which is not relevant to RM, then the amended customs declaration should also be assigned an orange stamp. This is achieved if both customs declarations are placed through RM using the same random number. If the amended customs declaration contains a change which is sensitive to RM, then once it is passed through RM even with the same random number, the system could assign a different stamp. Special code needs to be implemented such that if the original stamp was orange then the amended customs declaration cannot get assigned a green stamp. If the original stamp assigned was red, then the amended customs declaration cannot get assigned a green stamp or an orange stamp.

It makes sense to pass an amended customs declaration through RM only if the original customs declaration has not been cleared. If it has been cleared it means that the goods are not accessible to the customs agents and all work done is based only on documents. This implies that the only difference of how an amended customs declaration is processed when the original customs declaration has not been cleared versus when the original customs declaration has been cleared, is in the verification of RM indicators and the possible reassignment of the stamp. All other processes remain the same.

The component used by the brokers to file a customs declaration needs to be modified when working with on an amendment of a customs declaration ( the value of the amendment field not equal to zero). The current amount paid should be displayed ghosted meaning that these fields cannot be changed by the broker. As the customs declaration is changed, it could be that the modification made requires an additional payment of duties. These additional duty payments should be displayed on a separate section and when the amended customs declaration is paid, then only the amount stated in this new section should be paid. If the customs declaration is amended again, then the sum of both payments made previously should be displayed ghosted. If as a result of an amendment the amount due is a negative value than no payment should be required and the CGA should define the corresponding procedure for overpayments.

If PCA detects a finding it will be after the customs declaration has cleared. Typically, PCA has five years to review customs declarations which means that there is a possibility that by the time that PCA detects the problem, the original broker does not exist or the importer/exporter no longer does business with the original broker. Therefore, PCA more than likely will notify the importer/ exporter of the finding and the importer/exporter could choose a new broker to make the amendment. This means that a process needs to be implemented in the Customs System so that PCA can name a new broker for a customs declaration upon request from the importer/exporter. This will allow the new broker to view and amend the original customs declaration.

Amending customs declarations may seem a problem to the statistical department specially because amendments in reality change the original customs declaration but when the original customs declaration was cleared it became part of the official trade statistics. Today when an amendment is required, the CGA asks the importer/exporter to file a new customs declaration. This current procedure causes a number of inconsistencies in the trade statistics especially if additional duty is due. In these cases the CGA requests that a new customs declaration is filed that states sufficient quantity of the items so that the pending duty is paid. However, this is not correct since the additional goods are not actually getting imported based on the new customs declaration. In addition, if the goods in the original customs declaration are subject to a permit which has quantity limits, then the amended customs declaration based on current procedures could violate these permits.

What is done in other economies, is that the monthly or yearly trade statistics have two sections. The declarations processed and the declarations amended. The amended declaration section will state information of the original declaration and the amended declaration so that the user can make correct interpretations and analysis of the data.

## **SECTION VII: OFFENSE**

---

Currently, when an offense is detected during an inspection, the offense is registered in a separate system called the Offense System. The Offense System is not limited to customs declarations and other types offenses can be registered on the Offense System such as the ones detected to passengers.

In the Offense System all data has to be manually entered which is prone to errors. When a customs declaration has an offense, then on the Offense System the customs declaration ID has to be manually entered and if an error is made, the Offense System does not alert the problem in which case, valuable offense data will not be tracked back properly to its customs declaration. Also, there is nothing implemented to automatically guarantee that a customs declaration with an offense will not continue with its clearance process unless the offense has been properly registered on the Offense System.

To streamline the clearance process, it is recommended that the Customs System is modified such that when an orange stamp or a red stamp is assigned to a customs declaration, the customs agent is forced to indicate if there was a finding or not as a result of the inspection performed. The supervisor customs agent, who authorizes final clearance, should not be able to approve a customs declaration unless the customs agent has selected findings or no findings. In addition, if findings were detected and they must be registered in the Offense System, then the Customs System should have an option to call the Offense System from within the customs declaration and populate automatically the declaration ID information prohibiting the customs agent from altering these data. Until the customs agent has finished registering information in the Offense System should the supervisor be allowed to continue process the customs declaration.

With the proposed modifications, every customs declaration will have a clear indication of whether it had findings or not and the process will guarantee that an entry has been made in the Offense System before the customs declarations is allowed to continue.



## **SECTION VIII: PERMITS**

---

The goods stated in a customs declaration sometimes require a permit which shows that the importer/exporter is authorized to import/export the goods. In many cases, the permits state quantity limits which can be cleared under one or more customs declarations.

Today all customs declarations that state goods that require a permit, are assigned a red stamp to verify that in fact the permit is attached and that quotas have not been exceeded. The quota controls are conducted via manual logs. Also, other permit controls implemented cause additional inefficiencies in the clearance process. For example, a multiple entry permit can only be processed in the same port forcing all shipments covered under one permit to be cleared only in one port. Also, in one customs declaration there cannot be listed more than one item subject to a permit which means that one customs declaration cannot have more than one permit attached.

The permits are issued by other government agencies and present an additional problem because they do not specify an HS code placing extra burden on the customs agents to determine if the goods on the permit are the same as the ones stated on the customs declaration.

To help reduce the risk of shipments related to permits, it is necessary to automate the process. Under this initial phase, the permits should continue to be issued on paper by the other government agencies but before they are used they need to be presented to the CGA so that the goods indicated on the permit can be assigned an HS code and the permits need to be uploaded onto the Customs System. Once this is done, the permits can be used in a customs declaration and the Customs System will automatically verify the permit and quotas.

In preliminary discussions it was considered appropriate that the permits are uploaded at the HS department at the central office of the CGA, however, the technical solution should consider the possibility of other locations providing the service.

A special section needs to be created in the Customs System called Upload Permit, with a separate security access code. The system administrator should be able to make visible the Upload Permit option upon request. This means that perhaps initially the Upload Permit option in the Customs System should only be visible to the HS department at the central office of the CGA, but in the future, it may be decided that the Upload Permit option should be visible in other areas of the organization so that the service related to uploading permits can be done in parallel in different points.

The Upload Permit option should have a special section where the HS codes subject to a permit control can be placed in an HS Permit Control Catalog. Each element on this catalog should have start and end dates to control when the legal frame work is changed and permits are no longer required for certain HS codes. The start date is mandatory but the end date is optional. If no end date is specified then it means that it is currently valid. If a customs declaration is filed but it contains an HS code included in the HS Permit Control Catalog and a permit is not declared, then the Customs System should mark an error. Once an HS code has been included in the HS Permit Control Catalog it can never be eliminated but it could have an end date. An HS code can also appear several times in the HS Permit Control Catalog but it cannot have over lapping start and end dates.

For each permit, the information that should be uploaded in the Customs System is the following:

Permit ID: This is the ID stated on the permit.

Date of Permit: Date on which the permit was issued as stated on the permit.

Date of Expiration: Date on which the permit expires as stated on the permit.

ID of importer/exporter: Unique ID of the importer/exporter as stated on the permit.

Item

Description: The description of the goods as stated on the permit.

HS code: HS code assigned to the goods by the CGA which can only be HS codes included in the HS Permit Control Catalog.

Quantity: Quantity allowed under the permit as stated on the permit but based on the unit of measure associated to the HS code assigned.

Once a permit has been uploaded, the system should automatically assign to the permit a “Unique CGA Permit ID” which should be declared on the customs declaration.

It is possible that the goods stated on the permit are a subset of what can be declared on an HS code. For example, a permit could be issued for blue pens but the HS code for pens is applicable to any color pens. To resolve this problem, under the Upload Permit option, there should also be an HS Clarifier option.

The HS Clarifier option will allow subsets within HS codes to be identified and controlled. Initially all 8 digit HS codes contained in the HS Permit Control Catalog should have an HS Clarifier field set to zero by default. The zero value means “All Other”. If the HS code has a subset that needs to be identified and controlled, then the HS Clarifier option will make the appropriate divisions. Therefore, if the goods indicated on the permit fall in an HS code that can also identify other goods, then the HS Clarifier option should be used. When the HS Clarifier option is selected, the Customs System will assign the next available HS Clarifier value for the HS and the appropriate description for the subset should be stated. In the pen example, the next available HS Clarifier is 001 and its description should be “blue pens”.

The HS Clarifiers cannot be reused meaning that if 001 for HS X means “blue pens” then 001 for HS X can never mean something different. This will allow old customs declarations to be accessed correctly. However, each HS Clarifier should have a start and an end date. Actually an HS Clarifier could even have multiple non overlapping start and end dates.

Continuing with the pen example, when uploading the permit for blue pens, the HS code selected will be the one that belongs to all pens, but since the HS code belonging to pens has an HS Clarifier higher than zero, the Customs System will force the permit uploader to choose between 0 which means “All Other” or 001 which means “blue pens”. Therefore, the uploaded permit will specify the appropriate HS Clarifier to make sure it is only used for the corresponding subset.

The importer/exporter should be given a printout of the uploaded permit indicating the specifics as to what was uploaded in the Customs System and it should state all the information that was uploaded including the Unique CGA Permit ID assigned, the HS code assigned and the HS Clarifier (if any).

The importer/exporter will provide the permit to the broker along with the information of how it was uploaded into the Customs System. The component which is used by the brokers to upload a customs declaration should be modified so that at an item level, the broker can declare the Unique CGA Permit ID. This means, that when the broker, for example, types the HS code for pens, the Customs System will automatically detect that the HS code is subject to

a permit control because it is included in the HS Permit Control Catalog. Also the Customs System will detect that it has an HS Clarifier and it will force the broker to choose between 0 (“All Other”) or 001 (“blue pens”). If the broker chooses 001, then the Customs System should ask for the Unique CGA Permit ID. With this information the Customs System will verify that the importer/exporter stated in the customs declaration is the same as the importer/exporter stated in the permit and it will verify that the permit has not expired. If this is correct, then the Customs System will deduct the quantity from the permit centrally. If the end result is negative then the Customs System should mark an error and roll back. If the broker chooses 0 (“All Other”) the Customs System will not request a Unique CGA Permit ID which means that the goods do not require a permit.

In the stated conceptual design, the permits are at an item level, therefore in one single customs declaration the broker could specify more than one item that requires a permit. In this case, each permit will go through its own validation process which means that each permit specified in a customs declaration has to belong to the same importer/exporter, it has to be valid and the quantities allowed should be sufficient to cover the amounts specified on the customs declaration. If at least one of the permit validations fails for any of the permits, then the customs declaration cannot be processed and the Customs System should mark an error. Also, since the permit control will be automatic and centralized, shipments under a permit no longer need to be cleared only in one port and therefore they can be processed in any port.

When a customs declaration is amended, if the amendment consists of a change in quantity of an HS code that has a permit, then the difference in quantity needs to be properly handled centrally. If the permit does not have enough quantity then the Customs System should mark an error and a new permit would be required for the amendment. With this in mind, it should be possible to state multiple permits under the same item and the Customs System should deduct from the oldest permit first. This means that for example, an item could indicate 100 units but 40 units are covered under permit A and 60 units are covered under permit B. If the amendment done is a reduction of quantity and the HS code is subject to a permit, then as a result of the amendment, the quantities deducted should be restored (added) to the permit in the central permit control.

If a customs declarations associated to a permit is eliminated, then the quantities stated in the customs declaration should be restored to the permit in the central permit control.

The various auditing and inspection departments will need reports to confirm that permits are being handled properly. The report should allow a Unique CGA Permit ID to be specified and the report should indicate all customs declarations that have declared that permit and an audit trail should be available.



## SECTION IX: PERMITS

---

When vehicles are imported, the VIN is stated on the customs declaration. Currently in Mongolia, the HS code which should be used when importing vehicles depends on the model year. Therefore, today all customs declarations which state a vehicle are assigned a red stamp to verify that the correct HS was declared. However, in the VIN, the model year is coded, which means that enhancements can be made in the Customs System so that the HS code used, based on the model year of the vehicle, can be automatically verified.

The model year of the vehicle is stated in the tenth alphanumeric character of the VIN. Also, the ninth alphanumeric character of the VIN contains a check digit which can be used to confirm that no errors occurred during data entry. Therefore, the Customs System should be modified to automatically compare the model year stated on the customs declaration with the model year coded in the VIN and also, the check digit should be automatically verified by the Customs System to ensure that the VIN number stated on the customs declaration is correct. These automation procedures apply to models starting in 1980 until present.

Note. Before automatic verifications regarding VIN information are placed in production, it is recommended to pass VINs which have been declared on previous customs declarations through the year and check digit verification rules to determine current levels of compliance.

The rules to verify the check digit are the following:

1. A VIN number will never contain the letters (I as in India, O as in Oscar or Q as in Quebec)
2. Each alpha character on the VIN should be assigned the following weight:

<b>A --&gt; 1</b>	<b>J --&gt; 1</b>	<b>S --&gt; 2</b>
<b>B --&gt; 2</b>	<b>K --&gt; 2</b>	<b>T --&gt; 3</b>
<b>C --&gt; 3</b>	<b>L --&gt; 3</b>	<b>U --&gt; 4</b>
<b>D --&gt; 4</b>	<b>M --&gt; 4</b>	<b>V --&gt; 5</b>
<b>E --&gt; 5</b>	<b>N --&gt; 5</b>	<b>W --&gt; 6</b>
<b>F --&gt; 6</b>	<b>O --&gt; Not allowed</b>	<b>X --&gt; 7</b>
<b>G --&gt; 7</b>	<b>P --&gt; 7</b>	<b>Y --&gt; 8</b>
<b>H --&gt; 8</b>	<b>Q --&gt; No allowed</b>	<b>Z --&gt; 9</b>
<b>I --&gt; Not allowed</b>	<b>R --&gt; 9</b>	

3. Each numeric value on the VIN should be assigned a weight equivalent to its number. For example 1 --> 1, 2 --> 2, etc.
4. The assigned weight for each alphanumeric character of the VIN should be multiplied, based on its position within the VIN, according to the following table :

Position of Alphanumeric Character within the VIN	Multiplying factor	Position of Alphanumeric Character within the VIN	Multiplying factor
First	x 8	Tenth	x 9
Second	x 7	Eleventh	x 8
Third	x 6	Twelfth	x 7
Fourth	x 5	Thirteenth	x 6
Fifth	x 4	Fourteenth	x 5
Sixth	x 3	Fifteenth	x 4
Seventh	x 2	Sixteenth	x 3
Eighth	x 10	Seventeenth	X 2

Note. The ninth position (check digit) should not be included in the numbers multiplied or it can be multiplied by zero which has the same effect.

- The result of each multiplication should be added and the total divided by 11. The remainder is the value of the check digit. If remainder is 10 then the value of the check digit is X as it is shown in the following example:

VIN	1	M	8	G	D	M	9	A	_	K	P	0	4	2	7	8	8	
Value of each character	1	4	8	7	4	4	9	1		2	7	0	4	2	7	8	8	TOTAL
Multiplying factor	x8	x7	x6	x5	x4	x3	x2	x10		x9	x8	x7	x6	x5	x4	x3	x2	
Sub total	8	28	48	35	16	12	18	10		18	56	0	24	10	28	24	16	351

$$351 / 11 = 31.90$$

$$11 \times 31 = 341$$

$$\text{Remainder} = \text{Check digit} = 351 - 341 = 10 = X$$

The check digit for the stated VIN is X.

The rules to verify the model year are the following:

- The model year of the vehicle is encoded in the tenth alphanumeric character of the VIN.
- The table to decode the model year is the following:

Code	Year										
A	1980	L	1990	Y	2000	A	2010	L	2020	Y	2030
B	1981	M	1991	1	2001	B	2011	M	2021	1	2031
C	1982	N	1992	2	2002	C	2012	N	2022	2	2032
D	1983	P	1993	3	2003	D	2013	P	2023	3	2033
E	1984	R	1994	4	2004	E	2014	R	2024	4	2034
F	1985	S	1995	5	2005	F	2015	S	2025	5	2035
G	1986	T	1996	6	2006	G	2016	T	2026	6	2036
H	1987	V	1997	7	2007	H	2017	V	2027	7	2037
J	1988	W	1998	8	2008	J	2018	W	2028	8	2038
K	1989	X	1999	9	2009	K	2019	X	2029	9	2039

3. To identify model year in passenger cars and multipurpose passenger vehicles with a Gross Vehicle Weight Rating of 10,000 Lb. (4,500 Kg.) or less, both alphanumeric characters at seventh and tenth positions of the VIN need to be analyzed. If the seventh alphanumeric character of the VIN is numeric (0 – 9) then the tenth alphanumeric character needs to be looked up in the previously mentioned table under years 1980 – 2009. If the seventh alphanumeric character of the VIN is a character (A –Z) then the tenth alphanumeric character of the VIN needs to be looked up in the previously mentioned table under years 2010 – 2039. For example, for VIN 1FALP45T4SF166725, the seventh position is numeric therefore the S means that the model year of the vehicle is 1995.

Once the VIN has been verified via the confirmation of the check digit and the model year has been verified then additional automation should be included in the Customs System to automatically confirm that the correct HS code was used based on the model year.



## **SECTION X: CONCLUSION**

---

Reaching maturity in the implementation of RM is a never ending task. Additional time and effort can be dedicated to identifying new automation opportunities which can eliminate risk scenarios but their identification is of little usage unless modifications are placed in production that will allow the organization to move forward. Without doubt when the automation recommended in this document is placed in production, other problem areas will be highlighted and unfortunately some members of the trade community will also introduce new risk scenarios. The challenge for the CGA is to quickly resolve identified problem areas so that the continuous improvement cycle can be started all over again as soon as possible.