RISK MANAGEMENT & YOU
We are the guardians of our Nation's borders — America's frontline.

We serve and protect the American public with integrity, innovation, and pride.

We enforce the laws of the United States, safeguard the revenue, and foster lawful international trade and travel.
The U.S. Customs Service has one of the broadest and most complex missions in all of federal law enforcement. Perhaps at no other time in its more than 200-year history has our agency faced the challenges it does today. A spiraling volume of goods crossing our borders has put immense pressure on our limited resources, while presenting new opportunities for criminals intent on smuggling contraband into the United States.

To contend with this environment, Customs has turned to the principles of risk management. Risk management offers us a blueprint to facilitate and enforce in a dynamic new era of global trade. With the help of new technologies, we are building systems that pinpoint and prioritize risk in the trade we process, and allow legitimate commerce to pass through our borders unimpeded. But risk management is about more than technology. It reflects a mindset, a new approach to doing business that I encourage all Customs employees to adopt.

In the end, the most valuable asset Customs has for implementing effective risk management strategies is its people. Your commitment to studying and applying the basic principles contained in this pamphlet are an important first step. They are relevant to the activities of any program or office. Please review this introductory information closely and consider how risk management can best be implemented in your daily work.

Customs has taken a leadership role in applying the principles of risk management on a variety of trade and enforcement fronts. The challenges inherent in our mission really present us with no other choice. Our future depends upon our ability to focus our resources wisely. With your dedication to this goal, I know we can look forward to much continued success.

Charles W. Winwood
Deputy Commissioner
U.S. Customs Service
“We need to continue to improve our non-intrusive targeting abilities and collaborate on informed compliance. Customs is not choosing between enforcement and facilitation, because there is no conflict between the two. We will succeed at both by implementing the Customs Risk Management Process — a systematic approach to identifying and managing the risks associated with international trade and travel.”
Chuck Winwood, Deputy Commissioner

“We experience risk as a common part of daily life. The simple act of walking across a busy street has inherent risks. Risk management is equally common, since we have an instinct to reduce potential problems and take advantage of opportunities. When crossing a street, we wait for a break in the traffic, or cross the street at an intersection with a traffic signal – both are methods of risk management.

Using risk management in our personal lives, we make decisions that could mean the difference between success and failure. Using risk management at the U.S. Customs Service, we make decisions that allow us to operate more efficiently and effectively.

Operating this way is a necessity for Customs, because the number of potential violations will continue to outpace the number of Customs employees. Annually, more than 480 million passengers and close to $1 trillion in imports cross U.S. borders. Land, sea, and air traffic entering the U.S. is steadily increasing and outpacing the growth of Customs resources.

Each employee’s contribution is essential to managing the operation at maximum efficiency. Just as you must look carefully before you cross a street, you need to exercise judgment in deciding where to concentrate your efforts at work. The Customs Risk Management Process will help you use tools locally to meet national goals. In these pages, you will discover how the Risk Management Process helps Customs to accomplish its mission.

“Sharing information between ports has dramatically increased the effectiveness of our operations. Risk management elevates our selectivity decisions from individual targets to agency-wide plans of action.”
John McGowan, Executive Director, Field Programs, Office of Field Operations

CUSTOMS RISK MANAGEMENT: A proactive technique that identifies processes for controlling risk in Customs activities.
Risk Management & You

The Customs Risk Management Process

The Customs Risk Management Process includes four steps.

Step 1: Collect Data and Information
Step 2: Analyze and Assess Risk
Step 3: Prescribe Action
Step 4: Track and Report

The Risk Management Process is repeated continuously. Each time new data is added, we refine our analysis and actions. Each data collection cycle is more focused and more effective than the one that preceded it. Available data guides today’s decisions. Data collected today becomes tomorrow's starting point for risk management.

As described below, risk has three characteristics.

**Risk is partially unknown.** If we were 100 percent sure of the compliance of every transaction, shipment, passenger, and conveyance, our job would be easy.

**Risk changes with time** just as laws, importers, industries, smuggling trends, and criminals change.

**Risk is manageable.** We can identify risk and take appropriate action. It is not possible to eliminate risk, but we can manage the risk by minimizing its impact.

Based on experience, we know that some transactions, shippers, commodities, or passengers present a more significant risk than others. But how do we identify those most likely to be high risk? The key consideration is the level of risk. We must focus on what presents the greatest risk of non-compliance or threat to the public.

To be truly effective, the Customs Risk Management Process needs to be practiced throughout the Service. If it is uniform, systematic, and applied in a disciplined manner, the process will work for everyone.

"With our target identified, we can dedicate our energy to finding the problem and solution."
Tom Welte, Assistant Director, Operations, Mid-Pacific CMC

"The key to effective risk management lies in the data. It is not only crucial that the initial data be complete, accurate, and timely, but that the results of our actions – both positive and negative – be captured, recorded, and fed back into the process. Without tracking and reporting our efforts, the risk management wheel goes flat, the process stalls, and we never make forward progress."
Todd Owen, Port Director, New Orleans
“We have the opportunity to validate our enforcement techniques and determine if we are choosing the correct flights. And, if we’re not, the Risk Management Process will help point us in the right direction.”

Don Anderson, Program Manager, Outbound Program Divisions

“By the very nature of our job, we use risk management in our daily enforcement functions. However, to be more effective, we must consciously and systematically improve the quality of our data. Risk management gives us the approach to do this in every area of our collective enforcement responsibilities. This will significantly improve our performance.”

John Varrone, Assistant Commissioner, Office of Investigations

Benefits

A good risk management process recognizes the results of your efforts. If a process requires that you only write down your "hits" and not your "misses," then that process never tells the complete story. By recording all activities, the data portrays a complete picture of the work performed at each location.

Other benefits include not duplicating the work of others and building stronger cases through better data. You will spend less time on low-risk areas and find that your prescribed actions have a higher success rate.

The Risk Management Process makes it much easier to work with Customs personnel from other functions. Teamwork is its own reward in risk management. When teams share data, everyone’s efforts are more effective and efficient.

Step 1: Collect Data and Information

Data collection is already a standard procedure in Customs. For example, investigations begin with Special Agents collecting and analyzing data. To be most effective, risk management requires that we collect useful data in a systematic manner. Building the initial database is a major task, but there is no way to overstate the critical, ongoing importance of this phase.

Our data collection activities rely on each employee's dedication to data quality. For example, Inspectors must take time to enter data that records the reasons for passenger referrals and the results of secondary examinations. If that data is sound, it serves as a strong foundation for accurate analysis. But if that data is faulty, it can seriously undermine our ability to obtain positive results. Data quality is critical!

Data collection methods vary widely. They include automated high-tech tools as well as the ancient skill of footprint-reading used by the Tohono O'odham Native American Customs Patrol Unit.
**Step 2: Analyze and Assess Risk**

Automated tools are in place to help you analyze data and assess risk. These tools can identify trends and lessons from past experiences, as well as point out high-risk areas and payoffs.

Every good risk assessment takes into account national policies and priorities. Consider your actions in the broader context of the Service as a whole, and use uniform standards so that everyone’s results are measured using the same yardstick.

**Benefits of Using Key Automated Tools**

Various Customs automated tools support the Risk Management Process by:

- Establishing cargo compliance and discrepancy rates that help to identify trade compliance risk areas and to assess the effectiveness of cargo exam targeting.
- Generating trend analyses that provide the "big picture" of activity for passengers, commodities, importers, manufacturers/shippers, countries, and filers. These analyses allow Customs to devote more time to potential violations, thus improving the effectiveness of law enforcement.
- Enabling managers to review actual personnel expenditures and run "what-if" analyses on various staffing alternatives.
- Allowing Inspectors to score shipments by narcotics risk so that high-risk cargo receives immediate attention.
- Tracking personnel, payroll, and financial information and costs to ensure accountability of resource use.

**Houston’s Trade Programs Benefit From the Risk Management Process**

As one of nine ports selected to pilot the Risk Management Process for trade compliance, Houston conducted a comprehensive port risk assessment. The Port identified which areas represented the largest risk and where resources were concentrated. Through this assessment, the Port of Houston recognized that the workloads of its trade teams were not balanced. A single team handled the Primary Focus Industries (PFIs) that represented the largest volume and the most estimated discrepancies (risk) for the Port. To address the imbalance, Houston used Customs automated tools to gather data on each PFI. The risk was determined by looking at the number of entries, the value, and the estimated discrepancies. Based on that analysis, the workload was more equally divided and assigned to the teams. This data collection and analysis led to more effective use of resources and allowed the Port to better address the risks in each PFI.
Step 3: Prescribe Action

After you have collected the necessary data and the risk analysis is complete, action may be needed to reduce risk and to increase compliance.

Prescribing action involves two distinct steps: (1) identifying the cause of the risk, such as lack of knowledge or willful disregard of laws and regulations; and (2) selecting and implementing an appropriate response.

When prescribing action, Customs employees should ask:

- Does the action reflect national priorities?
- How will we know if we are successful?
- What are the costs and benefits?
- How long will the solution take?
- Do we have the staff?
- Is the staff properly trained?
- Do we have the appropriate technology?
- What can I do to support this action?

A Risk Management Success Story: Los Angeles, California

Step 1. Collect Data and Information
Los Angeles/Long Beach is the primary port of entry for shipments from the Far East. One focus of the data collection effort is counterfeit intellectual property rights (IPR) merchandise.

Step 2. Analyze and Assess Risk
Analysis indicated that the greatest risk of counterfeit IPR goods came from shipments originating from certain regions within the Far East. Therefore, examining containers arriving from these regions became a high priority of the pre-entry "Discovery Team."

Step 3. Prescribe Action
Based on the analysis, the Port increased the number of examinations of containers exported from the high-risk regions. During the examination of a high-risk container, the Discovery Team found counterfeit trademark merchandise.

The team took enforcement action and referred the seizure to the Special Agent in Charge (SAIC), Los Angeles, for investigation. Special Agents then made a controlled delivery of the container. The investigation uncovered that, over a 2-year period, the suspect shipper had imported shipments of counterfeit merchandise. SAIC, Los Angeles, referred the case to the U.S. Attorney's Office for federal prosecution. The suspect was indicted on two counts, arrested, and is awaiting trial.

Step 4. Track and Report
The intelligence gathered from this operation was reported to the Los Angeles Strategic Trade Center, the IPR Center at Headquarters, and the Trends Analysis Group. Each of these organizations conducted additional analyses on the information generated by this situation. By feeding information back into the Risk Management Process, Customs was able to identify additional investigative leads and potential targets.
After you have implemented a prescribed action, results must be tracked and documented. This process ensures that successes can be repeated and that personal knowledge becomes shared knowledge.

Information and knowledge gained in this step are fed back into the Risk Management Process. This feedback can also occur at any step. A change in a risk priority requires that the "Analyze and Assess Risk" step be updated. A modification of an action plan requires a reassessment of the "Prescribe Action" step. Risk is never absolutely known and changes with time. Therefore, results and experiences must be continuously fed back into the process to increase knowledge and better predict future risk.

The Risk Management Process in Passenger Programs

Tracking both positive "hits" and negative "misses" allows us to understand the impact of our actions. For example, a comparison of Customs personal search statistics for the first three quarters of FY 1999 and FY 2000 shows:

- In FY 2000, there was a reduction in the number of personal searches performed (6,704 compared to 21,146).
- In FY 2000, there was an improvement in the rate of positive searches (13.9% compared to 5.0%).

Customs performed significantly fewer searches without adversely impacting results. The graph depicts how personal search efficiency increased after the Risk Management Process was implemented.

"The recent Primary Focus Industry (PFI) review followed the Risk Management Process. The analysis resulted in a PFI review manual that documented the process and identified several new PFIs which will be incorporated into yearly Trade Compliance and Enforcement Plans. PFI Compliance rates and goals will be tracked through the plans, and the lessons learned along the way will be captured and applied to future reviews."

Brian Lewandowski, International Trade Specialist, Office of Strategic Trade
“I can see how Customs has evolved in managing risk. I have always used tools to identify the degree of risk. But now automated tools, such as the master matrix and the statistical risk assessment, enable me to determine the degree of risk in a more uniform, meaningful, and useful manner.”
LaDonna Evelyn, Operations Specialist, West Great Lakes CMC

“Risk management gives us an estimate of what we don’t know, to add to the things we do know.”
Fred Haseley, Supervisor, Strategic Operational Analysis Staff

**Your Role in Risk Management**

You've always practiced risk management. Now the challenge is to practice it in a more uniform, systematic, and disciplined manner by using the Customs Risk Management Process.

Place risk management in the forefront by including it in every aspect of your job. Record data consistently and be accountable for the accuracy and quality of the data you collect. Participate in discussions and offer suggestions for effective ways to reduce risk. Be proactive so that early awareness of risks can lead to quick solutions.

**Trade Teams Benefit From the Risk Management Process**

"Using the Risk Management Process allows the Import Specialists, Inspectors, and Entry Specialists on our multi-discipline Trade Teams to make data-driven decisions on what work to do and what to pass. These teams evaluate data to determine the national and local impact of their work through Port Account Management, the Enforcement Evaluation Team, and the Trade Compliance and Enforcement Plan. This process has improved their ability to prioritize work for increased quality.

Following the Risk Management Process in Houston has improved data integrity, increased targeting rates, decreased inconvenience rates, and increased enforcement actions (seizures and penalties). We are getting more 'bang for the buck' than ever before."

*Candace Vice, Former Assistant Port Director, Houston Area Port*

This chart shows that Houston improved its rate of positive "hits" by using better data collection and analysis methods to determine which shipments would be examined.

![Risk Management Implementation & Cargo Examination Efficiency Rates](chart.png)

*When you combine your talents with Agency-wide use of the Risk Management Process, you create success for the whole team.*