

Expect the Unexpected – A New Approach to Auditing

I think we'll all agree that the theme for the past year under the Trump administration has been "expect the unexpected". Here at BPE Global, we've also seen this theme regarding auditing. Compliance programs that have been stable for years suddenly go rogue. Compliance issues usually go undetected until an audit is conducted at a deeper level. That's why it's important to audit the unexpected.

What do I mean by audit the unexpected? Think about the components of your compliance program that you take for granted. Most companies pull a random sample of import and exports from a certain time period and make sure the shipment was declared correctly against the invoice or information in their ERP system. The key here is whether your compliance information is correct in the first place. Here are five great examples of areas to include in your next audit:



1. **FTAs, and other Duty Savings Programs.** You can audit an import entry and check whether there is a NAFTA certificate on file, but have you audited the validity of the classification and the NAFTA determination? FTA certificates of origin are an example of ongoing programs get 'rubber stamped' each year but very few companies bother to perform detailed determinations to ensure nothing has changed for FTA eligibility. Changes in sourcing can cause all kinds of issues for FTA determinations so make sure a proper analysis is performed each year and stay in touch with your Purchasing department for any changes. Also check in with your broker to ensure they are using the correct country of origin certificates and notify them immediately when a certificate is no longer valid.
2. **Restricted Party Screening.** Screening gets taken for granted especially when a company has automated screening that runs every night on customer names and addresses. However, what if Order Management personnel are using drop ship addresses as Ship To locations that never get added to a Customer Master and therefore never get screened? Another area that gets overlooked and are difficult to detect are the companies 50% (or more) owned by OFAC sanctioned entities. A deeper dig into the ownership for example of Russian or Venezuelan based companies may result in that entity being blocked even though it passes screening.
3. **Antidumping & Countervailing Duties (ADD/CVD).** Here's where a supplier change can really impact your compliance and bottom line. Keeping track of ADD/CVD cases is getting harder to keep up with. You'll want to review ADD/CVD cases on a regular basis to determine if your item classifications are involved with a ADD or CVD case. Then track the manufacturers involved and educate your purchasing department about the ramifications of buying from these companies. If your items are subject to ADD and/or CVD, ensure your broker is correct paying the duties and listing the correct case number.
4. **Government reporting.** Most audits focus on import and export declarations but not on periodic regulatory procedures such as government reporting. For instance, say your company had an export of a restricted encryption item that requires semi-annual encryption reporting. Was that transaction included in the report? Another example would be if you notice a purchase order was found to contain boycott language. Was the BIS 621-P report actually filed?
5. **CBP Rulings, CCATs & CJs.** Government reviews of your classifications and jurisdiction determinations get taken for granted as well. Nobody wants to touch a favorable ruling, CCATS or CJ. However, these all need to be reviewed and audited for their continued validity. One small change in an item's essential character, end use, or performance levels can change everything regarding its classification and related regulatory controls.



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We hope you enjoyed this Hot Topic and hope it inspired you to dig in a little deeper when you perform your next audit.

If you have any questions, or need help with a trade compliance audit, BPE Global is here to help! Julie Gibbs is a Director of BPE Global. You can reach Julie by email at Julie@bpeglobal.com.