# TRANSACTION VALUE
## TECHNICAL INFORMATION FOR PRE-ASSESSMENT SURVEY (TIPS)

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## PART 1 BACKGROUND

The objective of this document is to provide guidance in performing a Pre-Assessment Survey (PAS) of the company's internal control for transaction value and evaluating the results.

Generally Accepted Government Auditing Standards require the PAS team to obtain a sufficient understanding of internal control to plan the audit and determine the nature, timing, and extent of tests to be performed.

The guidelines and the terms in this technical guide are based on *Assessing Internal Controls in Performance Audits,* GAO/OP-4.1.4, published by the United States General Accounting Office, Office of Policy, September 1990, and American Institute of Certified Public Accountants *Statement on Auditing Standards No. 78*.

## PART 2 TRANSACTION VALUE GUIDANCE

19 U.S.C. 1401(a), the Statement of Administrative Action (accompanying the Trade Agreements Act of 1979), 19 CFR 152.103, and the Customs Valuation Encyclopedia are the basic sources of information on transaction value (TV). In addition, research on Customs Rulings and Customs Service Decisions (CSD) and decisions of the Court of International Trade should be considered. The determination of the proper basis of valuation is within the authority of the Office of Field Operations.

19 CFR 152.101(b) provides that merchandise will be appraised on the basis, and in the order, of the following: TV, TV of identical merchandise, TV of similar, deductive value, computed value, and derived value. This technical guide is limited to TV, the first-order of basis of value.

In 19 CFR 152.102(a), "Assist" means any of the following if supplied directly or indirectly, and free of charge or at a reduced cost, by the buyer of imported merchandise for use in connection with the production or the sale for export to the United States of the merchandise:

(i) Materials, components, parts, and similar items incorporated in the imported merchandise.

(ii) Tools, dies, molds, and similar items used in the production of the imported merchandise.

(iii) Merchandise consumed in the production of the imported merchandise.

(iv) Engineering, development, artwork, design work, and plans and sketches that are undertaken elsewhere than in the United States and are necessary for the production of the imported merchandise.

| 19 CFR | Information Provided |
|---|---|
| 152.103(a)<br>Derivation of price actually paid or payable (PAPP) | Describes how the PAPP is derived as well as elements to be included, such as indirect payments, cost of assembly, rebates, foreign inland freight, and other charges incident to the international shipment of the merchandise. |
| 152.103 (b)<br>Additions to the PAPP | Lists the additions to the PAPP, including packing costs incurred by the buyer, selling commissions incurred by the buyer, assists, royalty or license fees, and proceeds of subsequent resale. |
| 152.103(c)<br>Sufficiency of Information | Specifies that additions to the PAPP will be made only if there is sufficient information to establish the accuracy of the additions and the extent to which they are not included in the price. |
| 152.103(d)<br>Value of Assists | Specifies that if the value of an assist is to be added to the PAPP or to be used as a component of computed value, the port director shall determine the value of the assist and apportion that value to the price of the imported merchandise in the following manner:<br><br>(1) If the assist consists of materials, components, parts, or similar items incorporated in the imported merchandise, or items consumed in the production of the imported merchandise, acquired by the buyer from an unrelated seller, the value of the assist is the cost of its acquisition. If the assist was produced by the buyer or a person related to the buyer, its value would be the cost of its production. In either case, the value of the assist would include transportation costs to the place of production.<br><br>(2) If the assist consists of tools, dies, molds, or similar items used in the production of the imported merchandise, acquired by the buyer from an unrelated seller, the value of the assist is the cost of its acquisition. If the buyer or a person related to the buyer produced the assist, its value would be the cost of its production. If the assist has been used previously by the buyer, regardless of whether it had been acquired or produced by him, the original cost of acquisition or production would be adjusted downward to reflect its use before its value could be determined. If the buyer leased the assist from an unrelated seller, the value of an assist would be the cost of the lease. In either case, the value of the assist would include transportation costs to the place of production. Repairs or modifications to an assist may increase its value. |
| 152.103(e)<br>Apportionment Of Assists | Specifies that apportionment of the value of assists will include the following methods when the entire production is destined for the United States: over the first shipment, over the number of units produced up to the first shipment, over the entire anticipated production, or another method requested by the importer that is in accordance with generally accepted accounting principles. |

| 19 CFR | Information Provided |
|---|---|
| 152.103(f)<br>Royalties | Lists criteria for determining the dutiability of royalties or license fees (patents, copyrights and trademarks). |
| 152.103(g)<br>Proceeds | Specifies that the value of proceeds of any subsequent resale, disposal, or use of imported merchandise that accrues directly or indirectly to the seller is considered as an addition to the PAPP. |
| 152.103(h)<br>Reproduction Fees | Specifies that charges for the right to reproduce the imported merchandise in the United States will not be added to the PAPP. |
| 152.103(i)<br>TV Exclusions | TV does not include any reasonable cost or charges of the following, if identified separately from PAPP, that is incurred for construction, erection, assembly, or maintenance technical assistance provided to the merchandise transportation after importation into the United States for Customs duty federal taxes currently payable on the merchandise by reason of its importation. |
| 152.103(j)<br>Limitations on Use of TV | Specifies that limitations on the use of TV of imported merchandise will be the appraised value if (i) there are no restrictions on the disposition or use of the imported merchandise by the buyer other than those imposed or required by law, limit geographical area in which merchandise by be resold, or do not affect substantially the value of the merchandise; (ii) the sale of, or the PAPP for, the imported merchandise is not subject to any condition or consideration for which a value cannot be determined; (iii) no part of the proceeds of any subsequent resale, disposal, or use of the imported merchandise by the buyer will accrue directly or indirectly to the seller, unless an adjustment can be made; and (iv) the buyer and seller are not related, or the buyer and seller are related but transaction value is acceptable. |
| 152.103(j)(2)<br>Related Person Transactions | Specifies that the TV between a related buyer and seller is acceptable if an examination of the circumstances of sale indicates that their relationship did not influence the PAPP, or if the TV of the imported merchandise closely approximates a value in paragraph (A),(B), or (C) of this subsection. |
| 152.103(k)<br>Restrictions and Conditions of Sale | Specifies that a restriction placed on the buyer of the imported merchandise that does not substantially affect its value will not prevent the use of TV as the appraised value. |
| 152.103(l)<br>Related Buyer and Seller | Specifies that in a validation of transaction, the port director shall not disregard a TV solely because buyer and seller are related. The importer or buyer may demonstrate that the TV in a related-person transaction is acceptable by showing that the value “closely approximates” a test value. |
| 152.103(m)<br>Rejection of TV | Specifies that when Customs has grounds for rejecting the TV declared by the importer and when that rejection increases the duty liability, the importer shall be informed. The importer will be afforded 20 days to respond in writing. |

## 2.1 EXAMPLES OF RED FLAGS

The following examples of red flags (conditions that may indicate a potential problem in transaction value) are broken down into seven categories: TV in general, PAPP, sales commissions, royalties, assists, packing, and proceeds.

### A. Red Flags for TV in General

- The company has insufficiently documented, poorly defined, or no internal control for accurately declaring value for Customs purposes.
  - ✓ The company does not monitor or interact with the broker on value issues.
  - ✓ The company relies on one employee to handle value issues, and there are poor or no management checks or balances over this employee.
- Company import staff lacks knowledge of Customs valuation.
- The company offers unreasonable explanations to Customs.
- The company fails to cooperate with or respond to Customs.
- The company has a high turnover of people in key positions.
- Significant variance exists between the importer's data and data submitted to Customs.
- Customs (e.g., import specialist, account manager, compliance measurement, prior audit, other profile information) shows a history of problems with value (e.g., assists).
- The transactions are related-party transactions.
- Merchandise is shipped on consignment.
- A large number of prior disclosures (PDs) are based on value issues.
- Transactions are tiered transactions (e.g., Nissho-Iwai).
- Values are abnormally low.
- Interest payments are not attributable to late payment charges.
- Company is subject to a restriction as to disposition or use of the imported merchandise.
- Sales are tie-in sales.
- Invoices have penned and ink changes.
- Company frequently replaces brokers in the same port.

### B. Red Flags for PAPP

- Retroactive or renegotiated price adjustments outlined in purchase contracts may make imports ineligible for TV.
- Warranty replacement parts are declared at less than TV.
- Company has currency conversion risk-sharing agreements.
- Unsubstantiated/estimated nondutiable charge deductions are used for entry.
- Advance or supplemental payments/deposits have been made to vendors.
- Company reimburses the foreign vendor for tooling.
- Company frequent uses pro forma invoices or invoices indicating "Customs Use only," "Customs Purposes Only," or "Free-house delivery."
- Company has indirect payment agreements.
- Renegotiated terms such as cost and freight (C&F) are not supported by documentation.
- Invoice terms are CMT (cut, make, and trim) and exclude raw materials (e.g., textile importers may not include the cost of material).
- Company has tolling agreements (e.g., chemical importers may have such transactions that do not include the cost of the raw materials to be processed).

## C. Red Flags for Sales Commissions

- Company has specific accounts for recording agent fees or commissions.
- Company does not have formal agreements with agents.
- Sales commissions are not reported on the import invoice.
- A sales office wholly owned by the foreign seller is receiving merchandise at a discount for domestic sale.
- Agent fees are paid to a “buying agent” that is the foreign manufacturer.
- Agent agreements are verbal and not in writing.
- Sales commission agreements either are not in writing or are in writing but incomplete as to essential terms.
- The buying agent does not act for the benefit of the importer, buys on its own account, retains title, and bears the risk of loss for the merchandise.
- The company cannot produce an invoice from the manufacturer/seller.
- The importer has an exclusive agreement with the manufacturer or ultimate consignee.

## D. Red Flags for Royalties

- Company has specific accounts for recording royalties, or company does not have a tracking system for royalties.
- Company makes additional payments to the seller for the right to use the import as a condition of sale.
- Company makes payments to a party who is both the seller and a licensor of the technology.
- Company makes payments to a third party that is related to the seller.

## E. Red Flags for Assists

- Company has accounts for recording assists, tools, dies, molds, or similar items used in production, or company does not have a tracking system for assists.
- Foreign research and development necessary for production is not included in invoiced value.
- Design, development and engineering charges are necessary for production.
- Merchandise is exported to foreign vendors or manufacturers.
- The importer is a nonmanufacturing importer (e.g., sales office) with manufacturing equipment depreciation or credits to fixed asset accounts (unreported assists).
- Advance or supplemental payments/deposits are made to vendors.
- Assist payments are made to a domestic company with a foreign subsidiary.
- For reported assists, freight and related transportation charges paid by a buyer in connection with shipments of material are not included.
- For reported assists, the value of waste and scrap is deducted from the invoiced value.

## F. Red Flags for Packing

- Company has an account for recording packing.
- Foodstuff invoices do not have charges for icing (freezing) or charges for preserving purchased perishable merchandise.

- Additional payments were made to the seller for price tags, labels, and hangtags.
- A "service charge" (e.g., for hanging garments in containers) was necessary to place the goods in shipping condition.
- There are descriptions such as GOH (garments on hangers) charges.
- There are "stuffing charges" for containerization of merchandise.

### G. Red Flags for Proceeds

- Company has an account for recording proceeds of sales.
- A "royalty" is paid on the basis of the domestic sale of imported merchandise.
- Profit-sharing agreements between related parties split the profits of a domestic sale.
- Annual payments are based on total sales or purchases of imported merchandise.
- Additional payments are related to currency fluctuations.
- Prices were unusually low at the time of importation.

## 2.2 Examples of Best Practices

The following best practices are broken down into seven categories: (1) TV in general, (2) PAPP, (3) sales commissions, (4) royalties, (5) assists, (6) packing, and (7) proceeds.

### A. Best Practices for TV in General

- Internal controls over Customs matters:
  - ✓ Are in writing,
  - ✓ Include procedures for monitoring and feedback, and
  - ✓ Are monitored by management.
- One manager is responsible for control of the Import Department, including value. That manager has knowledge of Customs matters and the authority to ensure that internal control procedures for imports are established and followed by all company departments.
- Written internal control procedures assign duties and tasks to a position rather than a person.
- The company has good interdepartmental communication about Customs matters.
- The company conducts and documents periodic reviews of value and uses the results to make corrections to entries and changes to its import operations as appropriate.
- The company has access to and knowledge of the U.S. Customs Valuation Encyclopedia.
- The company has access to and knowledge of value binding rulings.
- The company attends Customs informed compliance outreach and seminars or Customs-related seminars provided by private vendors regarding value issues.
- The accounting system can link specific purchase orders, invoices, and payment records to Customs entry numbers.

### B. Best Practices for PAPP

- The company has good interdepartmental communication about Customs matters.
- The purchase order matches the invoice, or differences are explained with written documentation.

- The company maintains the Informed Compliance publication on value.
- The company consults with Customs and requests binding rulings on complex value issues.
- The company maintains insurance and freight to support cost, insurance, and freight deductions.
- The company has records and/or procedures that explain differences.
- Visa value and terms of sale match the invoice and purchase order, or differences are explained.

C. Best Practices for Sales Commissions

- The company has written agreements with its agents specifying their relationship and roles and flexibility in selecting manufacturers.
- Sales commissions are shown as a separate item on the invoice.

D. Best Practices for Royalties

- The royalty or licensing agreement indicates (1) what the royalties are for (e.g., patents covering a manufacturing process, the use of a copyright or trademark), (2) whether the buyer had to pay them as a condition of the sale, and (3) to whom and under what circumstances they were paid.
- Royalty agreements are on file and readily available.
- The company maintains written records documenting royalty calculation.

E. Best Practices for Assists

- A specific position or management coordinates all assists.
- The company maintains a tracking system for assists.
- The company maintains records of assist details, for example:
  - ✓ How assists are prorated or apportioned on Customs entries
  - ✓ How assists record the transportation costs of assists to the place of production

F. Best Practices for Packing

- The company maintains records showing that:
  - ✓ It incurred charges for containers, coverings, labor, or materials used in placing merchandise in condition to ship to the United States.
  - ✓ No charge was incurred for returnable containers (e.g., heavy returnable containers for shipping auto parts).

G. Best Practices for Proceeds

- The company has procedures in place to ensure that payments for subsequent resale, disposal, or use of imported merchandise that accrues directly or indirectly to the seller are declared.

## 2.3 EXAMPLES OF DOCUMENTS AND INFORMATION TO REVIEW

- Internal control policies and procedures.
- The company's response to the questionnaire.
- Interviews with company staff concerning actual procedures and controls specific to value.
- Documentation that supports monitoring and verification of established and/or written internal control for value.
- Other documents affecting value, including purchase orders and confirmations, contracts (both sales contracts and performance contracts such as R&D, contracts), agency agreements, and risk sharing agreements.
- Buying agent agreement.
- Royalty and licensing agreements.
- Value rulings.
- Import Specialists' CF 28s and CF 29s regarding value issues.

## PART 3 RISK ASSESSMENT AND INTERNAL CONTROL GUIDANCE

PAS team judgement should be used to determine the type and amount of testing needed to evaluate how effective internal control is and whether there is sufficient risk to warrant proceeding to the Assessment Compliance Testing (ACT) process.

Using the chart and the guidelines below, determine through limited judgmental testing whether the company 's internal control is effective.

To determine the extensiveness of internal control testing, it is necessary to evaluate:

1. **Risk**; and

2. The **internal control** system, by determining whether the controls are in operation, how the controls were applied, how consistently they are applied, and who applied them.

### 3.1 RISK

#### A. Preliminary Assessment of Risk

Before any audit work begins at the company the team should make a preliminary assessment of risk (PAR) using information obtained from Customs or publicly available information. The purpose of the PAR is to evaluate identified potential risks to Customs based on analytical reviews of Customs data and other Customs information. This review will identify areas of potential risk and eliminate some areas with insignificant risk. The PAR should be conducted using the form in Attachment 1 to the PAS Audit Program.

#### B. Evaluation of Risk Acceptability

After the audit work begins with the company the team will refine the assessment of risk. After all audit work has been completed the team will determine whether risk is acceptable or unacceptable using the PAS Audit Program as summarized in the following steps.

- Determine what activities pose a significant risk to Customs.

- Test the existence, effectiveness and implementation of internal control and determine if internal control is adequate to control risk.

- Using the results of the internal control review, develop an opinion whether risk is acceptable or unacceptable.

## 3.2 INTERNAL CONTROL

To evaluate the internal control system:

1. Consider the five components of internal control:

    - Control Environment
    - Risk Assessment
    - Control Activities
    - Information and Communication
    - Monitoring

2. Review relevant Customs and company documents to identify and understand relevant internal controls over value. (Examples of documents and information to review are listed above.)

3. Determine whether the company has established and follows procedures. Review:

    - Documentary evidence of the results of periodic internal control reviews/testing and corrective action implemented.
    - Documentary evidence of communication with the broker and company departments on value issues, including company testing of broker operations and verification that the broker followed company instructions.
    - Company-specific rulings requested and evidence that they are followed.
    - Documentary evidence of intercompany communications to ensure correct information is provided to Customs.
    - Training records and materials used to educate staff on Customs matters.
    - Evidence that pricing information is periodically reviewed and updated (The correct basis of appraisement may be an issue.)
    - Evidence that payment accounts accurately reflect Customs activity.

4. Review written policies and procedures and interview applicable company personnel to complete appropriate sections of the Worksheet for Evaluating Internal Control (WEIC) over Transaction Value in PART 4 of this document.

    Examples of inclusions to TV
    - Basis of appraisement
    - Price actually paid or payable
        - ✓ Currency exchange adjustments
        - ✓ Price adjustments (e.g., rebates, allowances, renegotiations, credits)
        - ✓ Indirect payments (e.g., payment of seller’s debt by buyer)
        - ✓ Quota/Visa charges
        - ✓ Transportation costs
    - Statutory additions to the price actually paid or payable:
        - ✓ Packing

- ✓ Selling commissions
- ✓ Assists
- ✓ Royalties and license fees
- ✓ Proceeds for subsequent resale

Note: The internal control assessment should include steps to:

- Identify and understand internal control.
- Determine what is already known about control effectiveness.
- Assess the adequacy of internal control design.
- Determine whether controls are implemented and effective.
- Determine whether transaction processes are documented.

## 3.3 EXTENSIVENESS OF AUDIT SAMPLE TESTS (TESTING LIMITS)

The purpose of limited PAS testing is to take a survey in order to determine the necessity for and extent of substantive tests. In some circumstances, the PAS team may decide that it probably will not be able to form an opinion based on limited PAS testing. In such cases, it may be necessary to proceed immediately to the ACT process. If the PAS team believes that it can form an opinion based on limited PAS testing, it should test the appropriate number of controls and associated transactions using the table below. Tests may be appropriate for various areas below the TV level that will be reported on. For example, the table does not limit the PAS team to 20 tests for transaction value. The team may test 1 to 20 items to evaluate accuracy of price paid and 1 to 20 items for each of various additions, assists, or other components reportable to Customs.

Evidence of exceptional internal control, such as linking specific purchase orders, invoices, and payment records to Customs entry numbers may decrease the need for substantive tests.

**Extensiveness of Audit Tests**

| PAR Level | + | Preliminary Review/ Internal Control | = | Extensiveness of Audit Test | Testing Limit |
|---|---|---|---|---|---|
| **High** | | Weak<br>Adequate<br>Strong | | High<br>Moderate to High<br>Low to Moderate | 10-20 |
| **Moderate** | | Weak<br>Adequate<br>Strong | | Moderate to High<br>Moderate<br>Low | 5-15 |
| **Low** | | Weak<br>Adequate<br>Strong | | Low to Moderate<br>Low<br>Very Low | 1-10 |

*Source*: Adapted from *Assessing Internal Controls in Performance Audits.*
Column titled “Testing Limit” reflects Customs test sizes.

## 3.4 EVALUATION OF PRE-ASSESSMENT SURVEY TESTING RESULTS

The following steps are guidance for determining the effectiveness of company's internal control over transaction value.

1. Complete the "Worksheet for Evaluating Internal Control Over Transaction Value" to determine whether risk determination is acceptable or unacceptable and to document why. Put results of testing in perspective and evaluate confirmed weakness as a whole. The evaluation should consider the results of the internal control testing, problems identified in the profile, and/or concerns raised by the import specialist or account manager. The team must evaluate the PAS results based on the specific situations.

2. The following will help the PAS team determine whether conditions warrant proceeding to ACT:

   Do not proceed to ACT if:
   - Cost-benefit analysis warrants no further effort, (do not spend a significant amount of resources to identify a potential loss of revenue considered insignificant.) and
   - The result of review indicated that the value error was due to an isolated incident.
   - If substantive tests necessary to determine a compliance rate or revenue loss can be performed quickly and without extensive effort, the team should immediately perform the substantive tests without proceeding to ACT.

   Proceed to ACT if:
   - The company does not have an adequate internal control and the review indicated a material loss of revenue that cannot be quantified without statistical sampling or further review.
   - The importer will not quantify the loss of revenue.
   - The company refuses to take corrective action on systemic errors and it is necessary to calculate a compliance rate to evidence significant non-compliance.

   Note: If substantive tests necessary to determine a compliance rate or revenue loss can be performed quickly and without extensive effort, the team should immediately perform the substantive tests without proceeding to ACT.

3. Determine whether referrals should be made for enforcement action.

## 3.5 EXAMPLES

The following examples of situations that might be encountered under the PAS *are for clarification only*:

### *Example A: Situation in which the team would not proceed to ACT (Revenue)*

The company's written procedures require the Customs Department to provide the broker with regular, timely updates on price changes. The broker in turn notifies Customs of any adjustments to entered value.

To determine whether this control was working, the PAS team:

- ✓ Reviews the company's broker correspondence file for evidence of price adjustment notification
- ✓ Finds several letters notifying the broker of price adjustments over the past 6 months

In reviewing the letters, the PAS team determines that a retroactive price adjustment was not accurately disclosed to the broker or Customs. The PAS team finds that one retroactive price adjustment for $1,200,000 was reported as $120,000. The company agrees that the Customs manager had not been monitoring the situation.

The new procedure is for the Import Department employee to prepare a monthly report identifying all price changes and effective dates. The manager will review the report. The manager will then verify that (1) the broker received notification and (2) any value adjustments to previously entered merchandise were submitted to Customs on a timely basis. The Import Department will perform an analysis to identify all entries understated due to unreported price adjustments and submit the findings for Customs review.

The PAS team is satisfied that this modification to internal control is sufficient to prevent the error in the future. As a result, the team agrees that no further effort is necessary. The team agrees to verify implementation and effectiveness during an FA follow-up. Therefore, PAS does not proceed to ACT (Revenue).

### *Example B: Situation in which the team would not proceed to ACT (Compliance)*

The importer has internal control over selling commissions. These written procedures require that invoices submitted with selling commissions be verified by the Import Department to include the selling commissions in entered value.

To determine whether this control is working, the PAS team Interviews the import department personnel. The Import Department person states that he followed the company procedures but has no documentation to support the claim. The team is not satisfied with the response. The merchandise was duty free and from Canada. The company acknowledges that there is a compliance problem and agrees to take the necessary action. The team verifies that the new controls are implemented to prevent future valuation errors. As a result, the team determines that it does not need to proceed to ACT (Compliance).

### *Example C: Situation in which the team would proceed to ACT (Revenue)*

With the same fact pattern as example A, the team determines that the company's employees are not following the stated internal control procedures, therefore rendering the procedures ineffective in preventing errors. The company discloses that it has retroactive price adjustments and states that it is satisfied that most of the changes were disclosed to its broker and Customs. The company does not produce evidence to support its position.

The team is not satisfied with the response and considers this high risk for significant loss of revenue. The company declined to quantify the loss of revenue. Therefore, the team determines that it must proceed to the ACT (Revenue) phase.

### *Example D: Situation in which the team would proceed to ACT (Compliance)*

The importer pays buying and selling commissions on imported footwear. The company does not have written internal control for reporting selling commissions, but the job description for the Purchasing Department director requires him to notify the Import Department of costs related to imports. Limited testing during PAS discloses that selling commissions are not always reported. The company believes that the occurrences identified in the PAS were isolated incidents and that its controls are adequate. The company does not agree to correct its internal control or to quantify the problem. The PAS team is concerned that the occurrences were not isolated and that the problem may be significant. In order to determine the compliance level, the team proceeds to ACT (Compliance).

## PART 4 WORKSHEET FOR EVALUATING INTERNAL CONTROL (WEIC) – TRANSACTION VALUE

**PURPOSE:** To determine whether Transaction Value risk is acceptable.

The completion of this worksheet provides evidence that the five components of internal control: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring were evaluated.

During this phase of the process, an internal control review will be completed and factors for internal control related to an assessment of Risk Exposure including Internal Control Red Flags, Susceptibility, Management Support and Competent Personnel will be considered. The completion of this worksheet provides evidence that these factors were evaluated.

**All answers must be linked to supporting documentation.**

**OBJECTIVES:**

| | |
|---|---|
| Section 1 - Internal Control Questions | Consolidate information learned about internal control through interviews and document reviews to form a preliminary assessment of internal control before testing. For work paper reference column titled "Is Implementation of Control Supported by Documentation and/or Interviews," confirm that the control is implemented through:<br>• Interviews and requesting evidence from the company and<br>• Reviews of documents that provide evidence that the company completed the activity. |
| Section 2 - Preliminary Internal Control Assessment | Use information consolidated in Section 1 to make a preliminary assessment whether internal control is strong, adequate, weak or nonexistent. |
| Section 3 - Sample sizes | Use the Preliminary Assessment of Risk (PAR) Level and the Preliminary Internal Control Assessment to determine the sample size for each sample. |
| Section 4 - Results of Sample Testing | Use information in Section 4 to record the results of PAS testing to evaluate whether internal control is effective to provide reasonable assurance of compliance. |
| Section 5 - Risk Opinion | Use information in section 1-4 to record the PAS opinion that risk is acceptable or unacceptable |

**Section 1-Internal Control Questions**

| | Internal Control | Yes | No | Work Paper Reference: IC Manual Page Number | Work Paper Reference: Is Implementation of Control Supported by Documentation and/or Interviews? | Comments |
|---|---|---|---|---|---|---|
| | | | | | | |
| 1. | Does the company have formally documented internal control to assure that the value of imports is properly declared? | | | | | |
| | | | | | | |
| 2. | Does management approve written policies and procedures? | | | | | |
| | | | | | | |
| 3. | Does the company review and update written policies and procedures periodically? | | | | | |
| | | | | | | |
| 4. | Is internal control of value periodically tested and results documented? (This should include post-entry reviews to verify value was properly declared.) | | | | | |
| | | | | | | |
| 5. | If the company found weaknesses during internal control testing on declared value, did the company correct internal control procedures and entries when appropriate? | | | | | |
| | | | | | | |
| 6. | Do written internal control procedures assign duties for ensuring the accuracy of declared value to a position rather than a person? | | | | | |
| | | | | | | |

| | Internal Control | Yes | No | Work Paper Reference: IC Manual Page Number | Work Paper Reference: Is Implementation of Control Supported by Documentation and/or Interviews? | Comments |
|---|---|---|---|---|---|---|
| 7. | Does one individual have authority to ensure that internal control procedures are established and followed by all company departments? | | | | | |
| | | | | | | |
| 8. | Do personnel responsible for ensuring the accuracy of declared value have adequate knowledge and training in Customs valuation? | | | | | |
| | | | | | | |
| 9. | Does the company have adequate interdepartmental communication about Customs value? | | | | | |
| | | | | | | |
| 10. | Does the company have procedures to obtain Customs assistance for value issues when needed and is advice followed when given (e.g., requesting binding rulings)? | | | | | |
| | | | | | | |
| 11. | Does the company identify, analyze, and manage risks related to value? | | | | | |
| | | | | | | |
| 12. | Has the company identified any risks related to value and implemented control mechanisms? | | | | | |
| | | | | | | |

| | Internal Control | Yes | No | Work Paper Reference: IC Manual Page Number | Work Paper Reference: Is Implementation of Control Supported by Documentation and/or Interviews? | Comments |
|---|---|---|---|---|---|---|
| 13. | Does the company have procedures to ensure pro forma invoices are reconciled to actual invoices and corrections are reported to Customs? | | | | | |
| | | | | | | |
| 14. | Does the company have procedures to link specific purchase orders, invoices, and payment records to Customs entry numbers? | | | | | |
| | | | | | | |
| 15. | Does the company have procedures to ensure that price actually paid or payable is accurately reported, including: | | | | | |
| | Indirect payments? | | | | | |
| | Quota/visa? | | | | | |
| | Price adjustments? | | | | | |
| | Transportation costs? | | | | | |
| | Currency exchange adjustments? | | | | | |
| | All payments to seller? | | | | | |
| | | | | | | |
| 16. | Does the company have procedures to ensure that additions to price actually paid or payable are included for: | | | | | |
| | Packing? | | | | | |
| | Assists? | | | | | |
| | Proceeds? | | | | | |
| | Royalties? | | | | | |

| | Internal Control | Yes | No | Work Paper Reference: IC Manual Page Number | Work Paper Reference: Is Implementation of Control Supported by Documentation and/or Interviews? | Comments |
|---|---|---|---|---|---|---|
| | Selling commissions? | | | | | |
| | | | | | | |
| 17. | Do the purchasing department, legal department, engineers and others provide adequate information to the Import Department to ensure value is declared correctly? | | | | | |
| | | | | | | |
| 18. | Does the company have procedures to ensure that there are no limitations on the use of transaction value? | | | | | |
| | | | | | | |
| 19. | Does the company have procedures to ensure that correct conversion rates are used? | | | | | |
| | | | | | | |
| 20. | Does the company have procedures to ensure that non-dutiable charges are accurately reported? | | | | | |
| | | | | | | |
| 21. | Does the company require the broker to have written approval prior to making changes to value? | | | | | |
| | | | | | | |
| 22. | Does the company provide adequate broker oversight? | | | | | |
| | | | | | | |
| **23.** | List company-specific procedures below (if applicable) | | | | | |

**Section 2 - Preliminary Internal Control Assessment**

Use information obtained in section 1 above to make a preliminary assessment of internal control as strong, adequate, weak, or nonexistent.

| | Strong | Adequate | Weak | None* |
|---|---|---|---|---|
| **Internal Control** | | | | |

*If the team concludes that the company does not have internal control, risk is not acceptable so proceed to Section 5 below.

**Section 3 – Sample Sizes**

Use the matrix for determining Extensiveness of Audit Tests in section 3.3 of TIPS to determine the extensiveness of audit tests to confirm that internal control is effective. Multiple samples related to various costs comprising transaction value are possible. Samples and sample items should concentrate on risk.

| Sample Area | PAR Level (High, Moderate, or Low) | Internal Control Level (Weak, Adequate, or Strong) From Section 2 Above | Testing Limit (1-20) |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

**Section 4 - Results of Sample Testing**

Use the results of sample testing to determine if internal control is effective.

| Results of Testing | Yes or No |
|---|---|
| Is IC effective to provide reasonable assurance to preclude significant risk? | |

**Section 5 - Risk Opinion**

Use the information developed in Sections 1-4 to record the PAS opinion that risk is acceptable or unacceptable.

| Risk Opinion | Yes or No | Comments |
|---|---|---|
| Acceptable | | |

If risk is not acceptable the audit team may need to proceed to ACT or have company do quantification.