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Identifying and Managing Negative High Risk

Mr. Walter Hekala, CQA, PMP, Customs Risk Management Consultant



The Right Approach

- The right approach is not “ *Give me a list of specific unknown problems we will encounter.*”
- The right approach is not “*I saw it in the store for twice the price so we’re going to catch it on import.*”
- The right approach is not “*someone else needs to show me what I need to know.*”
- The right approach is not “*I’ll just wait until someone refers a suspicious situation to me.*”

The Right Approach

- The right approach is a proactive approach
- The right approach depends on your initiative
- One right approach is to identify high risk commodities & trade priority issues that make an impact on the “big picture”
 - These are your “Primary Focus Industries”
 - Collect data and information on these areas
 - Review activity of large importer accounts

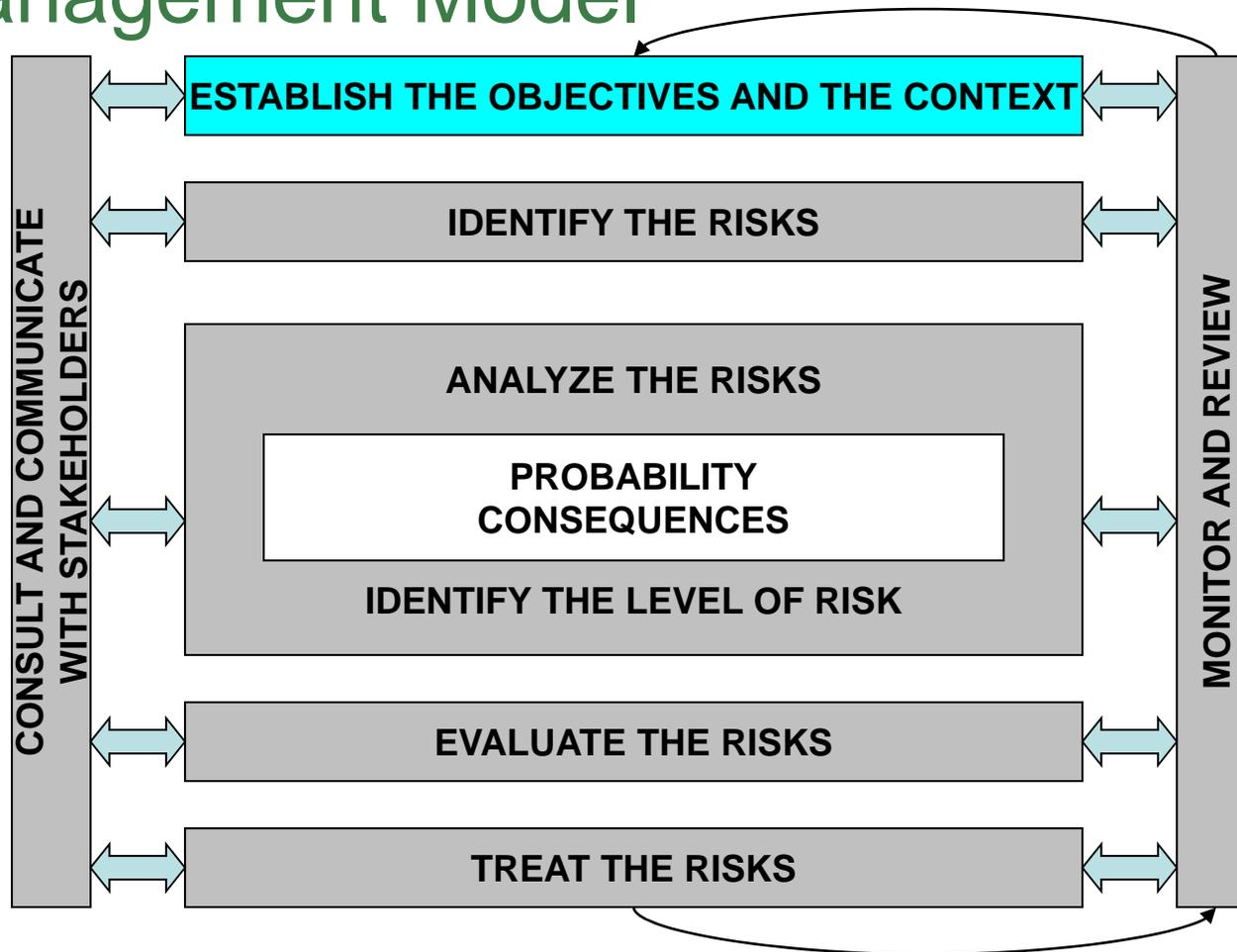
Mining Data to Identify Risks

- The ASYCUDA database has a wealth of information on past transactions
- The database is available for sorting and compiling
- Sorting this data allows you to:
 - identify areas of potential non-compliance
 - identify possible reasons for the defect
 - project the significance of the non-compliance

What ASYCUDA will not do.

- Confirm undervaluation
- Confirm false country of origin
- Confirm false commodity classification
- Confirm false quantity.

Risk Management Model



Context

- Context: the circumstances in which an event occurs; a setting
- Risk management occurs within the context of achieving goals and objectives of the organization
- The context in which we will discuss risk management is the processing of commercial goods declarations

Evaluating the Context

- Mission-based
- Operational Evaluation
- Workload/Workflow Evaluation
- Should include recommendations
- Should serve as an action plan
- Updated annually

Operational Evaluation

- Preventative, investigative, intelligence capabilities
- Technical expertise
- Integrity
- Workload/workflow analysis
- Trade priority issues
- Partnerships

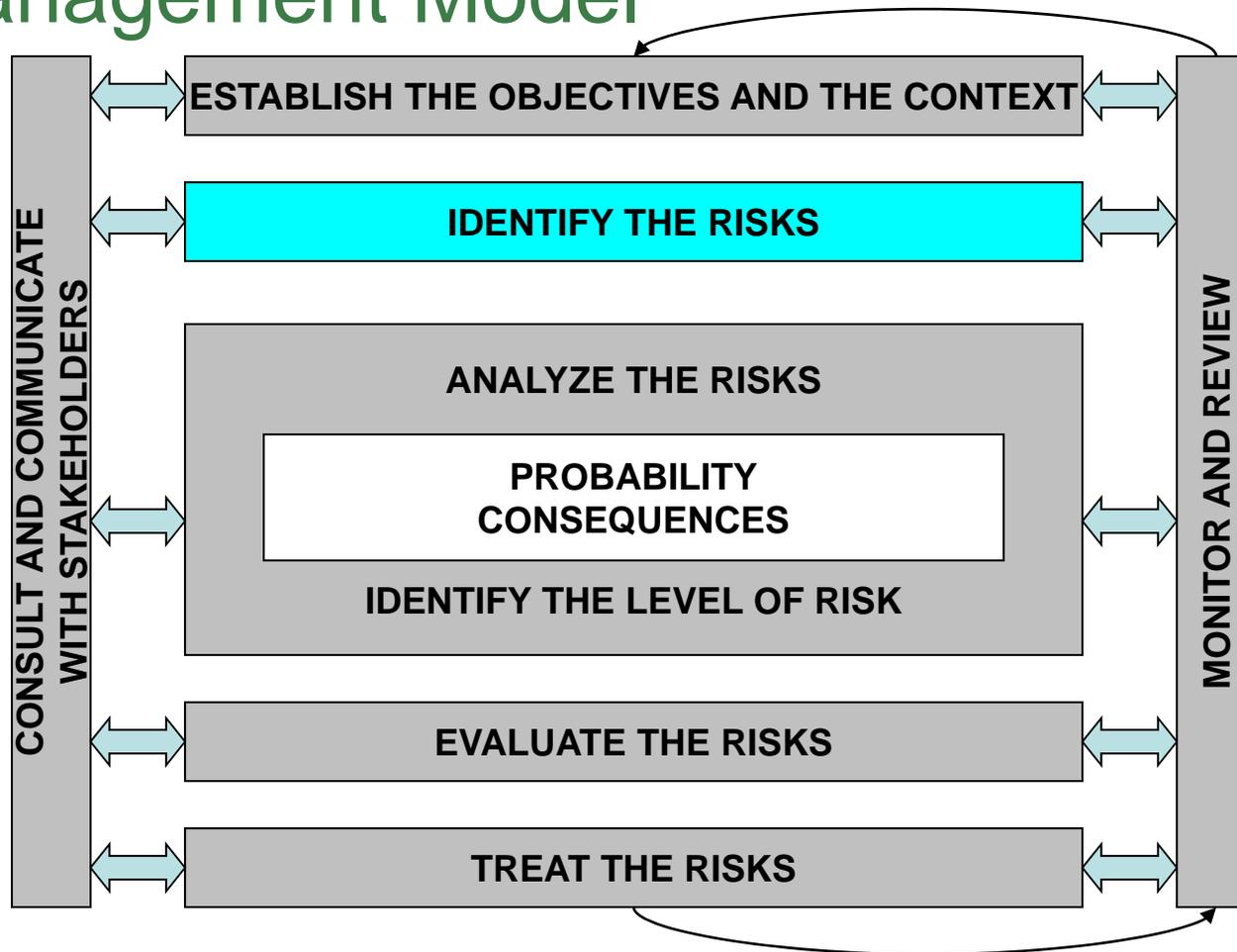
Workload/Workflow Evaluation

- Declaration processing
- Physical examination productivity
- Classification and value review
- Post release activities
- Trade Component
- Staffing allocations
- Facility capabilities

Measure of Effectiveness

- Effectiveness must be reflected in terms of accomplishment of your mission statement
- Measurements should include the degree of security, collection of revenue, facilitation of trade

Risk Management Model



Defining the Risk

- Before we can correct a problem we have to be sure we understand the problem
- We must define the problem in writing
- Definition must be specific
- This is the first step of a new risk profile

Identifying Risks

- Analytical Data Evaluation
- Brainstorming
- Interview importers & trade community
- Interview other government agencies
- Assess strengths and weaknesses
- Field Comments
- Summarize in writing

Analytical Data Evaluation

- Every physical inspection must be documented
 - Why was the inspection done?
 - What were the real or suspected risk indicators?
 - What was the level of inspection?
 - What were the results?
- Data analysis and validation
- Root Cause Analysis

What is Root Cause Analysis?

- A systematic method that:
 - investigates an incident or series of incidents
 - attempts to understand the underlying causes of the incident(s), including the management system issues that caused or led to the incident.
 - Generates effective corrective actions to prevent and mitigate the incident(s) including the identification of changes to management systems

“Root Cause Analysis,” James J. Rooney

Brainstorming

- The start approach to identifying risks where data is not kept.
- Draws on the creative capacity of the participants
 - Headquarters specialists
 - Field officers
- National threats
- Regional threats
- Local threats

Trade Input

- Selective trade interviews
- Chamber of Commerce
- Trade Organizations
- Brokers
- Major importers
- What are industry concerns?

Other Government Concerns

- Licensing agencies
- Environmental agencies
- Health agencies
- Law enforcement agencies
- What are their concerns regarding imports and exports?

CUSTOMS IS NOT ALONE AT THE BORDERS!

Strengths and Weaknesses

- What can happen? List events that might happen
- How and why it can happen? List causes and scenarios

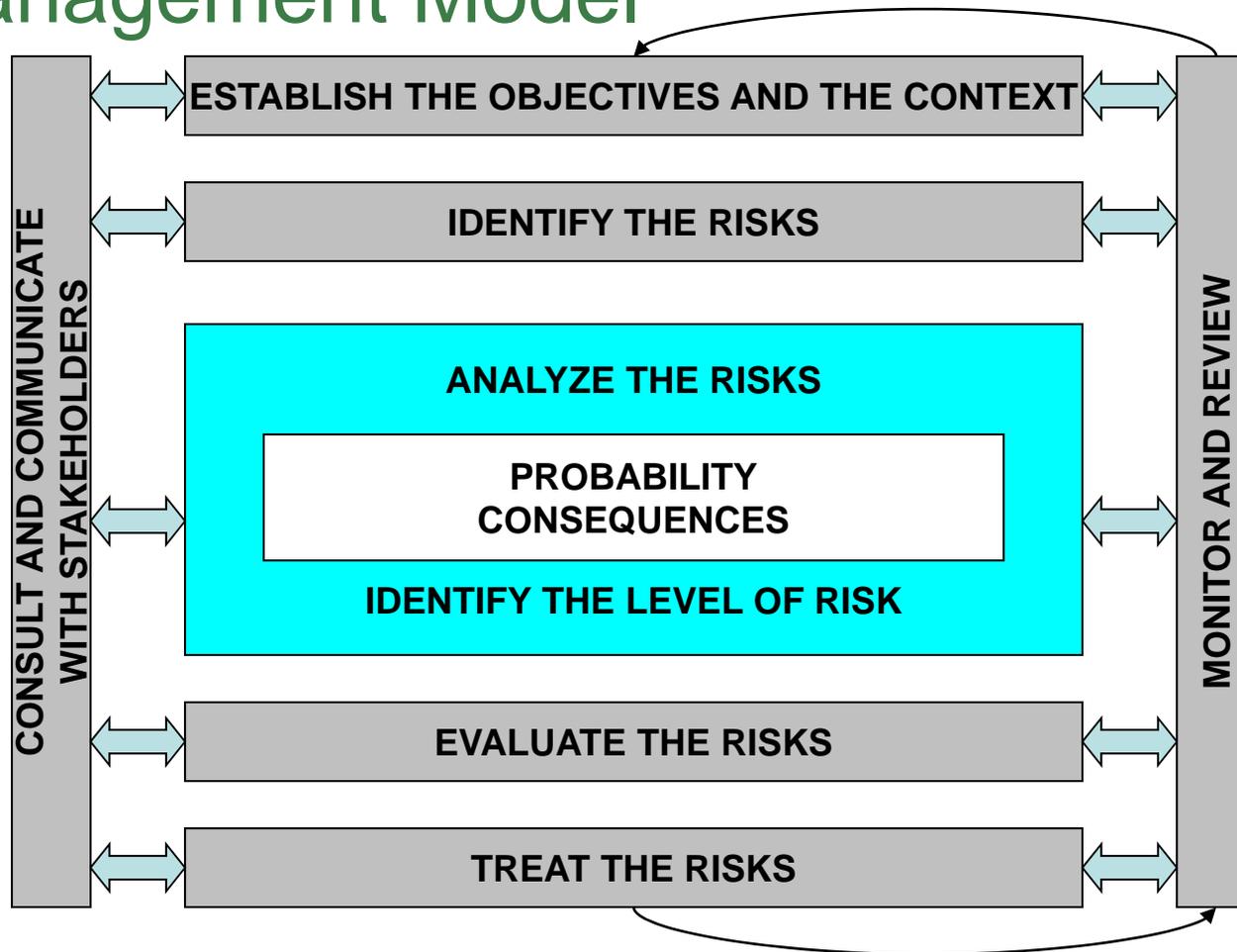
Field Comments

- Every Customs officer and Customs office should be allowed to review risk profiles and comment
- Comments should be returned to central point and incorporated into written report

Written Report

- Summarize work done including trade and field comments
- Suggest prioritized list of specific risks
- Obtain management concurrence

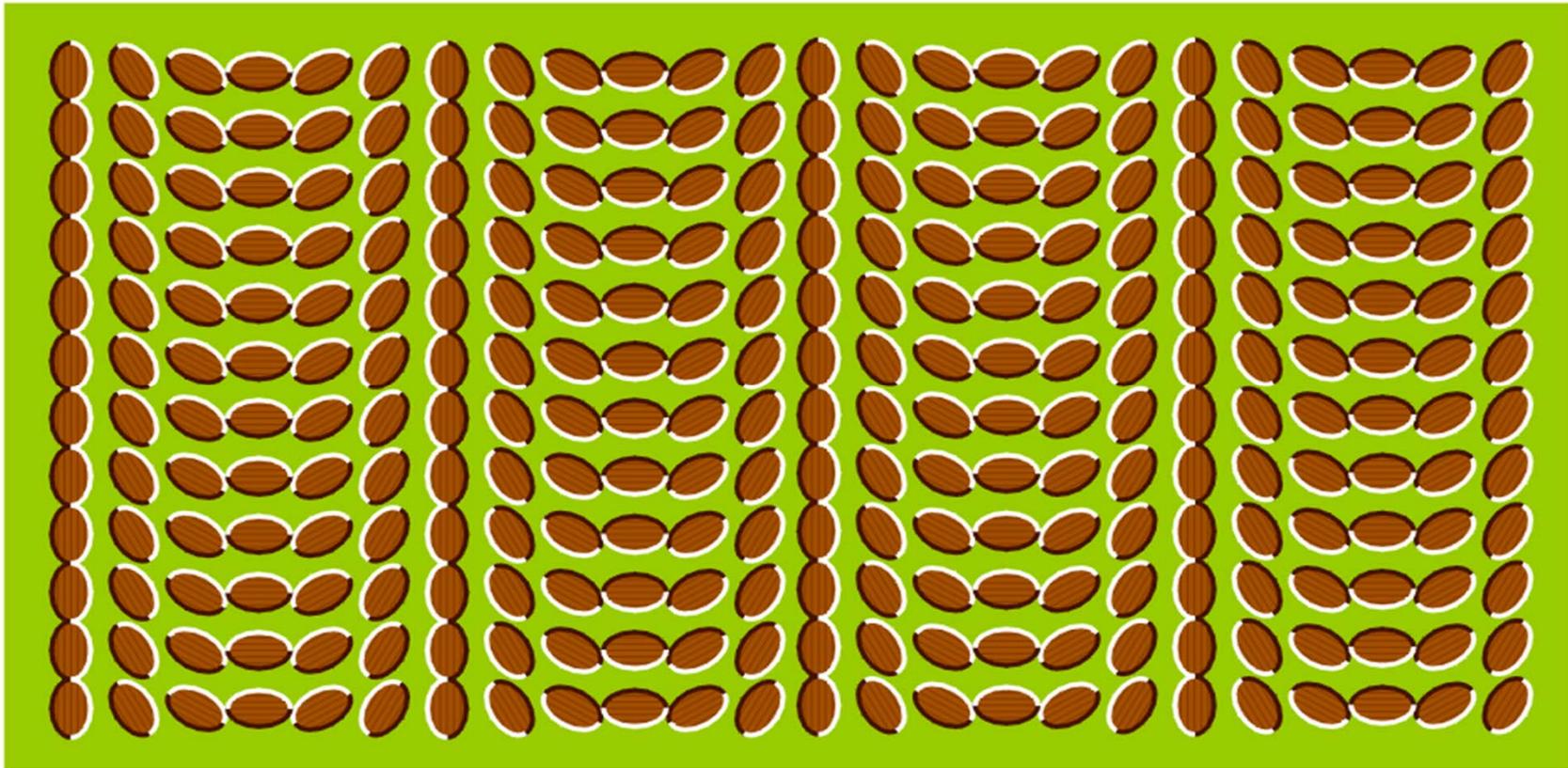
Risk Management Model



A Sample Analysis

- You have decided to review the risk level of the largest companies that import through one of your Cargo Clearance Stations
- The first step is to gather information and data elements
- This same step can also be used on identifying candidate companies for your Authorized Economic Operator Program

But There Is So Much Data!



Analyzing the Risk

- Once the risk has been defined, the analyst must answer the following questions:
 - How often did risk occur over last 12 months?
 - What was the impact or cost of those occurrences?
- This is where the real research begins

Gathering Information

- Research your database and historical records
- Do you know everything you need to know to answer those questions?
- Who else might have useful information?

Information Sources

- The quality of the analysis product is a direct result of the quality of information available
- List the sources of information you currently use to gather information

The Trade Chain

ORDER	TRANSPORT	CUSTOMS	PAYMENT
IMPORTER	FORWARDER	CUSTOMS	BANK
EXPORTER	TRANSPORTER	HEALTH AUTHORITIES	FINANCIAL INSTITUTION
INSURANCE COMPANY	CARRIER	PORT MANAGEMENT	OTHERS
CHAMBER OF COMMERCE	SHIPPING LINE	BROKERS	
AGENT	INSPECTION COMPANY (PSI)	OTHERS	
LICENSING AGENCY	INSURANCE COMPANIES		
EMBASSIES	OTHERS		
CREDIT CHECKING COMPANY			
OTHERS			

Sources of Information

- Internal Customs Sources
- Internal forms and databases
- Other government departments
- Other Customs administrations
- Commercial and public sources
- Internet

Other Sources

- International organizations – WCO
- Law enforcement in other countries
- Newspapers and other media
- The Internet
- Trade directories

Internal Customs Sources

- Uniformed Officers in the field
- Regional Offices
- Investigators
- Intelligence Analysts
- Post Audit or Revision Officers
- Specialists in Tariff and Classification Matters
- Who else?

Other Customs Administrations

- Regional meetings
- Information sharing agreements such as the new SAFE Standards
- Working relationships with your counterparts

Internal Forms and Databases

- Analysts must be able to:
 - “Mine” data from automated system
 - Develop and produce analytical reports
 - Retrieve examinations results
- Analysts must have access to:
 - Seizure and penalty reports
 - Intelligence and investigative reports

Other Government Departments

- Immigration
- Police Intelligence Unit
- Phytosanitary - Agriculture
- Veterinary Inspection
- Ministry of Trade and Transport
- Who else?
- May require MOU's

Commercial & Public Sources

- Importers and exporters
- Brokers
- Freight Forwarders
- Airlines, Railroad and Trucking Company personnel
- Trade Organizations
- Who else?

Define Your Data Requirements

- You determine that the best fields to conduct your analysis are:
 - Importer Name (Number)
 - Value of Imports in a given period
 - Revenue Collected
 - Industry
 - Number of Imports
 - Number of Exams
 - Number of Discrepancies
 - Historical Compliance Rate

Missing Data from ASYCUDA

- Assuming your staff are entering all the data and entering it correctly from the previous list, What is missing?
- Hint – Think Impact
- Revisit Risk Strategy

Loss or Revenue (LOR)

- A critical element in risk assessment is impact
- Rate the impact:
 - Ten incorrect declarations with a combined LOR of \$100
 - Two incorrect declarations with a combined LOR of \$10,000

Domestic Damage

- Rate the impact:
 - Two hundred incorrect declarations with a combined LOR of \$100,000
 - Two hundred incorrect declarations with a combined LOR of \$50,000 and the domestic manufacture of similar goods shuts down their factory putting 20 people out of work

Social Damage

Rate the impact:

- Two hundred incorrect declarations with no LOR but due to unsafe manufacturing one child chokes on loose parts from the toy and there are 20.000 more of the same toys now on the street
- Two hundred incorrect declarations with a combined LOR of \$200,000

Basic Information from ASYCUDA

- Despite limitations ASYCUSDA does have good data for projecting some indicators. Here is a brief example.

“Data Mining”

- Automated Tools (ASYCUDA) for sorting and compiling
- Gives information on areas of non-compliance and possible reason for the defect (e.g., poor internal controls of importer, broker negligence or inexperience, trucker circumvention ...)
- Project the significance of the non-compliance on the Customs goals Assess the materiality of the non-compliance
- Develop common threats and mistakes of noncompliance

Concentrate on Primary Focus Industries

- To get an idea of the information that you will be reviewing, you gather the information on the largest volume importers and sort the data by:
 - Industry
 - Value
 - Compliance Rate

Sorted by Primary Focus Industry

Importer Name	Value	Revenue	PFI Industry	Imports	Exams	Discrepancies	Estimated Discrepancies	Compliance Rate
ABC	104,331,235	2,608,275	agriculture	1257	103	36	439	65.05%
Monterrey Produce	66,234,020	155,850	agriculture	798	56	4	57	92.86%
Valley Farms	505,553,710	12,638,825	agriculture	6091	321	1	19	99.69%
C.A. Auto Parts	114,406,421	17,130,963	car parts	5850	21	2	557	90.48%
Metro Stores	4,945,508	262,112	non-PFI	1413	259	21	115	91.89%
Fast Importers	959,025	50,827	non-PFI	274	46	11	66	76.09%
Cheaper and Better	554,854,206	6,853,680	textiles	6858	130	28	1477	78.46%
No Problem Apparel	127,520,117	1,530,240	textiles	1594	236	22	149	90.68%
Monica's clothes	64,232,007	7,707,840	textiles	8029	158	31	1575	80.38%
Tomorrow Imports	16,367,998	1,964,160	textiles	2046	118	17	295	85.59%

What are the largest industries importing products into the port?
 Are there any overwhelming industry concerns?

Sorted by Value

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What companies import the most in value?
 What industries are most apparent?
 Does Revenue impact your measurement results?

Sorted by Compliance Rate

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Further Study

- For the purposes of this exercise, we will determine that *Cheaper and Better* and *Monica's Clothes* are the highest risk companies
- However, it is not sufficient to simply say that all shipments from these importers must be examined since they are high risk
- Due to the high volume of imports, it may not even be possible

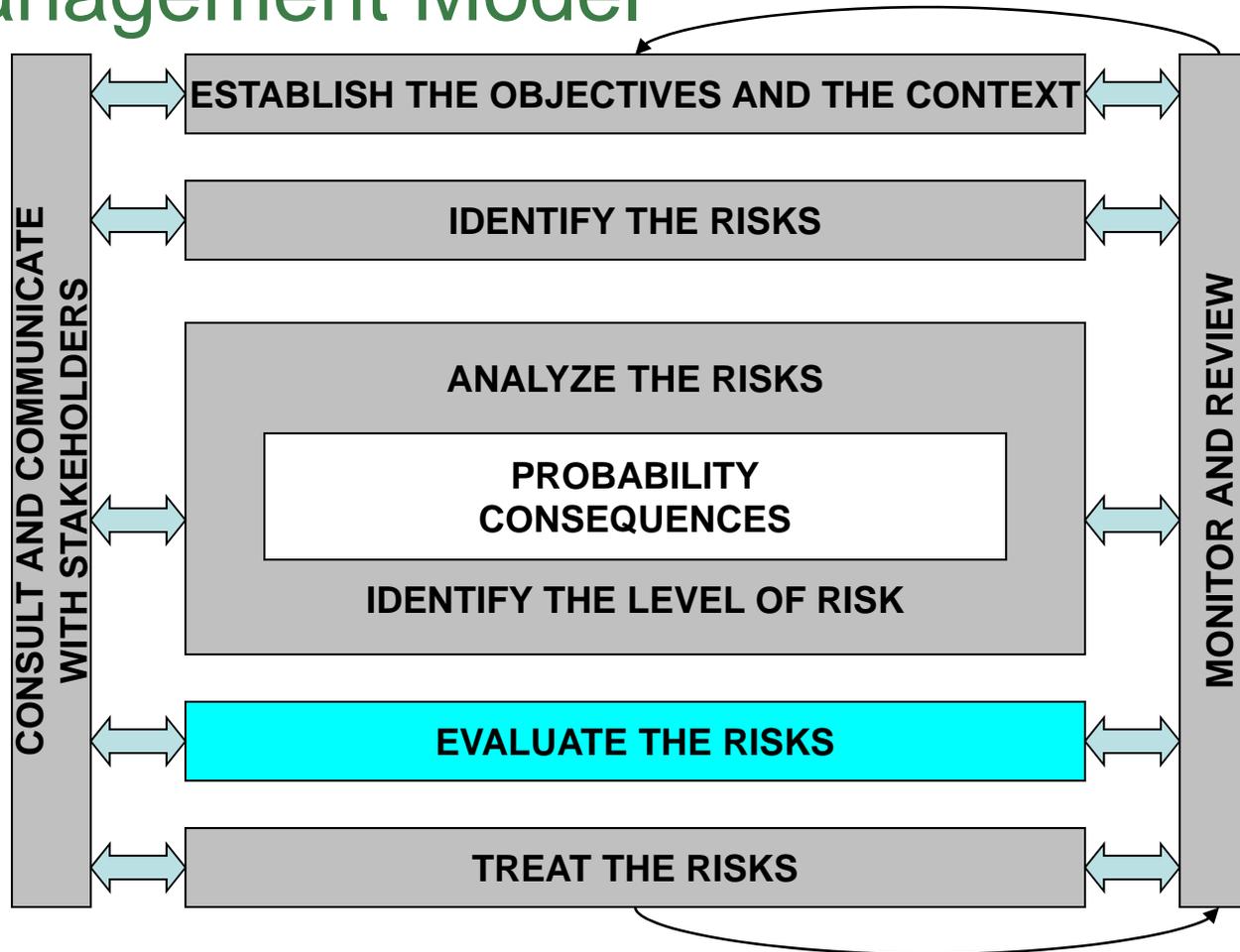
Cheaper and Better – A Closer Look

Merchandise	# of Exams	Value	# of Irregularities	Discrepancy Type
Gloves	25	44226926	1	Classification
Hats	44	2984560	8	Value
Blouses	31	17837741	10	Classification
Pants	58	19972800	12	Country of Origin

Monica's Clothes – A Closer Look

Merchandise	# of Exams	Value	# of Irregularities	Discrepancy Type
Socks	33	33657600	5	Quantity
Dresses	25	2194556	25	Country of Origin
Coats	47	7837714	7	Country of Origin
Men's Shirts	25	10972800	11	Country of Origin

Risk Management Model



Likelihood and Consequence

- Risk is a factor of likelihood and consequence ($R = L \times C$)
- Likelihood is the chance that some event will occur and is used as a qualitative description of probability and frequency
- Consequence is something that logically or naturally follows from an action that impacts on your mission

Why Two Ratings?

- A nuclear terrorist attack might be rated as likelihood “rare” and yet have a consequence rating of “catastrophic”
- A technical violation such as commodity misclassification without duty or secondary agency issues might be “almost certain” but have a consequence rating of “low” thus placing its priority lower on the list of risks

Considering Likelihood & Consequence

- Your analysis must assess the likelihood and consequences of each risk

Likelihood

Almost certain

Likely

Moderate

Unlikely

Rare

Consequences

Catastrophic

Major

Moderate

Minor

Insignificant

Risk Analysis Matrix (Scale of Probability)

CUSTOMS RISK ANALYSIS MATRIX			Consequences				
			1	2	3	4	5
Likelihood	Probability	Description	Insignificant	Minor	Moderate	Major	Catastrophic
5	90%	Almost certain	M	S	H	H	H
4	70%	Likely	M	S	S	H	H
3	50%	Possible	L	M	S	H	H
2	30%	Unlikely	L	L	M	S	H
1	10%	Rare	L	L	M	S	S

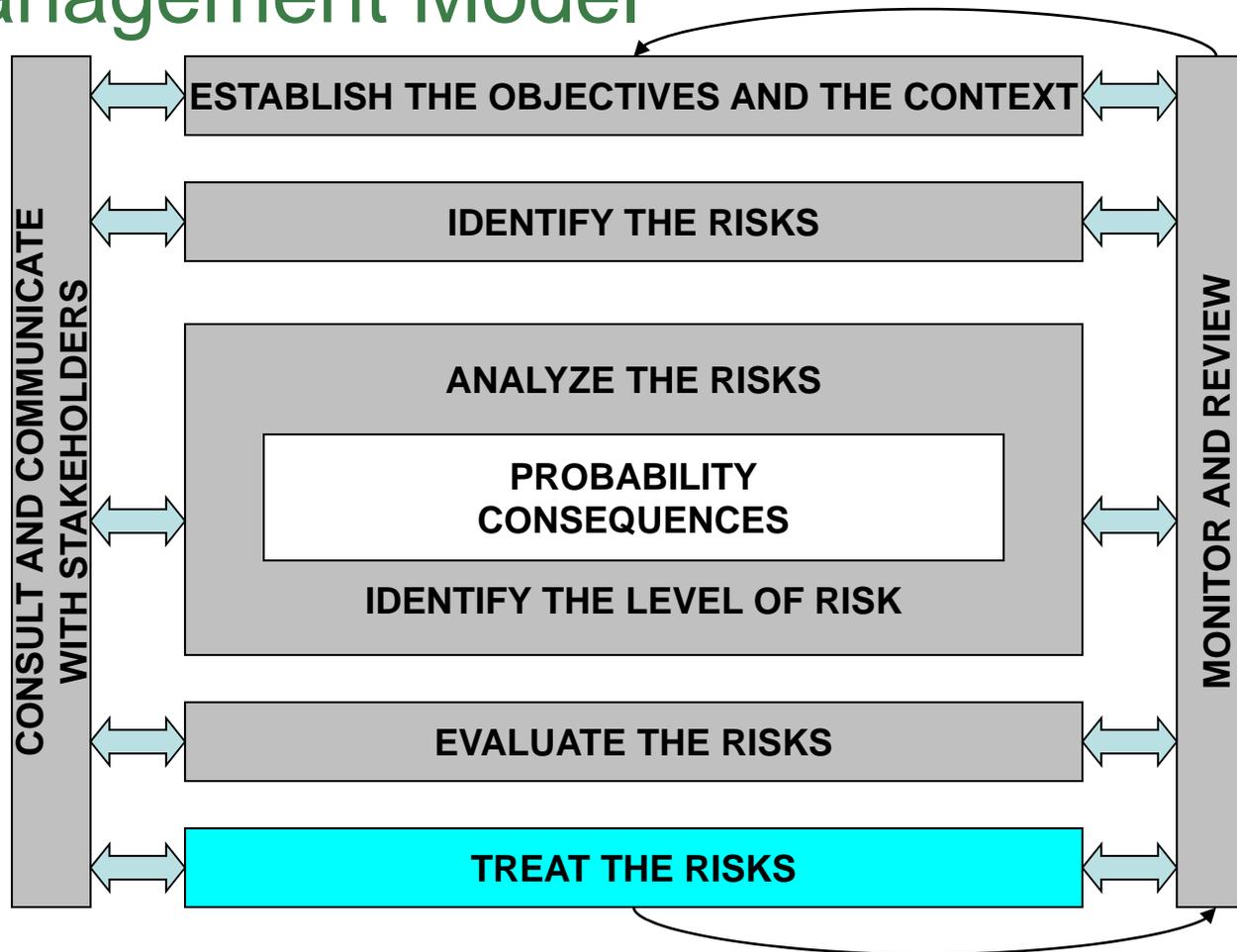
Specific Consequences

	Insignificant	Minor	Moderate	Major	Catastrophic
Society	No readily quantifiable widespread impact	Issues relating to product safety, sanctity of cultural icons, etc.	Injuries or illnesses requiring medical treatment; localized harm to environment	Localized destruction of property, serious injuries or illnesses requiring hospital, serious environmental damage	Widespread destruction of property, loss of life, terrorist act; widespread environmental damage
Business	Routine Customs-Trade meetings are adequate to prevent escalation	Increased business complaints, decreasing compliance levels	Small to medium businesses placed at competitive disadvantage	Major industries placed at competitive disadvantage	Major industries significantly affected, closures, etc.
Customs Reputation	Routine Customs internal checks are adequate to prevent escalation	Scrutiny required by internal committee or internal audit to prevent escalation	Scrutiny required by external auditors or commission	Intense public, political and media scrutiny; front page headlines, TV, etc.	Assembly inquiry or Commission of Inquiry
Financial	0-2% of previous year's revenue	>2% of previous year's revenue	>5% of previous year's revenue	>10% of previous year's revenue	>20% of previous year's revenue

Developing & Using a RM Matrix

- Each Customs administration needs to define its own risk levels
- Adapt the samples to your needs
- By plotting likelihood and consequence, you can determine the level of risk in a consistent manner
- Record this evaluation on your risk profile

Risk Management Model



Risk management responses to risks

- Inconsequential errors
- Simple negligence
- Gross negligence
- Knowing and intentional violations
- Underlying impact essential to planning and treatment

Risk Reponses

- For each type of risk, a risk management profile can be developed.
- What do in a risk management response matrix.
- Risk response is limited by:
 - Weight of risk, both qualitative and quantitative
 - Available resources
 - Alternative solutions

Documenting Your Analysis

- You've defined the risk
- Now you've researched and analyzed the risk
- You've assessed the likelihood and consequence of the risk occurring
- The second step in developing a risk profile is to document this analysis in writing

Treating Risk

- Determine what will be done in response to the risk
- Consider effectiveness of current organizational response
- Include:
 - measures to deal with risks before they arise
 - measures to deal with risks when they come to pass

Classic Risk-Handling Strategies

- Control (Mitigation) – designing a process to lower the risk to an acceptable level
- Avoidance – changing or removing requirements
- Acceptance – assuming that the risk level is sufficiently low
- Transfer – moving risk from one party to another

Control Treatments

- Physical examination (red lane)
- Document review (yellow lane)
- Post clearance audit (blue lane)
- Investigation

Avoidance Treatments

- Informed compliance
- Trade interaction – communications and consultations
- Trader self-assessment
- Compliance intervention
- Simplified procedures
- Advance information

Acceptance Treatments

- Compliance measurement
- Release without examination (green lane)
- Random examinations
- Random document reviews
- Random post clearance audits

Transfer Treatments

- Surety, bank guarantees
- Management by account
- Periodic declarations
- Internal Controls – importer, broker, exporter, etc.
- Authorized Economic Operator with full circle due diligence

The Basics

- No intervention (**green lane**)
- Document Review (**yellow lane**)
- Post Audit (**blue lane**)
- Physical Examination (**red lane**)
- Informed Compliance
- Enforced Compliance

Intensity

- Once you have determined which treatment is appropriate, then you must determine how often that treatment should be applied
- If you have defined 5 risk levels level 1 may call for all shipments to be treated; level 2, 50%; level 3, 25%; level 4, 10%; and level 5, 2-3%
- Continuous scales modeling on risk allow workload balance.
- Overloads to red lane reduce effectiveness and increase risks for undiscovered serious non-compliance.

Informed vs. Enforced Compliance

- Informed Compliance
 - Local problem – inform port of entry
 - Broker Errors – broker information sessions
 - Importer negligence – contact importer
- Enforced Compliance
 - Penalties & Seizures
 - Management Directives
- Take the nature, scope, and impact of the non-compliance into consideration

Informed vs. Enforced Compliance

Two directions of ACTION

Informed Compliance

- Visit Importer
- Develop an Action Plan
- Initiate an Intervention
- Other

Enforced Compliance

- Refer case for an Investigation
- Recommend Penalties
- Seize items
- Other

Assigning a Treatment

- Based on your evaluation of the risk, determine the appropriate treatment and intensity
- Consider the impact on workload – can customs officers realistically do what is asked for?
- Does your administration have the technical capacity for an AEO program?
- Write an examination criterion
- That criterion must provide instructions to the examining officer
- The results of treatment must be recorded and tracked

Treatment responses

- The treatment response should be based on one that will disclose the most information in the least time at the least cost
- Where to treat suspected:
 - Under count declaration
 - Mis-classification
 - False country of Origin
 - IPR violation
 - Cover load smuggling
 - Undervaluation

Under count declaration

- Physical Examination at border
- Audit Importer inventory control records

Mis-classification

- Physical Examination at border
- Sampling
- Audit Importer purchase and sales records

False country of Origin

- Physical Examination at border
- Sampling
- Audit Importer order records
- Request assistance from export or suspected transit country
- Follow up with transport company to backtrack shipment

IPR violation

- Physical Examination at border
- Sampling
- Audit Importer order records
- Request assistance from IPR right holder
- Request assistance from export customs administration

Cover load smuggling

- Physical examination at border

Undervaluation

- Audit of importer's records
- Audit of importer's bank records
- Assistance from customs administration of export country
 - Declared value at export
 - Audit of exporters records
- Undervaluation is not confirmed by inspections at the border.

Writing Selectivity Criteria

- Define within strategy.
- Fewer well-designed criteria are better than many poor ones
 - They will get better results
 - They will enhance credibility
- Remember your options: treatment and intensity. Physical examination should not be the first choice
- Remember shared responsibility: Determine confidence levels

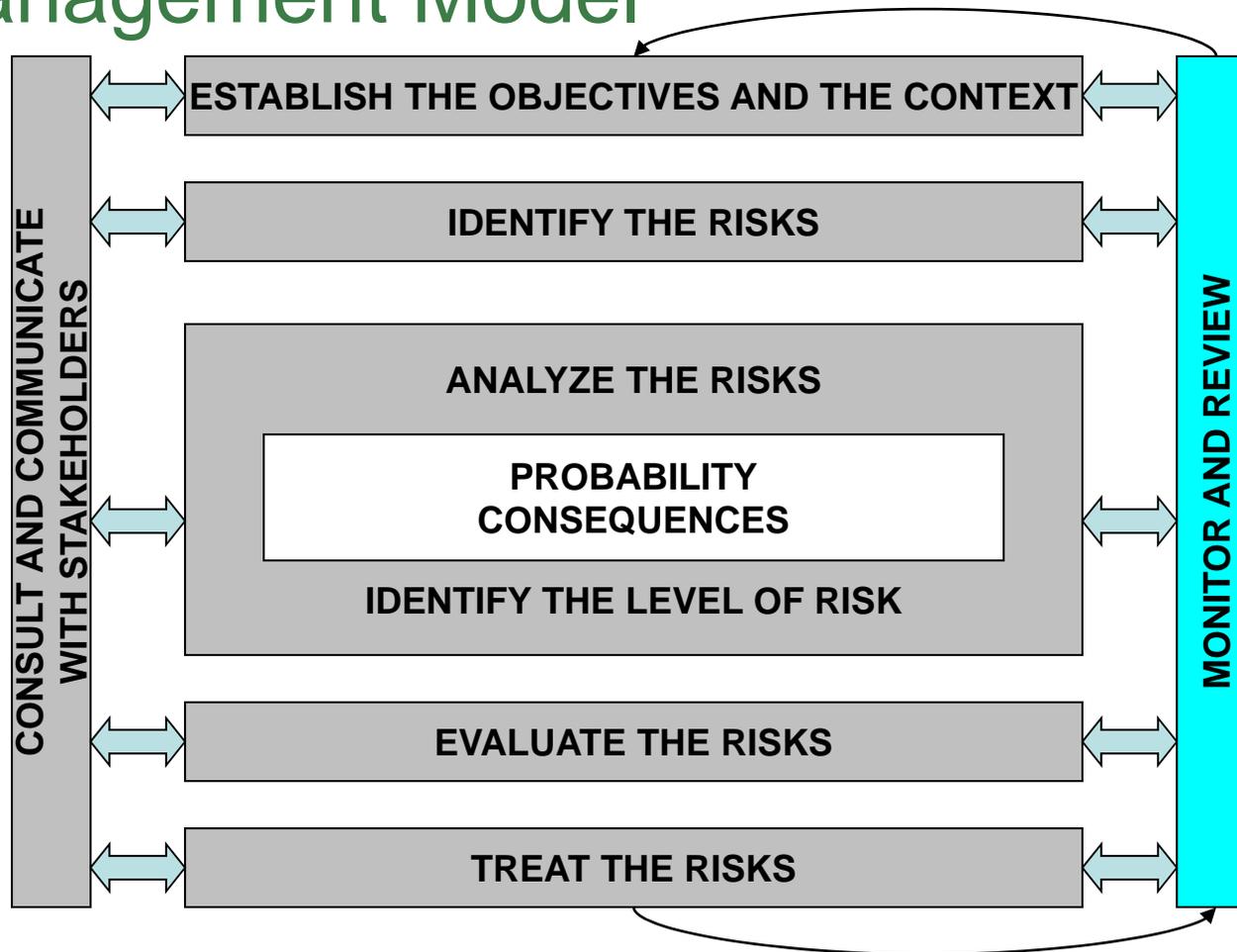
Updating the Risk Profile

- The risk profile now includes a definition, analysis and evaluation of the risk
- Now summarize the treatment, including your impact assessment, the actual examination criterion in programming language and the instructions to the officers

Remember!

- Cargo Selectivity must address national priorities and highest risk issues first
- Modify criteria when results are poor, show a pattern of compliance, or show a pattern of violations
- Do not overload exam stations with too many exams; you want quality, not quantity

Risk Management Model



Monitoring and Reviewing

- Risks are always changing
- Continually monitor results. Improve or delete ineffective criteria
 - Primarily event-driven such as continuous series of negative exams
 - Continuous positive results also require action to bring importer into compliance
- Effectiveness is based on measurements

What Can We Monitor?

- Examinations
 - By location
 - By officer
- Results
 - Seizures and penalties
 - Increased collections
 - Negative examinations
- Referrals
- Compliance Rates

Control Your Work!

- Follow-up with results and analysis to make appropriate adjustments
- Provide management with progress reports
- Develop plan to help field officers with future shipments
- If uncertainty or high-risk are still present, adjust treatment

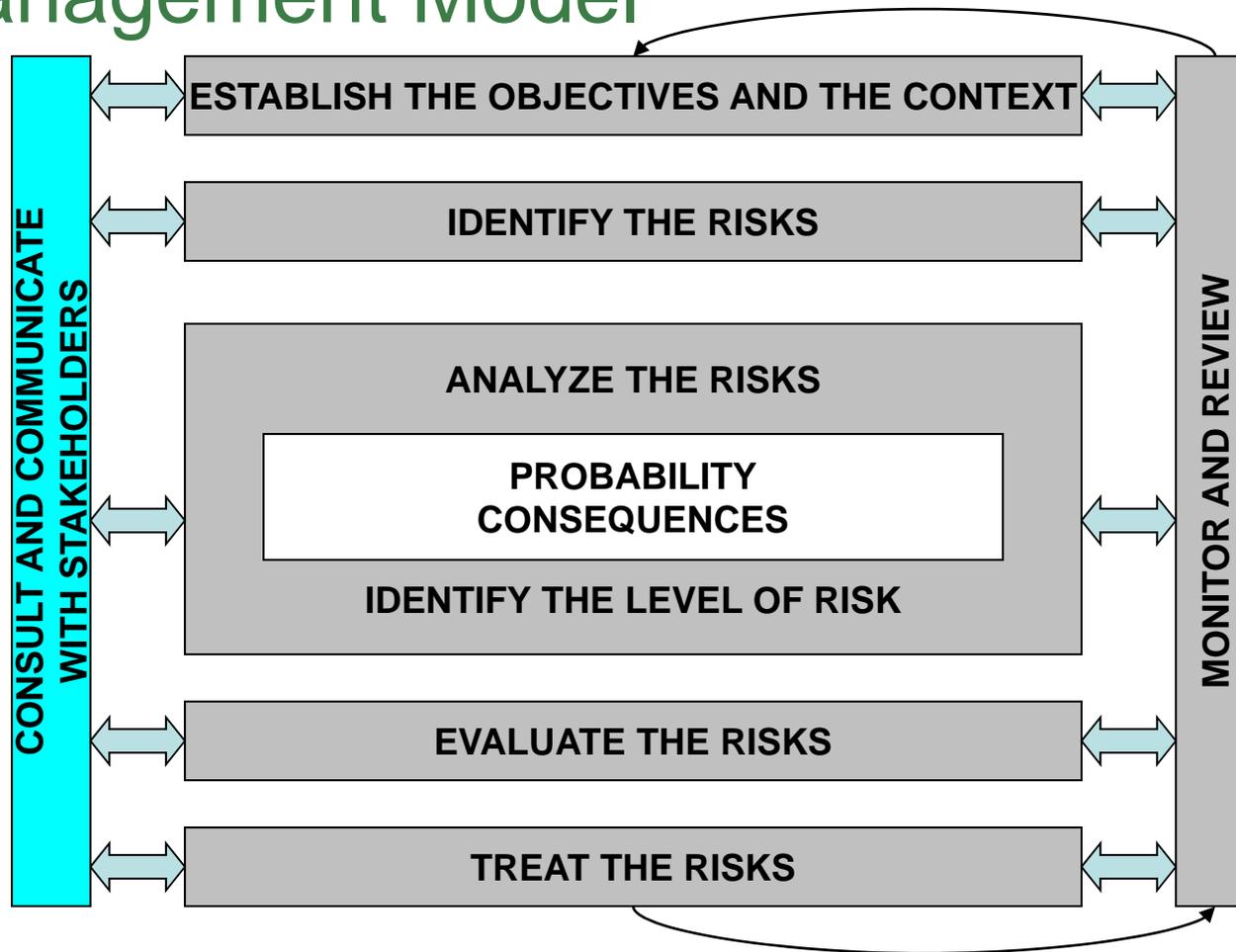
Compliance Measurement

- Primary Focus Industries (PFI)
- Determination of acceptable compliance rate
- Compliance audits of PFI importers
- Fixed duration random compliance examinations of PFI shipments
- Corrective action if actual compliance rate does not meet acceptable compliance rate

Documenting Your Work

- As with each of the previous steps, you must detail the results of your ongoing monitoring and review process on the risk profile
- This includes any changes or deletions you make to criteria as a result of your findings

Risk Management Model



Consulting & Communicating

- Successful risk management requires that everyone who needs to be involved is involved
- Multi-discipline approach required
- Stakeholders must be kept informed of developments
- Consultation and communications are ongoing

Customs – Trade Interaction

- Risk Management will work best if:
 - Customs engages with legitimate traders
 - Customs uses trader’s knowledge
 - Customs uses trader’s resources
- Everyone should understand that RM:
 - helps Customs
 - helps traders
 - can provide major benefits to both

The Role of Business

- “There is a growing realization that this degree of change can only be achieved with the active participation of legitimate business. This partnership... provides for greater efficiency and more effective controls which are based on knowledge of commercial operations.”

WCO Risk Management Guide

Communications Channels

- Field offices
 - Reality Check
- Traders
 - Information on trade practices
 - Problems caused by examinations, alternatives?
 - Reducing delays
 - Occasional information about fraudulent practices by competitors
 - Helping to reduce discrepancies

Compliance Updates – Team Review

- Identify technical expertise
- Identify NC Risk Management team
- Assign timelines for periodic review

Source of Information

- World Customs Organization
- U.S. Customs and Border Protection
- European Union
- United Nations Conference on Trade and Development
- Australia/New Zealand Standard for Risk Management (AS/NZS 4360:2004)

Thank You and Good Luck!