



# Focused Assessment

*A Risk Based Approach to Audit*

**Office of Strategic Trade  
Regulatory Audit Division**



## Customs Goal:

Continuing  
Customs Compliance

**1995**

*Compliance  
Assessment*

**Risk Management**

**2001**

*Focused  
Assessment*

# CA

From Transactions to Process Validation

# FA



## Company Compliance

### CA

- Starts with Transaction Testing
- Tests all Trade Areas
- Transparent - on the Web
- Can Result in Enforcement Action
- Uses a Team Approach

## Company Compliance

### FA

- Starts with Internal Control Review
- Tests Only Areas at Risk
- Transparent - on the Web AND Includes Models for Compliance
- Can Result in Enforcement Action
- Uses a Team Approach

# Focused Assessment Key Elements

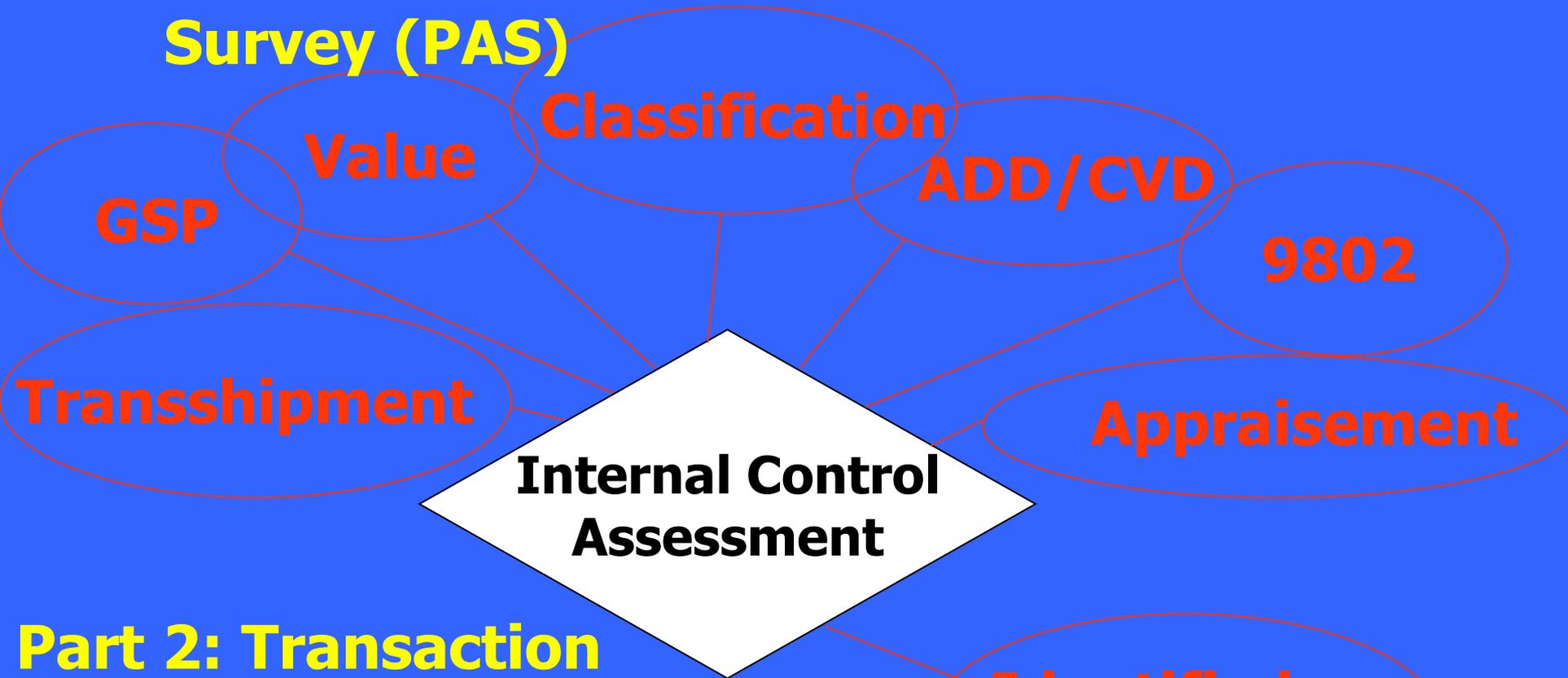


- **Starts with Internal Controls (Systems & Processes)**
  - **Good Internal Controls = Less Risk for Customs**
- **Evaluates Controls to:**
  - **Identify System Strengths & Weaknesses**
  - **Help Predict Future Compliance**
- **Zeroes in on Potential Material Risk**
- **Reduces Need for Extensive Transaction Testing**
- **Company Gets Blueprint for Future Compliance**

# Focused Assessment - 2 Part Process



## Part 1: Pre-Assessment Survey (PAS)



## Part 2: Transaction Testing

**Identified Areas of Risk**

# Focused Assessment: Part 1



## *Pre-Assessment Survey (PAS)*

**Profile & Research**

**Internal Controls Evaluation**

**Risk Assessed for Each Trade Area**

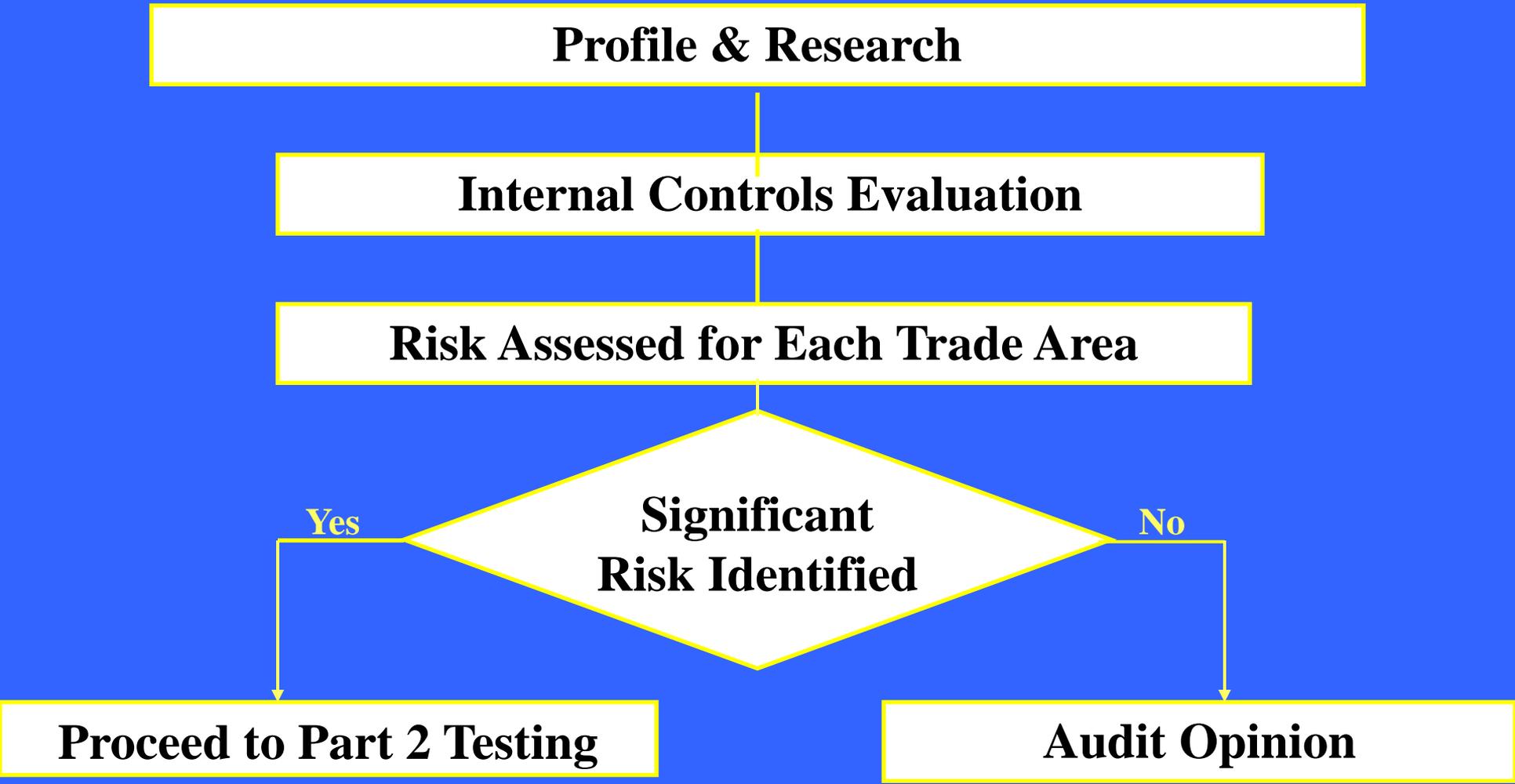
**Significant  
Risk Identified**

**Yes**

**No**

**Proceed to Part 2 Testing**

**Audit Opinion**



# Focused Assessment: Part 2



## *Transaction Testing*

**Risk From  
Part 1**

**Sample Selected**

**Loss of Revenue (LOR) and Extent of Non-Compliance Quantified**

**Significant  
Non-  
Compliance  
or LOR**

**Yes**

**No**

**Recommend CIP  
& Collect LOR**

**Audit Opinion -  
& Collect LOR**

# Summary - The FA Process



- **Consistent**
  - Uses a Structured Approach
- **Transparent**
  - On the Web
- **Provides Tools for Informed Compliance**
  - Internal Control Model
  - Customs Best Practices
- **Statistical Sampling Based on \$ Value**
  - Reflects Materiality
- **Company Blueprint for the Future**

# What You Can Do



- **Check our Web Site**
- **Look for Strengths & Weaknesses in Internal Controls**
- **Test Transactions When Weaknesses are Identified**
- **Assess Your Risk of Non-Compliance**

# Example of PAS Results

| Elements Reviewed   | PAS Internal Control Review |   |                |                    |                 | Results            | Action Needed  |
|---|-----------------------------|---|----------------|--------------------|-----------------|--------------------|--|
|   | Company Profile             | PAS Questionnaire   | Process Review | Company Interviews | Limited Testing | Significant Risk ? |  |
| Value   | PRI                         | PRI   | RI             | RI                 | RI              | Yes                | Stat. testing of royalties and assists to identify loss of revenue. Recommend CIP. |
| Classification  | PRI                         | NRI   | RI             | RI                 | RI              | Yes                | Stat. testing of classification.   |
| Quantity  | PRI                         | NRI   | PRI            | NRI                | NRI             | No                 | No additional testing needed.  |
| 9801.00   | PRI                         | NRI   | RI             | RI                 | RI              | Yes                | No additional testing needed. Company to quantify LOR and develop CIP.             |
| 9802.00.80  | PRI                         | NRI   | NRI            | NRI                | NRI             | No                 | No additional testing needed.  |
| AD/CVD  | PRI                         | PRI   | RI             | RI                 | RI              | Yes                | No additional testing needed. Company to quantify LOR and develop CIP.             |
| <b>Legend:</b><br>NRI – No risk indicated<br>PRI – Potential risk indicated<br>RI – Risk identified |                             | <b>Summary Results:</b> Six areas reviewed during Pre-Assessment Survey. Part two of the FA, Assessment Compliance Testing (ACT), will be required in only two areas. Four of the six areas reviewed had identified risks, however, either controls were satisfactory or remedies were identified that do not require additional Customs testing. The company agreed to quantify the loss of revenue and complete a CIP in two areas, 9801 and AD/CVD. Customs will follow up on their tests and conduct its own transaction tests on value and classification. |                |                    |                 |                    |  |