

LEADERS ACT – *Import Compliance & the Forces of Change*

On September 11, 2001, President Bush immediately recognized the world had changed forever, and that new policies, new organizations and new tools would be required to protect America against terrorism. He acted.

The following year, Congress recognized that corporate corruption made evident by the events at Enron, World Com, and others required new legislation and reporting requirements in order to protect investors. They acted.

These two events have changed forever the responsibility and liability of companies importing merchandise into the United States of America. Have you acted? How certain are you that your company has sufficient internal controls within your import operations? How certain are you of the accuracy and transparency of import data feeding your financial systems and U.S. Customs and Border Protection (CBP)? Does your company have a single person who has direct and regular access to the CEO and CFO to inform them of logistics and trade related risks and issues? Has your company documented internal controls that demonstrate REASONABLE CARE in accordance with the Modernization Act of 1993? Does your company meet the higher standards for the transparency and accuracy of your international accounting and record keeping set by the SARBANES-OXLEY ACT OF 2002 (SOX)?

If you are an executive for a major corporation, take the time to meet with your accounting and international organizations and compare.

Compare head count, technology infrastructure, system sophistication, corporate oversight and internal controls. Import operations have been notorious for their dependence on manual processes that keep the staff busy on routine operations, and prevent them from addressing solutions to improve and optimize their processes. Manual importing processes are still prevalent today while other departments have fully operational ERP systems, bar coding and EDI, satellite communications and even warehouse automation and robotics. If you recognize a wide disparity between the internal controls your company has in place for accounting and the controls within your international operations, it is time to act.

The U.S. Government's Fiscal Year (FY) 2006 budget recognizes that securing America's borders is a top priority. Accordingly, CBP received a 4.8% budget increase -- one of the highest in government. Specifically, the FY2006 budget for CBP totals \$6.7 billion. How much are you investing to ensure the compliance, accuracy and transparency of your international transactions?

CBP plans to spend \$305.5 million to implement the Automated Commercial Environment (ACE), and another \$16.2 million on the related International Trade Data System (ITDS) program. These two modernization initiatives, begun in 2001, focus on cargo import and export operations and operate in

conjunction with Customs Trade Partnership Against Terrorism (C-TPAT). These security initiatives combine with the corporate governance and compliance legislation of Sarbanes-Oxley to create the most severe scrutiny on America's corporations in our country's history.

Here are a few of the federal government's new programs and laws that will govern importing activities in the new millennium.

The ACE Secure Data Portal is being designed to provide importers with a universal dashboard for data, tools, and information but it will also allow CBP to *increase enforcement activity and oversight*. The system will track examination and enforcement results and distribute them immediately to authorized users. It will extend targeting to cover the vast majority of the cargo and conveyances entering the country.

SOX is aimed at improving the transparency and accuracy of financial accounting and record keeping in publicly traded companies. This legislation imposes new responsibilities on corporate executives and boards to create extensive policies and controls to secure, document, process, and verify material information dealing with financial results. Section 404, Management Assessment of Internal Controls, states: *Technology without process is not internal control. Companies should assess their supply chain, looking at gaps and also redundancies that can compromise control. Inefficient processes should be identified and remedied.*

Non-compliance not only creates risk from CBP, but from Other Government Agencies (OGA's) as well. There are numerous Federal Agencies that monitor import transactions in addition to CBP. Focusing on compliance with one agency will not guarantee free passage through the gauntlet of agencies, rules, regulations and requirements that importers face in the 21st century. The government's ability to increase the flow and oversight of information to OGA's will mean increased scrutiny and accountability for importers.

The CBP Modernization Program will redesign the automated systems that support CBP operations for all goods and people crossing U.S. borders. The feds are raising the bar on compliance and transparency, and on their capacity for oversight, and it's beginning to take hold. On May 12, 2005, a Department of Homeland News Release announced the first prosecution in Southern California involving violations of the North American Free Trade Agreement (NAFTA) resulting in a \$5 million fine and possible jail sentences for three executives.

Importing companies need new strategies, new organizations and new tools to meet the increased standards for accuracy and transparency of their international transactions, and to responsibly manage the new risks associated with today's global environment. Importers must tread carefully **for non-compliance in the 21st century is not a viable option.**

Global Data Mining (GDM) is one organization that has acted to address the Forces of Change challenging importers today. GDM and its strategic partners, Customs Info and Tariffic International, have joined forces to help importers meet these new challenges, use data and technology to identify and correct system weaknesses, and thrive as an importer and global company in the 21st century.

GDM offers a unique and innovative solution based on the principles developed and made popular by Six Sigma. First, they electronically *recreate* years of past importing transactions to identify and quantify errors and non-compliant activities. Next they turn that unorganized data into executive level *reporting* to provide decision makers with the information needed to evaluate, prioritize and implement corrective actions. Finally, they design rigorous internal controls to *repair* the cause of errors in order to optimize the compliance, accuracy and transparency of import data feeding financial systems, executive leadership and CBP. GDM calls this methodology their *3-R's* of effectively managing the complexities of import compliance.

Importers of the 21st Century face unprecedented challenges caused by global events that have reshaped the international world of trade forever. It's time to act.