



U.S. Consumer Product Safety Commission

FY 2014 Import Surveillance Program Review Report

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TO : Elliot F. Kaye, Chairman
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FROM : Christopher W. Dentel, Inspector General

SUBJECT: FY 2014 Consumer Product Safety Commission (CPSC) Import Surveillance
Program Review Report

The CPSC Office of Inspector General (OIG) retained the services of Kearney & Company (Kearney), P.C., an independent certified public accounting firm to evaluate the CPSC's Import Surveillance (EXIS) Program. Under a contract monitored by the OIG, Kearney issued an inspection report regarding the CPSC's compliance with Section 222 of the Consumer Product Safety Improvement Act (CPSIA) and implementation of import surveillance program internal controls. The contract required the performance of this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency's (CIGIE), *Quality Standards for Inspection and Evaluation (QSIE)*.

Kearney found that, although the CPSC had made great strides in developing an import surveillance program that leveraged its limited resources, it was not in compliance with all aspects of Section 222 of the CPSIA. It should be noted that the requirements which were not met by the CPSC do not necessarily relate directly to import surveillance and/or are not within the control of the CPSC. CPSIA Section 222 requires the following: use of a Risk Assessment Methodology (RAM) for the Identification of Shipments of Consumer Products; use of the Customs and Boarder Protection's International Trade Data System (ITDS) and Other Databases and the incorporating of the RAM into the CPSC's Information Technology Modernization Plan; co-operation with Customs and Boarder Protection (CBP); reporting to Congress.

Kearney found that the CPSC had developed a RAM to target import shipments with potential to be in violation of consumer product safety standards or otherwise harmful to consumers. Kearney found that for this, the most notable requirement, the CPSC had fulfilled all compliance and legislative mandates. The RAM scores import shipments relative to their risk of being in violation of consumer product safety standards or otherwise harmful. However, the CPSC's import surveillance program is still only in its pilot stage. The CPSC understands that expansion

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of the program beyond its current functionality and capabilities is necessary to improve overall import surveillance and it plans to do so; however the, CPSC is limited in resources, both budgetary and personnel.

Given the pilot nature of the program it is not surprising that Kearney identified a significant deficiency in the CPSC's ability to adequately respond to risks identified as high by the RAM. Due to resource constraints, the CPSC is not currently able to examine all shipments identified as high-risk by the RAM system. As such, there is a clear and present risk that a shipment identified as high-risk may be released into the U.S. unexamined by the CPSC. Kearney did note, however, that the CPSC aggressively targets and moves to respond to all risks identified by the RAM, however only to the extent that current resource capacity allows.

Kearney found that the CPSC fulfilled all the requirements for the use of the ITDS and other systems, except for incorporating the RAM into the CPSC's Information Technology (IT) Modernization Plan. Kearney noted that the EXIS made multiple requests to the CPSC's Office of Information Technology for the IT Modernization Plan, without success. In addition, Kearney found that the CPSC fulfilled all of the requirements regarding cooperating with CBP, except for receiving expedited access to CBP's Automated Targeting System (ATS). Kearney noted that the EXIS has sought ATS access for its staff from CBP, without success, and has developed a temporary workaround while the CPSC continues to discuss a way forward with CBP. Kearney found that the CPSC had met its reporting requirement to Congress under CPSIA Section 222.

As detailed in the attached report, Kearney concluded that the CPSC is partially compliant with CPSIA Section 222 and that its internal control program exhibits one significant deficiency. As a result, Kearney reported two (2) findings and offered three (3) recommendations. The draft report with the findings and recommendations was provided to EXIS Management. Management's report comments were incorporated in the report, where appropriate. Management's responses to the findings are included in their entirety as an appendix to the report.

In connection with the contract, the OIG reviewed Kearney's report and related documentation and made necessary inquiries of Kearney's representatives. Our review was not intended to enable us to express, and we do not express, an opinion on the matters contained in the report. Kearney is responsible for the attached report. However, our review disclosed no instances where Kearney did not comply, in all material respects, with CIGIE's QSIE.

If you have any questions please feel free to contact me at (301) 504-7644.


CHRISTOPHER W. DENTEL
Inspector General

Attached: Inspection Report

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1. EXECUTIVE SUMMARY

1.1 Background

Enacted on August 14, 2008, the Consumer Product Safety Improvement Act (CPSIA) constituted a comprehensive overhaul of consumer product safety rules and regulations and expanded the United States (U.S.) Consumer Product Safety Commission's (CPSC) authority to regulate consumer products and enforce higher civil penalties. The CPSIA significantly affected the CPSC's responsibilities regarding imports of consumer products into the U.S. market.

The main subject of this review was the CPSC's Import Surveillance Program. In summary, Section 222 of the CPSIA requires CPSC to design and implement a Risk Assessment Methodology (RAM) for the identification of shipments of consumer products that are:

- Intended for import into the U.S.
- Likely to include consumer products in violation of Section 17(a) of the Consumer Product Safety Act (CPSA).

The CPSC Office of Inspector General (OIG) engaged Kearney & Company, P.C. (Kearney), an external CPA firm acting on the OIG's behalf, to conduct a review of the CPSC's compliance with CPSIA Section 222 during fiscal year (FY) 2014.

Results of Evaluation and Findings

Kearney conducted this examination, inspection and review to assess: a) the CPSC's compliance with the provisions of the CPSIA Section 222; and b) to review the design of internal controls to meet the objectives of the CPSC's Import Surveillance Program according to the standards in the Government Accountability Office's (GAO) 1999 Green Book, *Standards for Internal Control in the Federal Government*. Kearney concludes that although, the CPSC has made great strides with regards to compliance and internal control, compliance exceptions were noted related to the provisions of Section 222 of the CPSIA and a significant deficiency was identified within CPSC's internal controls (see *Section 3. RESULTS AND FINDINGS* below for additional detail).

2. INTRODUCTION

2.1 Project Background

On August 14, 2008, the CPSIA, Public Law (P.L.) 110-34, was signed into law. The CPSIA constituted a comprehensive overhaul of consumer product safety rules and significantly affected nearly all imports of consumer products entering the U.S. market.

The CPSIA imposed requirements on the CPSC to monitor and target imports of consumer products within its jurisdiction through the design and implementation of a RAM. In addition,

the legislation requires a significant level of collaboration between the CPSC and the Department of Homeland Security's Customs and Border Protection (CBP). The CPSC has designed and implemented the RAM and coordinates and collaborates with CBP in various ways.

The RAM represents the main tool the CPSC employs to target imports of consumer products within its jurisdiction. As a pilot system, the RAM may not be as robust as CPSC Import Surveillance officials may desire; however, it provides a baseline from which import surveillance is conducted. The RAM scores import entry lines according to the level of risk to be in violation of the CPSA Section 17(a) based upon built-in program logic. The RAM source data is CBP's Automated Commercial Environment (ACE) output. We noted the fact that the CPSIA requires the CPSC to develop automated rule sets and obtain expedited access to the Automated Targeting System (ATS). However, due to security restrictions imposed by CBP, the CPSC field staff has not gained direct access to the ATS. The CPSC does however; receive limited access through its participation and representation at CTAC. The CPSC Commercial Targeting and Analysis Center (CTAC) representatives can receive downloadable files from the ATS, from which CPSC can filter and load into the RAM for risk scoring. Upon risk identification, a CPSC compliance investigator, co-located at a port with CBP, can identify the risk relative to a list of shipments and select for examination. The compliance investigator must manually (via e-mail or phone) notify CBP that they wish to "request a hold" on the shipment for examination. The CPSC compliance investigator examines products in accordance with the Compliance Investigator Handbook (exam procedures by product type). Once the examination is complete, the results are input manually into the RAM for subsequent monitoring and/or analysis procedures.

The CPSC's current organizational structure includes the Office of Import Surveillance (EXIS), which is composed of headquarters personnel, compliance investigators co-located with CBP at ports of entry, and a Field Division, made up of approximately 80 field investigators. Field investigators perform examinations on shipments or products at ports where the CPSC does not currently have personnel co-located; as well as, in addition to performing other functions (e.g., product recalls, consumer incident report follow-up, and domestic import manufacturer site examination). Field investigation examinations are conducted in the same manner as compliance investigator examinations and results are logged into the RAM. The CPSC currently has compliance investigators co-located at 20 of the U.S. ports of entry out of approximately 300 plus total ports of U.S. entry. The determination as to which ports where CPSC Compliance Investigators would be co-located was based on the risk of imports to them being in violation of CPSA section 17(a). The risk of imports being in violation of CPSA section 17(a) was primarily determined by volume.

Co-location of compliance investigators is an example of coordination and collaboration with CBP. The limited access of the ATS to the CPSC CTAC representatives also demonstrates CBP and CPSC coordination. Additionally, CPSC and CBP have multiple memorandums of understanding (MOU) in place.

2.2 Review Objectives

The purpose of this review was to provide an evaluation over the CPSC's Import Surveillance Program. The primary objective of the review was to ascertain the CPSC's compliance with Section 222 of the CPSIA. The secondary objective was to ascertain whether internal controls have been implemented to meet the purposes of the program.

This review and resulting report should provide sufficient findings and recommendations to allow it to serve as:

- An evaluation of the CPSC's Import Surveillance Program, to include compliance with Section 222 of the CPSIA and evaluation of the design of related internal controls
- A consistent and understandable mechanism for reporting the results of the performance evaluation and inspection in accordance with GAO's Government Auditing Standards (GAS), 2011 revision and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Quality Standards for Inspection and Evaluation, dated January 2012*
- Recommendations that the CPSC can follow in improving its Import Surveillance Program's compliance with the CPSIA.

2.3 Review Scope

This review covers the FY 2014 (October 1, 2013 – September 30, 2014) program for the CPSC's EXIS. The scope of this review included: 1) CPSC's RAM; 2) CPSC compliance investigator examination process; 3) CPSC's import surveillance monitoring process; 4) CPSC's coordination and collaboration with CBP; and 5) CPSIA Section 222 compliance requirements. Kearney conducted the work from April 2015 through December 2015 at CPSC's Headquarters in Bethesda, MD. For our review, the CPSC facilitated a site visit to the Port of Baltimore to observe a compliance investigator examination, tour the Port of Baltimore, and discuss compliance investigation processes executed at Port.

2.4 Review Standards

Kearney planned and performed this evaluation and inspection in accordance with GAO's GAS, 2011 revision and the CIGIE's *Quality Standards for Inspection and Evaluation, dated January 2012*. Those standards required us to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions. Sufficiency and appropriateness of evidence needed and tests of evidence varied based on the objectives, findings, and conclusions. Kearney designed the evaluation and inspection to obtain insight into CPSC's current processes, procedures, and organizational structure regarding compliance with CPSIA requirements.

3. RESULTS AND FINDINGS

3.1 Inadequate Response to High-Level Risks Identified in the Consumer Product Safety Commission’s Risk Assessment Methodology

The CPSC has developed a RAM to target import shipments with potential to be in violation of consumer product safety standards or otherwise harmful to consumers. Kearney obtained an understanding of the CPSC’s EXIS, the organizational structure, nature of its operations, and import targeting processes, to include the RAM design and development documentation. Through direct inquiry of EXIS officials, we determined the RAM scores import shipments relative to their risk of being in violation of consumer product safety standards or otherwise harmful.

Organizationally, the CPSC conducts import surveillance with the RAM and its strategic organizational structure and deployment. Accordingly, the CPSC has compliance investigation teams, co-located with CBP, at ports of entry in the U.S. This structure, however, currently only covers 20 of the largest ports (as determined by import volume) in the U.S. versus the 300 plus total ports of entry. To compensate for the gap between the number of total ports of entry and the relatively few ports of entry where the CPSC has staff co-located with CBP; the CPSC also has a Field Division, which is composed of approximately 80 field investigators. These investigators are available to travel to ports or manufacturer sites to perform examinations of products where the CPSC is not currently co-located.

The CPSC has made significant progress in designing a RAM that meets the requirements of Section 222 of the CPSIA, but it is only in the pilot stage. The CPSC understands that expansion of the RAM beyond its current functionality and capabilities is necessary to improve overall import surveillance and it plans to do so; however, the CPSC is limited in resources, both budgetary and personnel (full-time equivalents [FTE]). The CPSC has identified the relative resources necessary to expand the RAM system and related portions of the Import Surveillance program through additional personnel in terms of total budget necessary between 2013-2019, as well as the number of personnel necessary to operate and maintain the system and functions necessary to achieve the objectives of import surveillance and meet the CPSIA Section 222 requirements. Accordingly, the RAM pilot is not yet fully designed to achieve the objectives of import surveillance or the CPSIA Section 222 requirements.

Kearney noted that the CPSC has developed and was able to provide required evidence, of a fully functioning control environment, risk assessment, suite of control activities, and protocols for the management of internal and external information and communication, as well as developed Monitoring protocols, as monitoring procedures required by the 1999 GAO Green Book. In addition, the CPSC has documented procedures for conducting examinations, participates in programs with the CTAC, employs a strategic organizational structure to support targeting and examinations, and monitors trends in targeting and examination results that are used to refine the methodology. Lastly, we note that the CPSC aggressively responds to all identified risks to the extent that resourcing allows.

However, Kearney identified a significant deficiency in the CPSC’s ability to adequately respond to risks identified as high by the RAM. Due to resourcing constraints, the CPSC is not currently able to examine all shipments identified as high-risk by the RAM system. We did note, however, that the CPSC aggressively targets and moves to respond to all risks identified by the RAM, however only to the extent that current resource capacity allows.

The CPSC identifies, targets, and investigates imports of consumer products within its jurisdiction utilizing the RAM system. The RAM system marks the shipments at high, medium, or low risk, in which the CPSC deploys either co-located or other located agents to intercept the shipment and perform an investigation. Ideally, all high-risk shipments, as identified by the methodology, would be examined for compliance with consumer product safety standards prior to entering the U.S.

However, the CPSC’s current capability and resourcing is not adequate to intercept and investigate the volume of shipments identified as high-risk by the RAM. As such, we note that there is a clear and present risk that a shipment identified as high-risk, may be released into the U.S. unexamined by the CPSC.

Notice of Finding

Inadequate Response to High-Level Risks Identified in the CPSC’s RAM

The CPSC lacks the appropriate control to examine all shipments of consumer products within its jurisdiction that the RAM system identifies as “high risk”. High risk is defined as the -risk of a shipment of consumer products being in violation of violating consumer product safety standards and/or being otherwise harmful to consumers. The CPSC co-located staff may be able to examine all entry lines identified as high-risk at a particular port on a specific day. However, over a period of time they are unable to examine all shipments identified as high-risk to determine compliance with consumer product standards. Although significant progress has been made since the enactment of the CPSIA, the CPSC is still not able to examine all shipments identified as high-risk by the RAM tool.

Recommendation

Kearney recommends that CPSC develop and execute a plan to overcome its current resource and capability limitations and outline the costs and benefits of increasing their capability to ensure the cost/benefit of such an endeavor.

Management’s Response

See **APPENDIX B – MANAGEMENT’S RESPONSES** of this report. We did not review management’s responses; accordingly, we express no conclusion on them.

3.2 Non-Compliance with Select Provisions of the Consumer Product Safety Improvement Act Section 222

The CPSC has made significant progress in designing a RAM that meets the requirements of the CPSIA Section 222; however, the CPSC is not in full compliance with all provisions of Section 222. Section 222 includes requirements that do not necessarily provide a direct link to import surveillance and/or are within the control of the CPSC.

The CPSC has made significant progress towards meeting the four required areas of compliance in Section 222 of the CPSIA:

- A. RAM for the Identification of Shipments of Consumer Products
- B. Use of the International Trade Data System (ITDS) and Other Databases
- C. Co-operations with CBP
- D. Report to Congress.

Section A marks the most notable requirement: the development and implementation of a RAM and pilot system. For this requirement, the CPSC fulfilled all compliance and legislative mandates without exception.

In Section B, Kearney found that the CPSC fulfilled all the requirements for the use of the ITDS and other systems, except for incorporating the RAM into the CPSC's Information Technology (IT) Modernization Plan. We noted that the EXIS made multiple requests to their Office of Information Technology organization for the IT Modernization Plan, without success.

In Section C, we found that the CPSC fulfilled all of the requirements for the co-operation with CBP, except for receiving expedited access to CBP's ATS. Kearney noted that the EXIS has made multiple requests to CBP for the access to ATS for field staff, without success, and has developed a temporary workaround while the CPSC continues to discuss a way forward with CBP.

In Section D, we found that the CPSC fulfilled all legislative and compliance requirements without exception.

During our review, we requested the CPSC's "Information Technology Modernization Plan", however we did not receive CPSC's IT Modernization Plan. We were informed that EXIS made multiple requests to the IT personnel to obtain the document to provide to us; however, as of the close of our procedures, the documentation was not provided to us. Accordingly, we were unable to evaluate compliance with this provision of the CPSIA (Section 222 B(2)) and conclude that no evidence exists to support the incorporation of the RAM into the IT Modernization Plan.

We also noted the CPSC field staff does not currently have direct access to CBP's ATS. The CPSC does not currently have access to the CBP ATS system, as CBP has denied requests for access due to security restrictions. The CPSC has access to the ATS data through its CTAC

participation and influences ATS data through the creation of User-Defined Rules (UDR). The CPSC leverages the data collected from ATS as source data for the RAM targeting system and uses that data as inputs to its overall Import Surveillance Program.

Without direct access to the ATS, the CPSC must rely on other semi-manual processes for targeting shipments:

- Local targeting
- Headquarters targeting
- CTAC targeting.

Although the CPSC does not fully utilize automated targeting rule sets employed by CBP due to CBP access restrictions, it uses other semi-manual processes to conduct targeting of shipments at Port.

Notice of Finding

Non-Compliance with Select Provisions of the CPSIA, Section 222

- A. Currently, the CPSC's co-located field staff does not have access to CBP's ATS in accordance with CPSIA Section 222, (C(4)). During the course of Kearney's review, we noted that the CPSC's inability to access ATS was due to security restrictions imposed by CBP. However, the CPSC has access to the ATS data through its CTAC participation and influences ATS data through the creation of UDR. The CPSC leverages the data collected from ATS at CTAC, as source data for the RAM targeting system and uses that data as inputs to its overall Import Surveillance Program.
- B. Kearney did not obtain documentation necessary to evaluate compliance with the cited criteria (CPSIA Section 222 (b(2))). We requested a copy of the IT Modernization Plan as a part of our original Provided by Client (PBC) list to the CPSC EXIS on October 23, 2015. The EXIS staff attempted to obtain the plan from CPSC IT staff; however, the information was not received by the close of our review procedures.

Recommendation

1. Kearney recommends that the CPSC continue to request access to the ATS for co-located staff from CBP with the express purpose of developing rule sets to apply to data within ATS and to have those rule sets be visible to co-located staff.
2. With respect to the incorporation of the RAM into the IT Modernization Plan, Kearney recommends that the CPSC make available the IT Modernization Plan to external reviewers in order to assess compliance with the CPSIA.

Management's Response

See **APPENDIX B – MANAGEMENT'S RESPONSES** of this report. We did not review management's responses; accordingly, we express no conclusion on them.

4. CONCLUSION

In conclusion, the CPSC is partially compliant with CPSIA Section 222 and its internal control program exhibits one significant deficiency.

The CPSC has made significant strides in the development of its Import Surveillance Program since the CPSIA was enacted in 2008. The CPSC continues to improve its program and has plans for further improvements during the upcoming FYs. Kearney has discussed our recommendations with CPSC's management and they have indicated that the CPSC plans to take appropriate actions to remediate the issues noted and will address Kearney's recommendations to strengthen the program.

APPENDIX A – ACRONYM LIST

Acronym	Definition
ATS	Automated Targeting System
CBP	Customs and Border Protection
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CIO	Chief Information Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPSA	Consumer Product Safety Act
CPSC	Consumer Product Safety Commission
CPSIA	Consumer Product Safety Improvement Act of 2008
CTAC	Commercial Targeting and Analysis Center
EXIS	Office of Import Surveillance
FMFIA	Federal Managers’ Financial Integrity Act of 1982
FTE	Full-Time Equivalent
FY	Fiscal Year
GAS	Government Auditing Standards
GAO	Government Accountability Office
HQ	Headquarters
IT	Information Technology
ITDS	International Trade Data System
Kearney	Kearney & Company, P.C.
MOU	Memorandum of Understanding
OIG	Office of Inspector General
OMB	Office of Management and Budget
P.L.	Public Law
PBC	Provided by Client
RAM	Risk Assessment Methodology
UDR	User-Defined Rules
U.S.	United States
U.S.C.	United States Code

APPENDIX B – MANAGEMENT’S RESPONSES**1. Inadequate Response to High-Level Risks Identified in the Consumer Product Safety Commission’s Risk Assessment Methodology**

The CPSC lacks the appropriate control to examine all shipments of consumer products within its jurisdiction that the employed RAM system identifies as high-risk of violating consumer product safety standards or being otherwise harmful to consumers. We noted that the CPSC’s co-located staff may be able to examine all entry lines identified as high-risk at a particular port on a specific day. However, over a period of time, they are unable to examine all shipments identified as high-risk to determine whether or not they meet consumer product standards. Although significant progress has been made since the enactment of the CPSIA, the CPSC is still not able to examine all shipments identified as high-risk by the RAM tool.

Management’s Response

CPSC Import Surveillance management concurs with the finding that it does not have sufficient resources to adequately respond to all shipments identified as high risk of violating consumer product safety standards or that are otherwise hazardous to consumers. Additional resources needed include staffing at ports of entry to examine high risk shipments as well as enhanced functionality above the current pilot RAM system, including a more mature risk model.

2. Non-Compliance with Select Provisions of the Consumer Product Safety Improvement Act Section 222

A. Currently, the CPSC’s co-located field staff does not have access to CBP’s ATS in accordance with CPSIA Section 222, (C(4)). During the course of Kearney’s review, we noted that the CPSC’s inability to access ATS was due to security restrictions imposed by CBP. However, CPSC has access to the ATS data through its CTAC participation and influences ATS data through the creation of UDR. The CPSC leverages the data collected from ATS at CTAC as source data for the RAM targeting system and uses that data as inputs to its overall Import Surveillance Program.

B. Kearney did not obtain documentation necessary to evaluate compliance with the cited criteria (CPSIA Section 222 (b(2))). We requested a copy of the IT Modernization Plan as a part of our original PBC list to CPSC EXIS on October 23, 2015. The EXIS staff attempted to obtain the plan from CPSC IT staff; however, the information was not received by the close of our procedures.

Management’s Response

CPSC Import Surveillance management concurs with the finding that CPSC co-located field staff does not have access to CBP's Automated Targeting System (ATS). CPSC staff does have access to ATS through CBP's CTAC. CPSC will continue work with CBP in an attempt to gain access to ATS for field staff.

Import Surveillance management will share with CPSC's Office of Information Technology the finding regarding the IT Modernization Plan.

APPENDIX C – HYPOTHETICAL COMPARISON TO 2014 GAO GREEN BOOK REQUIREMENTS

Purpose: To compare the Import Surveillance Program’s internal control system to the requirements of the 2014 GAO Green Book on a hypothetical basis

Source: Kearney

Scope/Subject: As a look -forward, this scope/subject is to compare the current internal control environment against the requirements of the 2014 GAO Green Book and provide a comparison of results in the report as a look forward. This assessment is being performed in regards to the FY 2014 import surveillance activity. It should be noted that the 2014 GAO Green Book requirements were not effective until FY 2016. As such, this is a hypothetical comparison and not one that affects the final conclusion of the internal control review over the Import Surveillance Program.

Conclusion: One principle noted was partially ready/ineffective.

Background

From the Foreword of the 2014 GAO Green Book:

“A key factor in improving accountability in achieving an entity’s mission is to implement an effective internal control system. An effective internal control system helps an entity adapt to shifting environments, evolving demands, changing risks, and new priorities. As programs change and entities strive to improve operational processes and implement new technology, management continually evaluates its internal control system so that it is effective and updated when necessary.”

Section 3512 (c) and (d) of Title 31 of the United States Code (U.S.C.) (commonly known as the Federal Managers’ Financial Integrity Act [FMFIA]) of 1982 requires the Comptroller General to issue standards for internal control in the Federal Government. Standards for Internal Control in the Federal Government (known as the Green Book) provide the overall framework for establishing and maintaining an effective internal control system.

Office of Management and Budget (OMB) Circular No. A-123, *Management’s Responsibility for Internal Control*, provides specific requirements for assessing and reporting on controls in the Federal Government. The term “internal control” covers all aspects of an entity’s objectives (i.e., operations, reporting, and compliance). The Green Book may also be adopted by state, local, and quasigovernmental entities, as well as not-for-profit organizations, as a framework for an internal control system. Management of an entity determines how to appropriately adapt the standards presented in the Green Book as a framework for the entity based on applicable laws and regulations.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) updated its internal control guidance in 2013 with the issuance of a revised Internal Control – Integrated Framework. COSO introduced the concept of principles related to the five components of internal control. The Green Book adapts these principles for a Government environment.

The 2014 GAO Green Book Principles

Figure 3: The Five Components and 17 Principles of Internal Control

Control Environment

- 1. The oversight body and management should demonstrate a commitment to integrity and ethical values.
- 2. The oversight body should oversee the entity's internal control system.
- 3. Management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objectives.
- 4. Management should demonstrate a commitment to recruit, develop, and retain competent individuals.
- 5. Management should evaluate performance and hold individuals accountable for their internal control responsibilities.

Risk Assessment

- 6. Management should define objectives clearly to enable the identification of risks and define risk tolerances.
- 7. Management should identify, analyze, and respond to risks related to achieving the defined objectives.
- 8. Management should consider the potential for fraud when identifying, analyzing, and responding to risks.
- 9. Management should identify, analyze, and respond to significant changes that could impact the internal control system.

Control Activities

- 10. Management should design control activities to achieve objectives and respond to risks.
- 11. Management should design the entity's information system and related control activities to achieve objectives and respond to risks.
- 12. Management should implement control activities through policies.

Information and Communication

- 13. Management should use quality information to achieve the entity's objectives.
- 14. Management should internally communicate the necessary quality information to achieve the entity's objectives.
- 15. Management should externally communicate the necessary quality information to achieve the entity's objectives.

Monitoring

- 16. Management should establish and operate monitoring activities to monitor the internal control system and evaluate the results.
- 17. Management should remediate identified internal control deficiencies on a timely basis.

Source: GAO. | GAO-14-704G

Procedure

In an effort to assist with the implementation of the new Green Book requirements, we compared the evidence we collected during the import surveillance design review to the 2014 Green Book requirements. Kearney included this comparison in the final report to evidence where gaps might exist in the forward requirements of the program. We reviewed policies and procedures, conducted interviews, evaluated data and results from the RAM, and performed site visits.

Results

In regards to Principles 1 through 6 and 8 through 17, we noted that CPSC “demonstrates readiness” for the requirements of the 2014 GAO Green Book. As such, Kearney noted, per the results of our comparison below, that it appears CPSC’s Import Surveillance Program is ready for a 2014 Green Book assessment, except in the areas of Responding to Risk within *Principle 7: Identifying, Analyzing and Responding to Risks*. CPSC is not currently responding to all of the risks identified as high within its RAM; as such, Kearney noted “partial readiness.” CPSC fails

to meet the requirements of Principle 7. The Green Book OV2.05 notes: “The 17 principles support the effective design, implementation, and operation of the associated components and represent requirements necessary to establish an effective internal control system.” In addition, OV2.06 states: “In general, all components and principles are relevant for establishing an effective internal control system... In addition to principle requirements, the Green Book contains documentation requirements.” It is noted that the failure of Principle 7 on a comparison basis, hypothetically render the entire control system of the Import Surveillance Program ineffective from the standpoint of the 2014 GAO Green Book. *As this is a hypothetical comparison, no findings were issued or noted, nor was a response from management sought.*

Control Environment	Principle 1	Demonstrate Commitment to Integrity and Ethical Values	Demonstrates Readiness
	Principle 2	Exercise Oversight Responsibility	Demonstrates Readiness
	Principle 3	Establish Structure, Responsibility, and Authority	Demonstrates Readiness
	Principle 4	Demonstrate Commitment to Competence	Demonstrates Readiness
	Principle 5	Enforce Accountability	Demonstrates Readiness
Risk Assessment	Principle 6	Define Objectives and Risk Tolerances	Demonstrates Readiness
	Principle 7	Identify, Analyze, and Respond to Risks	Demonstrates Partial Readiness
	Principle 8	Assess Fraud Risk	Demonstrates Readiness
	Principle 9	Identify, Analyze, and Respond to Change	Demonstrates Readiness
Control Activities	Principle 10	Design Control Activities	Demonstrates Readiness
	Principle 11	Design Activities for the Information System	Demonstrates Readiness
	Principle 12	Implement Control Activities	Demonstrates Readiness
Information and Communication	Principle 13	Use Quality Information	Demonstrates Readiness
	Principle 14	Communicate Internally	Demonstrates Readiness
	Principle 15	Communicate Externally	Demonstrates Readiness
Monitoring	Principle 16	Perform Monitoring Activities	Demonstrates Readiness
	Principle 17	Evaluate Issues and Remediate Deficiencies	Demonstrates Readiness