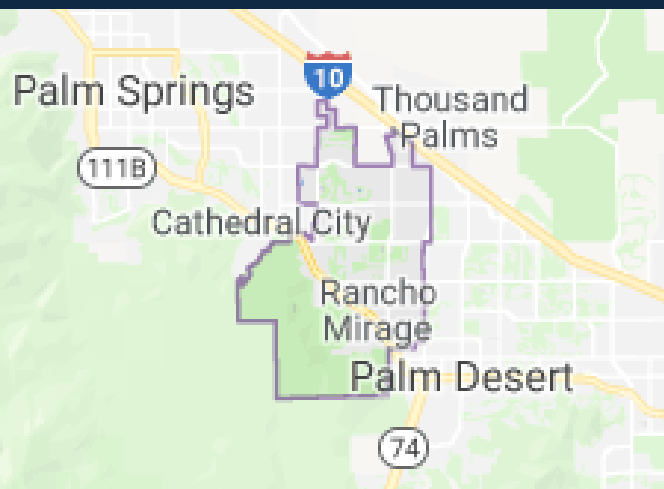# Regulatory Audit

(Thomas Jesukiewicz, Field Director, Long Beach, CA)

WESCCON, Rancho Las Palmas, Rancho Mirage, CA

Big Data & Analytics

Friday October 11th, 2019

Homeland Security

U.S. Customs and Border Protection

Who is Regulatory Audit?

Regulatory Audit's (RA's) mission is to conduct post-entry audits of importers and other private parties that interact with CBP and provide other professional services in order to:
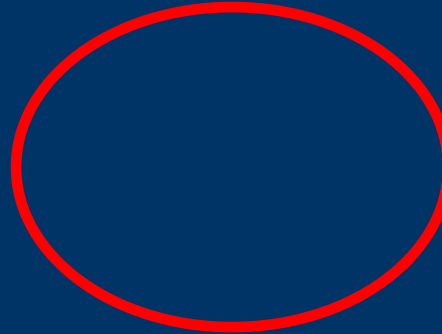
- **Ensure compliance with laws and regulations and protect government revenue**

- Facilitate legitimate trade through partnerships and informed compliance activities

- Protect domestic industries from unfair trade practices related to intellectual property rights and anti-dumping and countervailing duties (AD/CVD)

- Support enforcement cases and court actions

- Protect U.S. consumers from unsafe goods

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CBP Trade Strategy 2020

Audit Candidate Selection

Risk based approach considering:

- Company size, complexity of industry, non-compliances noted; familiarity / partnership programs

- Nature and volume of import activity with regards to sensitive areas and Priority Trade Issues (PTIs)

  - Antidumping and Countervailing Duties
  - Import Safety
  - Intellectual Property Rights
  - Textiles and Wearing Apparel
  - Free Trade Agreements
  - Agriculture
  - Revenue

- TFTEA (Forced Labor, EAPA)

Major Accounts

Priority Trade Initiatives

Material Discrepancies

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Audit Candidate Selection (cont.)

- **Data analytics**

  - the science of analyzing raw **data** in order to make conclusions about that information.

  - complex process of examining large and varied **data** sets, or **big data**, to uncover information -- such as hidden patterns, unknown correlations, market trends -- that can help organizations make informed business decisions.

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Survey? Audit? Investigation?
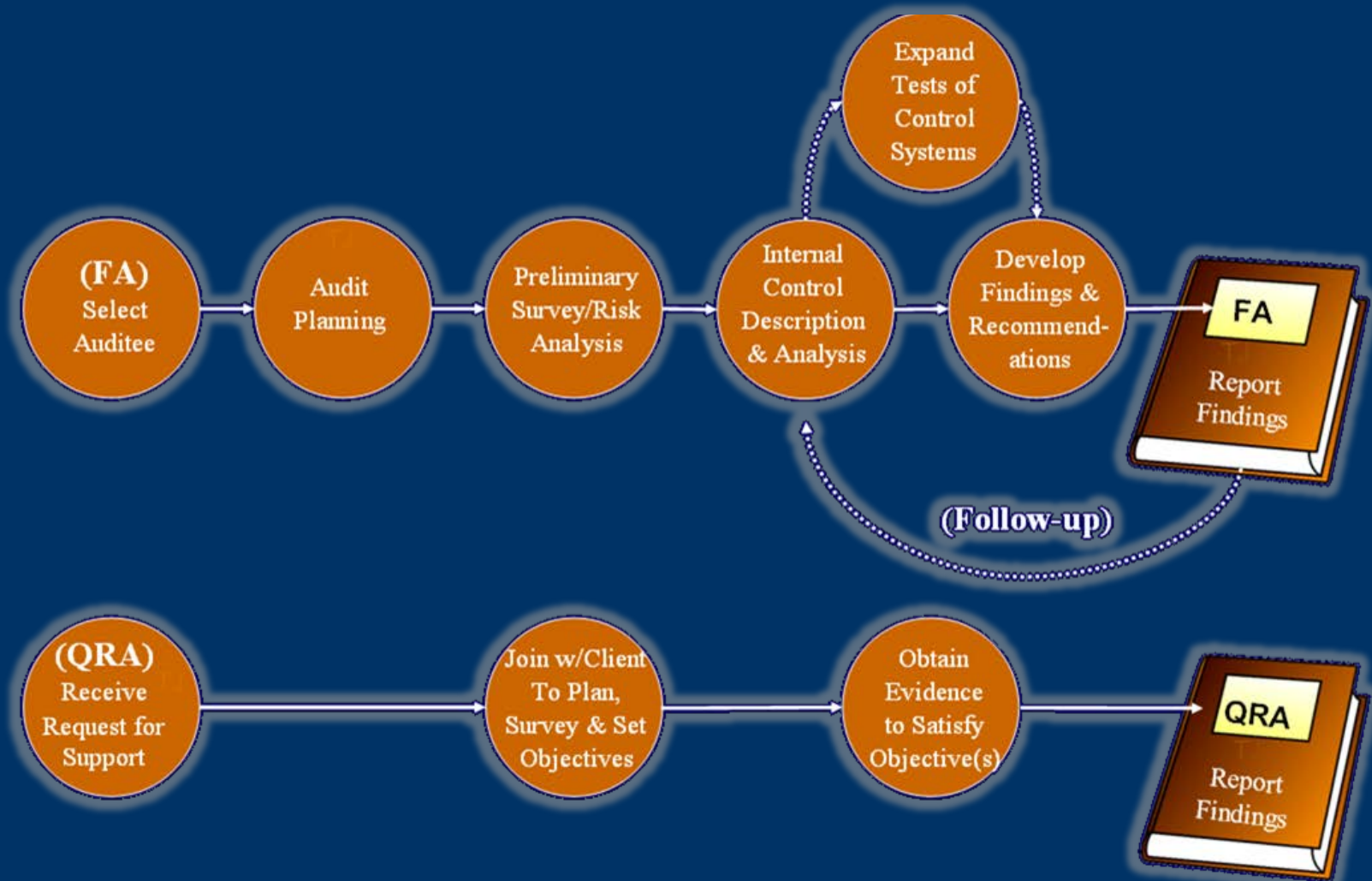
- Type of Notice?
- Questionnaire?

It's a letter/questionnaire from the Government. Says they're going to help me.

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Two Audit Approaches

Survey Approach

- Though similar to certain audit risk assessment procedures, the survey procedures do not constitute an audit in accordance with Government Auditing Standards (i.e., the nature and extent of the survey procedures are much more limited than that of an audit)

- Because an audit is **NOT** being performed, these surveys do not provide a determination of acceptable/unacceptable risk or a level of compliance

- A formal report is not issued; rather, auditees will receive close out letters

Importer Survey Objective

- Provide informed compliance to an importer of its responsibilities within a particular area of concern (e.g., area with noted violation, top importer of particular merchandise that is noted as a high risk commodity, etc.),
- CBP is primarily looking at the risks within the industry that fall under a PTI or emerging issue
- Survey could simply be a random test or to establish a baseline
- Address a specific risk noted with this importer

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Broker Survey Objective

"To inform (Brokerage) of its responsibilities as a Licensed Customs Broker and determine whether discrepancies exist that warrant further action by CBP."

CBP is primarily looking at licensed broker to ensure use of reasonable care.

Customs brokers must reasonable care in their submissions on behalf of their clients and also in accordance with Title 19 CFR 111 and related laws and regulations.

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Notification / Questionnaire

- Thoroughly review the questionnaire prior to answering
- Answer all the questions completely
- Ensure all attachments are provided as indicated on the questionnaire responses
- If sample entry or line item or other transactions were selected for a "walk-though" be prepared

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Why was I Selected(Broker)? (potentially your track record)

- Late files;

- Rejects;

- Power of attorneys (complete-valid and available);

- Misuse of license – unlicensed party using the broker's license, permit, or name;

- Lack of broker supervision;

- Lack of direct contact with the actual importer of record (is there another party that the broker deals with instead of contacting the actual importer of record? Does the importer know who the broker is? Is broker billing importer or unlicensed third party?); and

- Customs duties and fees paid untimely.

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Compliance Testing

- Powers of Attorney: Accuracy and maintenance of client and designated employee files.

- Recordkeeping: Maintenance, storage and production

- Bond Sufficiency: When the broker acts as importer of record.

- Notice of Method of Payment: Notification to clients of optional payment directly to CBP.

- Responsible Supervision

- Accuracy & Timeliness
  - Automated Broker Interface (ABI) Statement Processing:
  - Entry Documents
  - Duties and Fees
  - Supplemental Duties: Notification and payment

Auditor's Questioning Mind

What should be; what is; what could be

- To answer these questions there are five basic concepts (among others) an auditor explores on each subject/area under review
  - Clarity
  - Accuracy
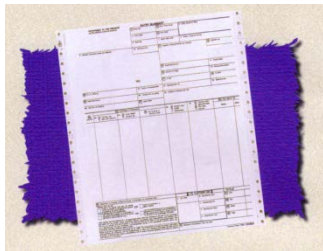 - Precision
  - Relevance
  - Breadth
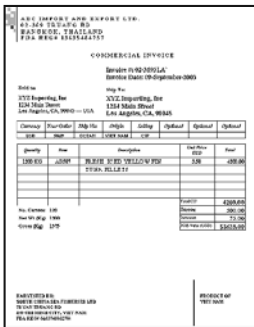
U.S. Customs and Border Protection
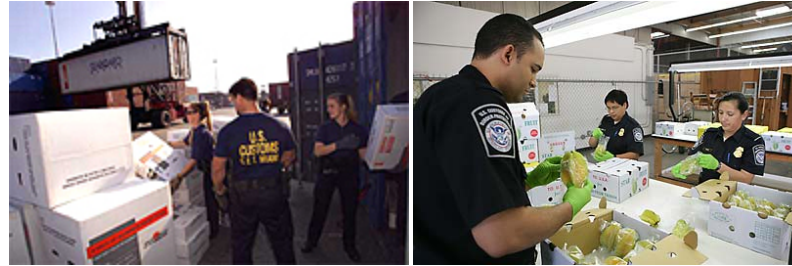
Audit Trail

Entry Package

Shipping Docs.

Entry Summary

Commercial Invoice

Customs Records

Entry Summary
ACS Line Items
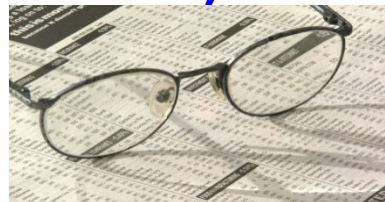Shipping Docs/BOL/Packing List
Commercial Invoice
Purchase Order
Receiving/Inventory Records
Payments/Sales
Financial Statements
Tax Returns

Importer's Records

Purchase Order

Inventory Records

Purchase/Sale Invoices

Financial Statements

AUDIT CHECKLIST
☑ Audit Satisfactory
☐ Nonconformances Found
☐ Observations Made

Trust but Verify

This concept goes hand-in-hand with the "Questioning Mind"; but is a slightly different view:

- As auditors we understand that the auditee is an expert on what it takes for them to run their business and make a profit among other things;

- As an auditor for the federal government working in the trade environment we must also be aware and understand that there is a symbiotic relationship between the trade and the government.

Trust but Verify (con't)

- What is the symbiotic relationship; simply put:

  - In order for the trade to be successful they depend on the laws, regulations and rules put forward by the government that protects them, enables fair trade, and that enables them to run their business for profit

  - In turn, in order to keep on doing the things above the government must ensure that everyone is playing fairly, are compliant, and that any proceeds due the government are paid

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Trust but Verify (con't)

So under this concept the auditor's role is to determine the compliance with the laws, regulations and rules that govern the auditees importation practices and in the end determine the acceptability of that compliance to mitigate risk to CBP

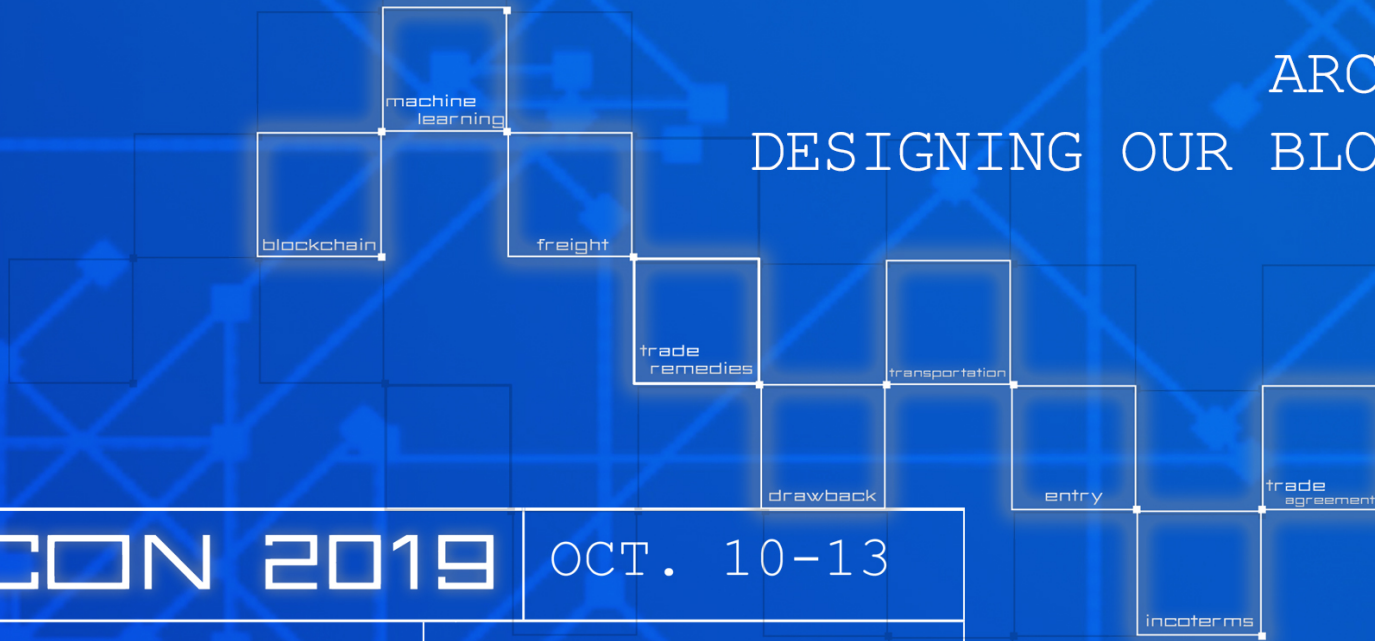"We trust that you know what you are doing, so now prove to us that you are an acceptable risk"

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Resources

- www.cbp.gov

- The CBP website contains resources with additional information, including suggested steps for obtaining a valid power of attorney. It also includes an Informed Compliance publication dated Jan. 2005 titled *What Every Member of the Trade Community Should Know About: Customs Brokers*.

ARCHITECTS OF TRADE
DESIGNING OUR BLOCKS IN THE CHAIN

machine learning

blockchain   freight

trade remedies   transportation

drawback   entry   trade agreements

incoterms

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RANCHO LAS PALMAS, RANCHO MIRAGE, CA   PACIFICCOASTCOUNCIL.ORG

BIG DATA AND ANALYTICS: WHAT "TREASURE TROVE" OF INFORMATION LIES WITHIN YOUR DATA?

Ali Halseth, LCB
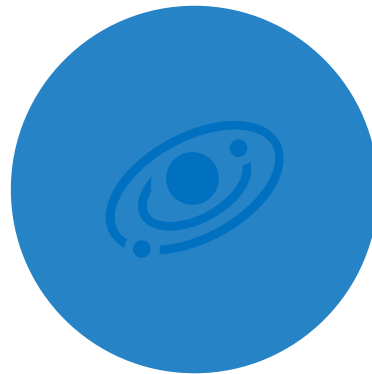Post Entry Audits
Geo. S. Bush & Co.

OUR NEW REALITY

MAKING SENSE OF DATA

QUESTION
AREAS OF RISK

UNIVERSE
ACE
IN HOUSE DATA SETS

VISUALIZE
TRENDS
ANOMALIES

ACE Reports – https://www.cbp.gov/trade/ace/training-and-reference-guides (scroll down to the ACE Reports Training – there are some great videos on how to customize)

Data merging, cleaning and visualization tools in Excel and Google Sheets:

- ✓ VLOOKUP & HLOOKUP – Bringing in data from one set to another where you have a common unique identifier. https://www.youtube.com/watch?v=OoNEoSARCh4

- ✓ Index & Match – When VLOOKUP isn't enough - https://www.youtube.com/watch?v=F264FpBDX28

- ✓ Macros – Program a series of steps or functions https://www.youtube.com/watch?v=NMzSIRQ8qMA

- ✓ Dynamic Dashboards using pivot tables - https://www.youtube.com/watch?v=K74_FNnllF8

TOOLS

GOOGLE IS MY BFF

THANK YOU!

Questions?

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Big Data, Machine Learning And Artificial Intelligence in The World of Logistics

Professor Nick Vyas

USCMarshall
School of Business

USCMarshall
Center for Global Supply Chain Management

Data as a Resource

1. Data Transformation

2. Digital Transformation

75% of businesses say **that poor quality data** has made it challenging to achieve their digital transformation plans.

89% of businesses say that meeting their digital transformation plans will require a **structured data migration**

73% of businesses say that they **lack the necessary talent** to drive their digital transformation

92% of businesses believe that **high-quality data is the fuel** for digital transformation.

Source: IBM

Data as a Resource

- ❑ There are two general data categories.
  - ❑ **Structured data** (traditional data base/spreadsheet)
  - ❑ **Unstructured data** (Ppt, e-mails, videos/ photos, news, articles)
- ❑ Both structured and unstructured data are growing annual rate of 40% a year
- ❑ Most companies are limited to only mining structured data
- ❑ But recognizes that unstructured data will become more important in the future

Source: IBM

Big Data Analytics

KEY OPPORTUNITIES

- ❑ Enhanced operational efficiency, visibility, and control over supply chains, assets, and staff
- ❑ New business opportunities through data-based intelligence services
- ❑ Increased customer satisfaction due to individual and data-driven logistics offers and services
- ❑ Greater added value can be achieved by combining different data streams

KEY CHALLENGES

- ❑ Strong business and IT alignment is required for implementation
- ❑ Anticipatory service requires open data exchange between the logistics provider and customer
- ❑ Privacy concerns regarding data collection and protection
- ❑ Data quality and appropriate data science skills

Source: DHL Trend Research

Artificial Intelligence

Back-office AI	Back-office AI presents a significant opportunity to streamline the internal functions of logistics corporations such as accounting, finance, human resources, and IT. Here, cognitive automation can be applied to critical logistics tasks such as ensuring the most updated customer addresses to bolster successful deliveries.
Predictive logistics	Predictive logistics can be enhanced by AI to shift the logistics industry from operating reactively with planning forecasts to proactive operations with predictive intelligence. An example is predictive demand planning using data from online shops and forums to predict unexpected volume spikes for trending products. Logistics providers and suppliers can then avoid costly overstocks or out-of-stock situations that result in lost sales for both the supplier and the consumer
Seeing, speaking & thinking logistics assets	Seeing, speaking & thinking logistics assets empowered by AI can greatly relieve the physical demands of modern logistics work. Applications include the use of AI-powered robotics solutions and AI-based computer vision systems which can augment much of today's logistics operations such as material sorting, handling, and inspections.
AI-powered customer experiences	AI-powered customer experiences can further personalize customer touch points, drive shipment volumes, and increase customer loyalty and retention. For example, the use of conversational AI interfaces (e.g., Amazon Alexa) can enable logistics providers to streamline interactions and be more attuned to their customers' needs and developments.

Source: DHL Trend Research

Artificial Intelligence

KEY OPPORTUNITIES

- ❑ Competitive advantage through data-driven decision making and shift towards a predictive AI-powered supply chain
- ❑ Reduction in costs through highly efficient and effective processes
- ❑ Increase customer satisfaction through the personalization of services using AI

KEY CHALLENGES

- ❑ High capital costs and requirements for AI implementation including substantial data sets, computing power, and highly specialized personnel skills in AI
- ❑ Ethical concerns regarding the use of AI
- ❑ Resistance from regulatory bodies and workforces affected by automation

Source: DHL Trend Research
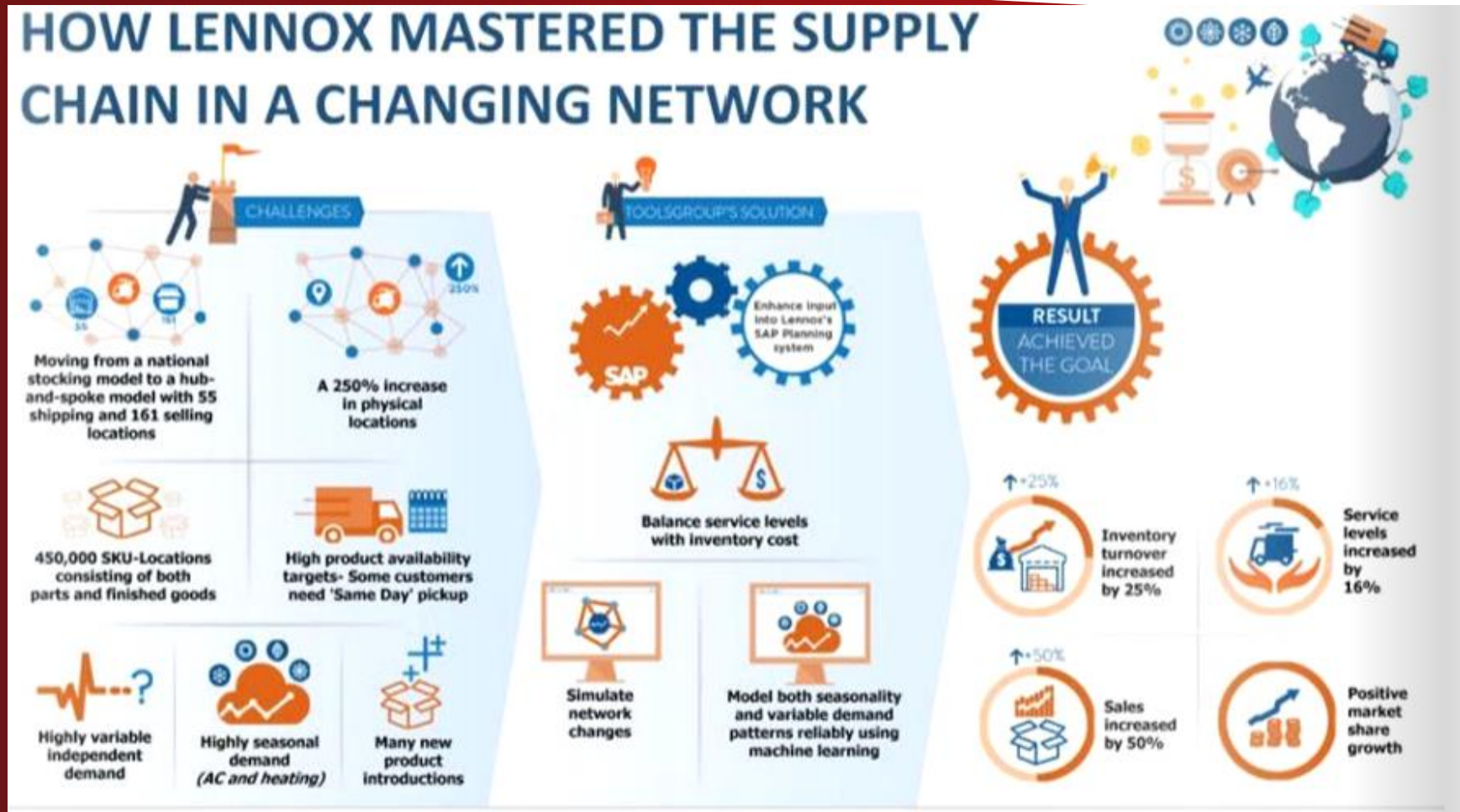
The Evolution of Forecasting Machine Learning
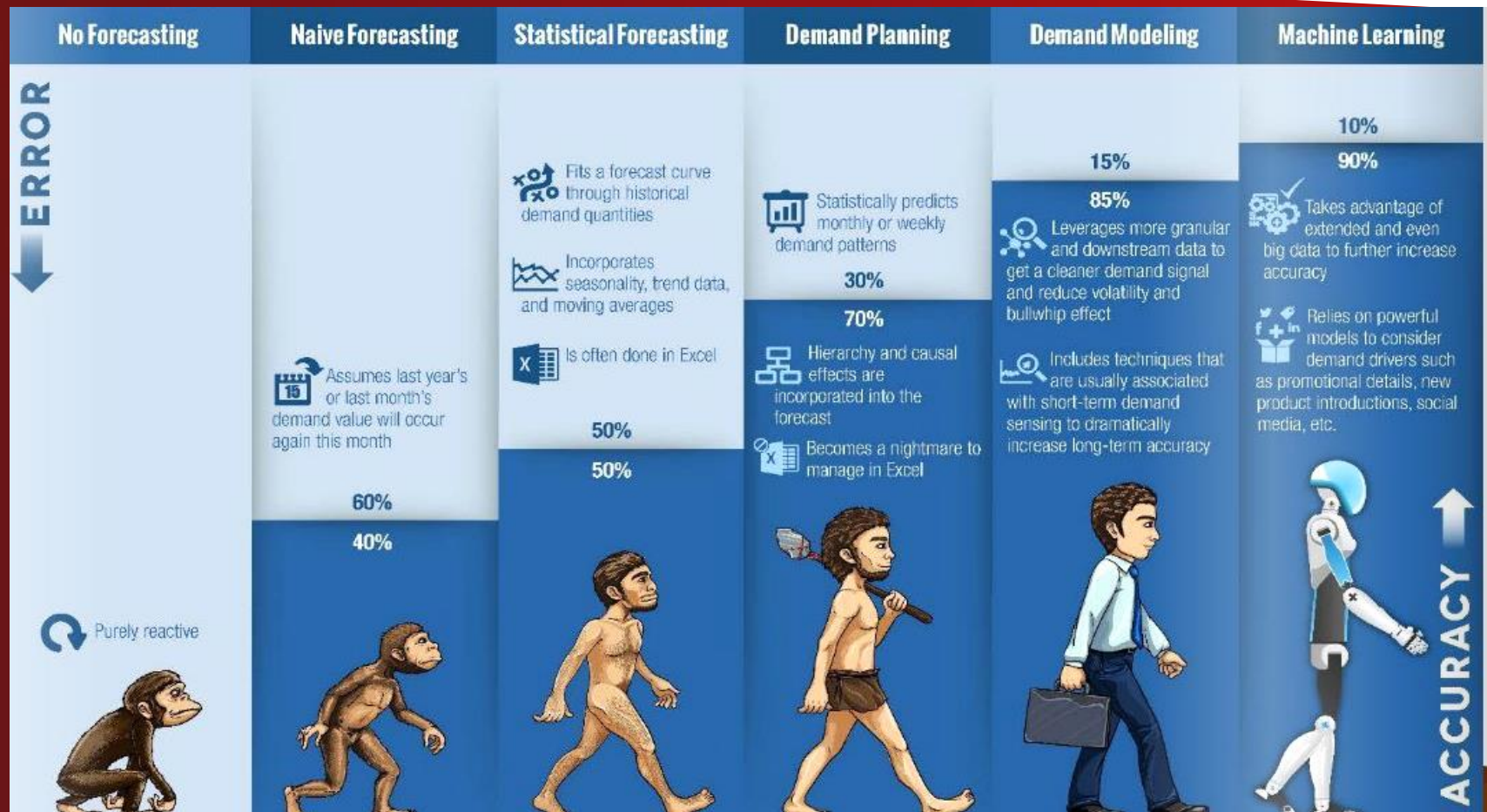
Source: Machine Learning – A Giant Leap for Supply Chain Forecasting
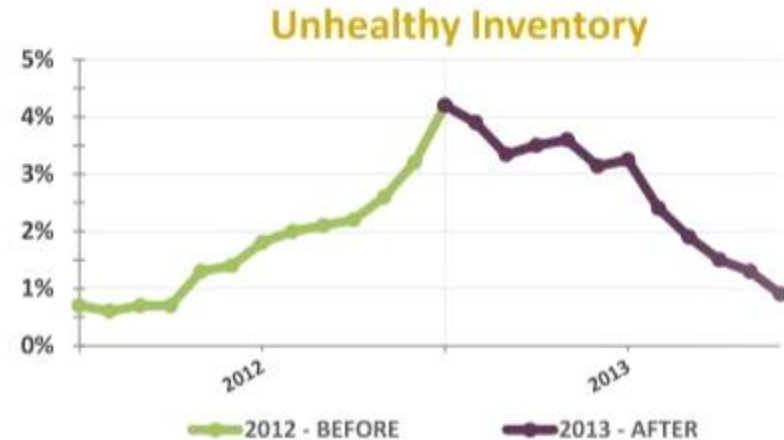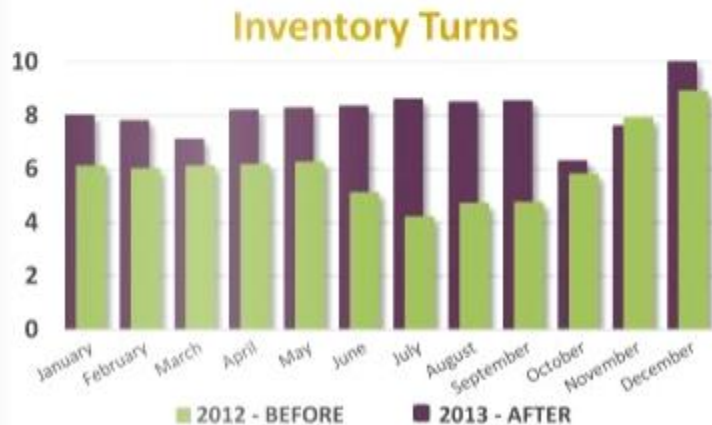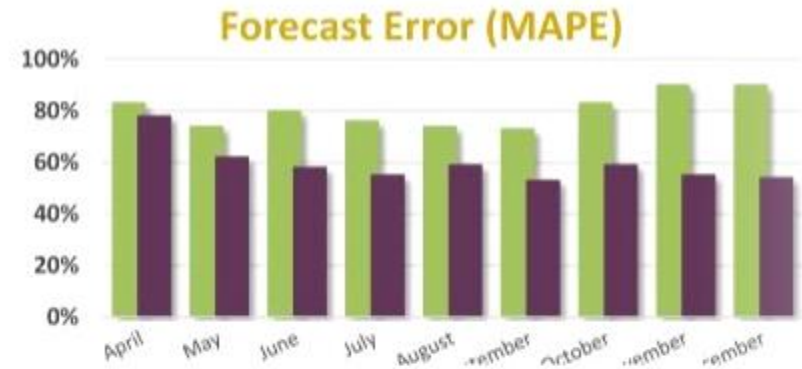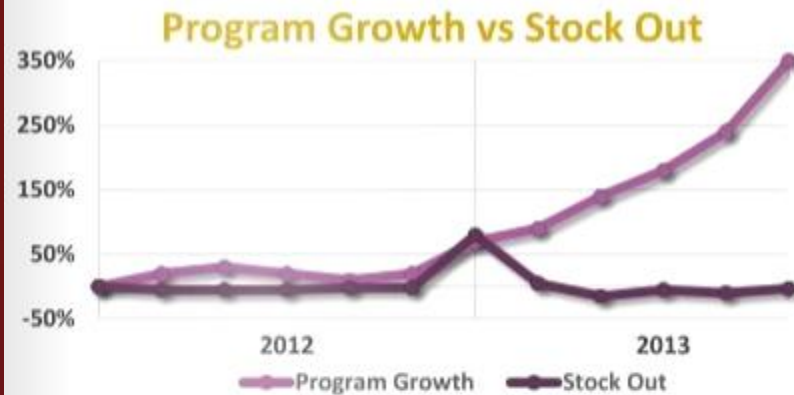
Machine Learning –
Adding Value to Demand Modeling
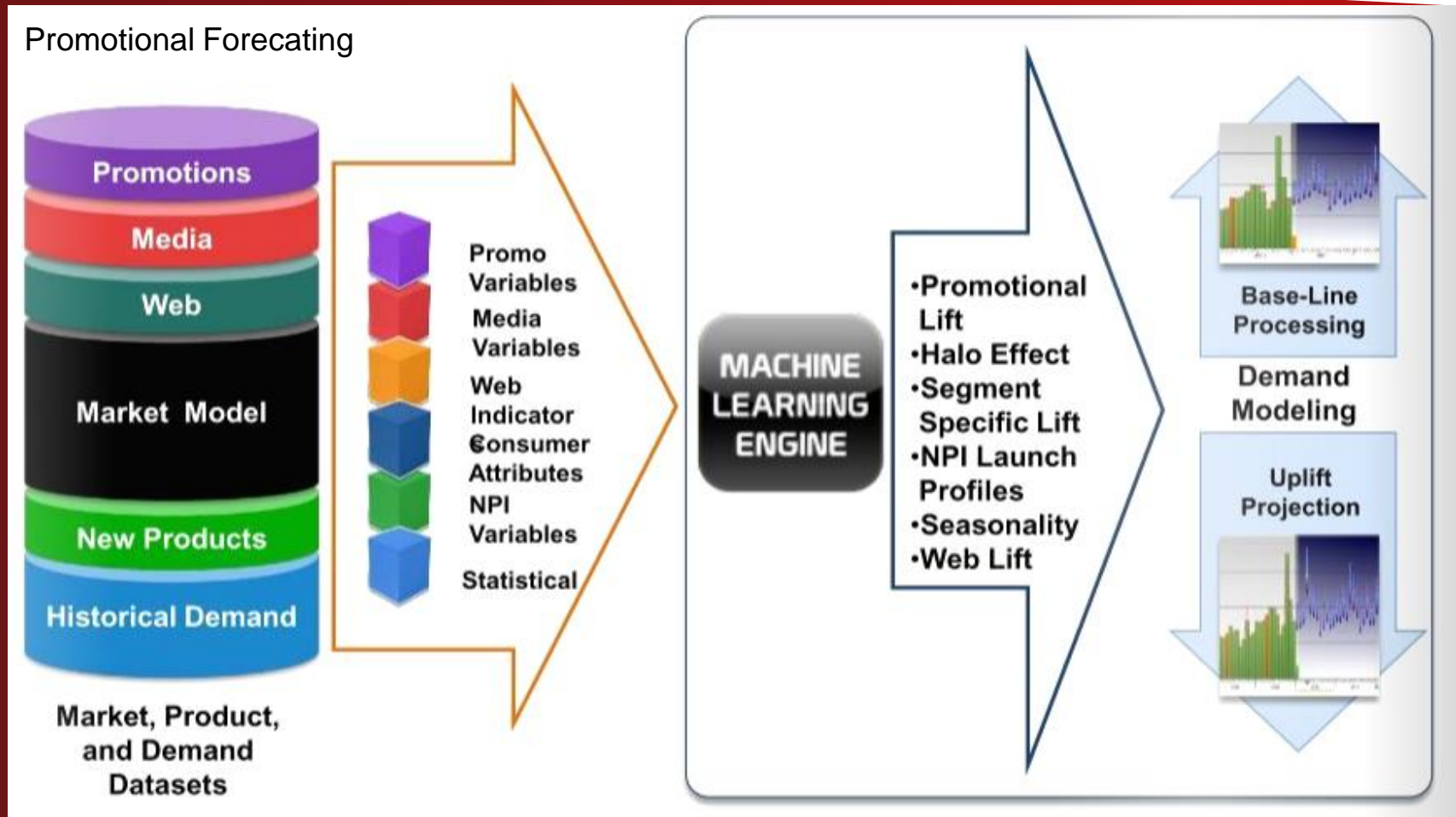
Promotional Forecating

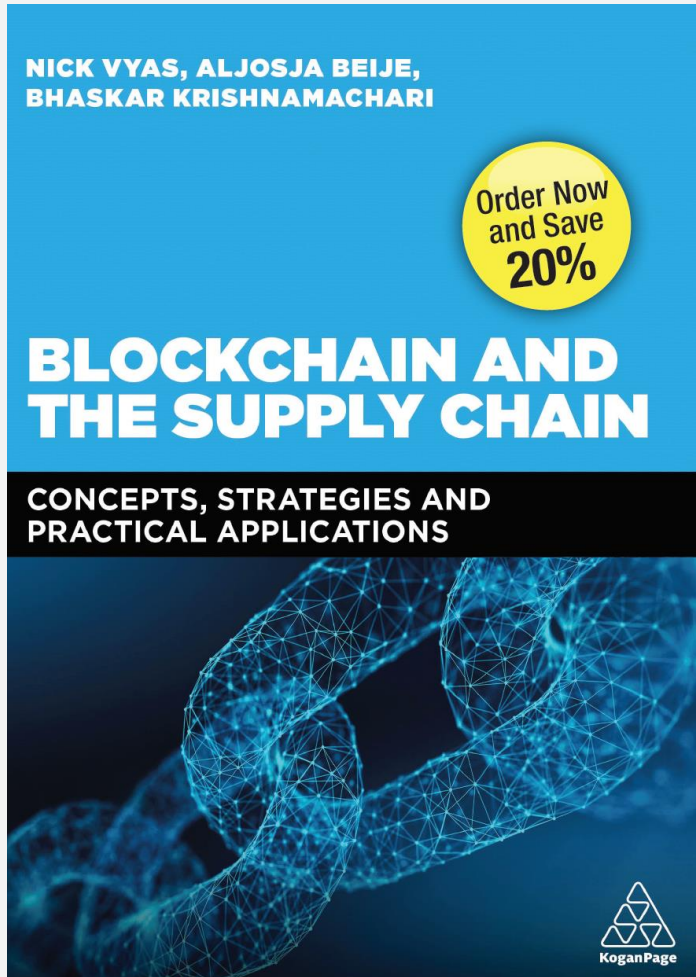*Source: Machine Learning – A Giant Leap for Supply Chain Forecasting*

Source: Machine Learning – A Giant Leap for Supply Chain Forecasting

Machine Learning: Wayfair

Increased Efficiency with Dramatic Business Growth

Source: Machine Learning – A Giant Leap for Supply Chain Forecasting

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CONCEPTS, STRATEGIES AND PRACTICAL APPLICATIONS

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Reflection
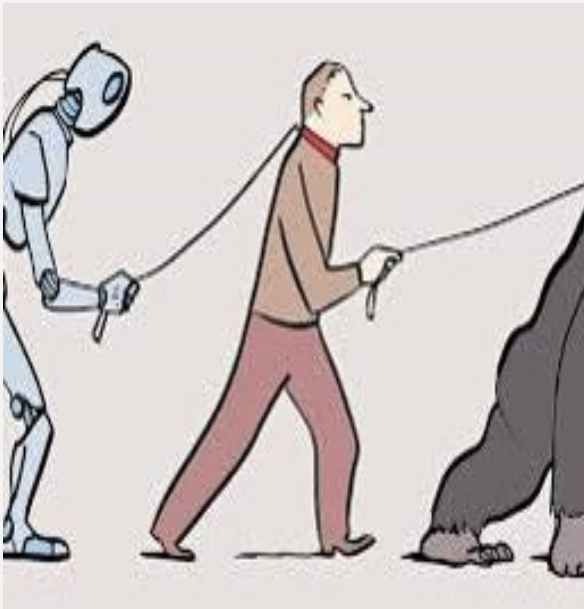
- ❑ The disruption will continue to advance in our society
- ❑ The equity distribution for those who disrupt is very large than those being disrupted.

THANK YOU

Executive Director, USC Marshall Center for Global Supply Chain Management

Academic Director, MS Global Supply Chain Management

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USCSUPPLYCHAIN.COM