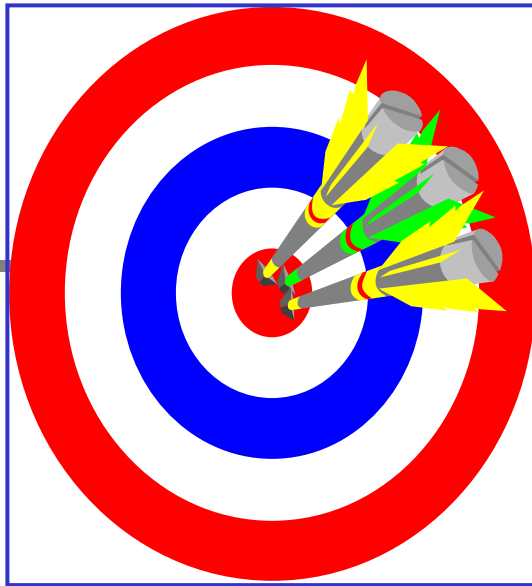


Conducting Your Customs Valuation Risk Assessment



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Conducting your risk assessment



- If you have never conducted a “risk assessment” you are “at risk”
 - Obtain Import data from ACE or OST
 - Identify programs use by your company (related party, 9801, returns, assembly, etc)
 - Identify SME knowledgeable about products and programs and assemble a customs value working group;
 - Review law and regulations and determine what requirements must be followed
 - Flow-chart company import & payment process
 - What elements make up company “cost of goods”



Estimating Your Risk

- Determining Average Duty Rate and MPF
 - What is your universe of entries?
 - ACE or OST & Liquidation Reports
 - Sort by Risk Area
 - Class of Vendor (related/ unrelated) (Assists)
 - Tariff Classification/ Product type
 - Trade preference (returns /9801, GSP, FTAs)
 - Divide total duties/ MPF by total value = Duty / MPF factor
 - Value adjustment factor (5% undervalued)

Estimating & Projecting LOR

Projecting LOR

Adj Factor	Entered Value	MPF Factor	MPF Paid
	\$ 344,948,194	0.0022128	763,301.36
1.05	358,746,122		793,833.42
	(13,797,928)		30,532.05

Projected LOR



Conducting your risk assessment

- Review company accounts for reportable Items
 - Related party payments vs. declared value
 - Assists
 - Supplemental payments
 - Royalties & License fee payments
 - Foreign R & D or NRE expenses
 - Packing costs and special packaging materials



Conducting your risk assessment

■ Related Party Payments

- How does company establish inter-company pricing?
- Is it appropriate under Customs' rules?
- Is price adequate to ensure recovery of “all costs plus a profit”
- Has an analysis of specific products been performed to test transfer price using Customs test?
- Are there year-end adjustments?



Conducting your risk assessment

- Assists
 - Direct assist is supplied by company
 - Does company export parts, components, materials or equipment to vendors?
 - Company export records
 - Corporate asset control sheet
 - Indirect assist is supplied by 3rd party at direction of importer
 - Need to obtain support of finance, production, purchasing etc.
 - Need accounts payable information for vendors other than direct suppliers
 - Need to understand Chart of Accounts and Cost of Goods.



Conducting a Risk Assessment

- Services Provided aboard
 - Are services incidental or necessary for production of imported goods?
 - Requires an in-depth understanding of activities of U.S. employees and 3rd party service providers
 - Example: U.S. employee reviews technical development issues and technical problems that the manufacturers may have in complying with design and development and modifies production
 - See HQ 546054 (October 23, 1996) and HQ 548540, July 28, 2004



Conducting a Risk Assessment

- Supplemental Payments To Suppliers
 - Generra Rule— presumption that all payments to supplier are a part of total price paid
 - Value of imports by supplier vs. total payments to supplier
 - Separate payments for tooling, molds, packaging items
 - Special NRE charges, transportation charges for 3rd party supplied materials
 - One time set up fees, small lot fees, expedite fees, etc.
 - Review actual payment records and invoices to determine whether services or materials purchased relate to imported merchandise



Preparing your Internal Controls

- What is your objective/goal?
- Study:
 - Customs FA Guidelines
 - Best Practices
 - Model Internal Controls Manual



Preparing your Internal Controls

- Written procedures:
 - Summarize specific program and legal requirements
 - Identify persons and/or positions within company responsible for program or information
 - Identify all records, filing times, and internal information reporting requirements
 - Report findings of audits and reviews to management with corrective action plan

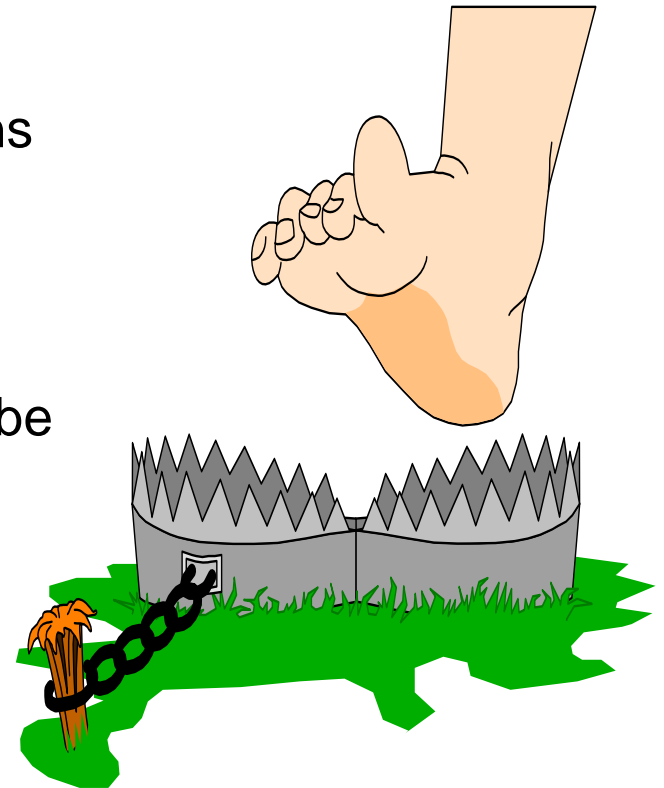


DEVELOPING A CUSTOMS COMPLIANCE PROGRAM: Valuation

- Develop system to link payments to invoices and invoices to entries
 - Supplemental Payments
 - Additions to price--
 - Assists (parts, components, tools, etc..)
 - Royalty & License fees
 - Proceeds of Subsequent resale
 - Packing costs
 - Selling commissions
- Document how these payments are recorded to G/L; establish a procedure between finance and Customs

Create a Self Testing Plan

- **Develop Self-Testing Plan**
 - Sample entry and financial transactions
 - Identify errors and determine cause
 - Share findings with others
 - As a group determine how errors can be eliminated
 - develop procedures that “reasonably ensure” compliance goals and objectives are met.





Preparing Internal Controls

- Develop Standards for suppliers & Service Providers
 - Include compliance requirements in contracts, purchase agreements, and service contracts
 - Develop SOP with suppliers to ensure that Invoices have accurate descriptions and values
 - Develop SOP with brokers to ensure that Customs transactions are accurately processed.
 - Require suppliers provide regulatory reporting information when applicable (NAFTA, GSP, etc.).
 - Send suppliers and brokers a monthly or quarterly score card

Preparing your Internal Controls

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

