QUANTITY
TECHNICAL INFORMATION FOR PRE-ASSESSMENT SURVEY (TIPS)

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NOTE: An extensive review of internal control for quantity should be conducted when some specific risk exists related to quantity. For example, when specific or compound duty rates are based on quantity then quantity may represent a risk that should be addressed. Quantity may be a risk area for imports of petroleum, footwear, alcoholic beverages, watches, commodities subject to quota, and others. If the audit discloses significant unacceptable practices related to quantity, such as routinely declaring numbers of containers rather than number of units, these unacceptable practices should be addressed by the PAS team working with the company in the most efficient, effective manner.

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 Quantity 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 document 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 Accountant's *Statement on Auditing Standards No. 78.*

PART 2 QUANTITY GUIDANCE

Title 19 U.S.C. 1484(f) states that all import entries shall include an accurate statement specifying the quantities of all merchandise imported and the value of the total quantity of each kind of article. This is also required in General Statistical Note 1(a)(xii) to the HTSUS, 19 CFR 141.61(e), and Customs Directive 099-3550-061 (Instructions for Preparation of the CF 7501).

Title 19 CFR 141.86(a)(4) states that each invoice of imported merchandise shall set forth the quantities in the weights and measures of the country or place from which the merchandise is shipped, or in the weights and measures of the United States.

Title 19 CFR 142.6(a)(2) requires the commercial invoice or other acceptable documentation contain the quantities of the merchandise.

2.1 EXAMPLES OF RED FLAGS

The following examples are conditions that may indicate a potential problem with Quantity.

- Company has insufficiently documented, poorly defined, or no internal control for accurately declaring correct quantity for Customs purposes. Examples:
  - ✓ Company does not monitor or interact with the broker on quantity issues.
  - ✓ Company relies on one employee to handle quantity issues, and there are poor or no management checks or balances over this employee.
- Company import staff lacks knowledge of quantity issues.

- Company offers unreasonable explanations to Customs.
- Company fails to cooperate with or respond to Customs.
- Company has high turnover of people in key positions.
- Significant variance exists between the importer's data and Customs data.
- Customs (import specialist, account manager, compliance measurement, prior audit) shows history of problems with quantity (e.g., steel kilogram vs. tonnage issue).
- Company imports merchandise subject to restrictions including specific or compound duty rates, admissibility issues, or quota/visa.
- Quantities reported on the invoice, entry, packing slip, and receiving report do not match.
- The company has no receiving reports or documentation of quantities received (parts shipped to Quality Assurance Dept. and not counted).
- Quantity documents report different units of measure than required by Customs (lbs. vs. kg. , carton vs. cases).
- Company has numerous drop shipments for which quantities cannot be verified (shipment directly to the customer).
- The receiving department has authority to override quantity variances between actual receipt and the packing list or other shipping documents.
- The company uses overseas vendor count for quantities received.
- Special handling requirements prohibit accurate count (e.g. silicon wafers require "clean area").
- Merchandise changes quantity because of expansion/contraction of commodities (e.g. petroleum, resins/polymers).

2.2 EXAMPLES OF BEST PRACTICES

- Internal controls over Quantity:
  - ✓ Are in writing;
  - ✓ Include procedures for monitoring and feedback; and
  - ✓ Are monitored by management.
- One manager is ultimately responsible for control of the import department, including correct imported quantity. 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.
- Internal control procedures assign quantity verification duties and tasks to a position rather than a person.
- Company has good interdepartmental communication about quantity matters.
- Company conducts and documents periodic reviews of quantity, and uses the results to make corrections to entries and changes to their import operations as appropriate.
- Company has appropriate controls in place to monitor quantities of merchandise entered under specific or compound duty rates, quota/visa, or other admissibility issues.
- Company has a system to verify quantities reported on the invoice, entry, packing slip, and receiving report, and generates a discrepancy report.
- Quantity discrepancies are recorded in a log and reported to Customs.
- Company has table of conversions for units of measure as required by Customs.
- Override of quantity variances by the receiving department requires authorization by appropriate personnel.
- Company reviews overseas vendor count for quantities received.
- Company uses industry standards for expansion/contraction of commodities (e.g. petroleum, resins/polymers).

2.3 EXAMPLES OF DOCUMENTS AND INFORMATION TO REVIEW

- Internal control policies and procedures for ensuring proper reporting of quantities entered under specific or compound duty rates, quota/visa, or other admissibility issues.
- The company's response to the questionnaire.
- Interviews with company staff concerning actual procedures and controls specific to quantity.
- Company's documentation that supports monitoring and verification of established and/or written internal control for quantity such as:
  - ✓ CF 7501 Entry Summary document.
  - ✓ CF 214 if applicable.
  - ✓ Commercial invoice with additional information affecting admissibility.
  - ✓ Bill of lading, packing slip, in-bond documents, and receiving reports.
  - ✓ Purchase Order, contracts or agreements.
  - ✓ Quantity discrepancy reports.
  - ✓ Gauge Report for commodities (e.g. petroleum, resins/polymers).

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 control over quantity. (Examples of documents and information to review are listed on prior pages.)

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

   - Documentary evidence of the results of periodic internal control reviews/testing and corrective action implemented.
   - Documentary evidence (such as a log) of communication with the broker and company departments on quantity issues. This includes company testing of broker operations and verification that the broker followed company instructions.
   - Documentary evidence of inter-company communications to ensure correct quantity information is provided to Customs.
   - Training records and materials relating to quantity are used to educate staff on Customs matters.

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

   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 LIMIT)

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 that case, 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, test the appropriate number of controls and associated transactions using the table below.

Extensiveness of Audit Tests

PAR Level	+	Preliminary Review Internal Control	=	Extensiveness of Audit Test	Testing Limit
High		Weak Adequate Strong		High Moderate to High Low to Moderate	10-20
Moderate		Weak Adequate Strong		Moderate to High Moderate Low	5-15
Low		Weak Adequate Strong		Low to Moderate Low 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 reporting correct quantity.

1. Complete the WEIC for Quantity to determine whether risk is acceptable or unacceptable and 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.
   Customs considers risk unacceptable when testing reveals that internal control is not sufficient or effective in providing reasonable assurance that accurate, timely, and complete declarations are reported to Customs.

2. The following will assist the PAS team in determining if conditions warrant proceeding to ACT.

   <u>Do not proceed to ACT if:</u>
   - 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 quantity 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 quickly performed 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 PAS *are for clarification purposes only*.

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

Company A imports textiles subject to quota/visa requirements from a related party located in Hong Kong. The company did not have written internal control procedures for quantity. The receiving department was not aware of any Customs requirements to report quantity variances to the Import department. The company relied on the quantity stated on the invoice/packing list from overseas vendors and did not perform a physical count. A review of the receiving records revealed that the importer received more than the quantity declared to Customs. This discrepancy resulted in a loss of duty. ACS data showed only two previous entries from this vendor with an insignificant value amount. During the review, the company paid the duty and established written internal control procedures to verify quantity received. The PAS team was able to verify that the procedures were effective, therefore, there was no need to proceed to ACT.

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

Same as Situation A, except that after further review, it was determined that the errors were systemic but the importer agreed to develop and implement a compliance improvement plan within two months. Therefore, there was no need to proceed to ACT.

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

Company C imports steel from Lithuania. Steel is sold in tons. The tonnage must be converted to kilograms (kilos) in order to make entry, since duty is assessed on kilos instead of tons. The conversion from tons to kilos made by the company was not verified for accuracy. The conversions were not followed as prescribed in their operations handbook. This resulted in a major understatement of weight for the steel and the proper duty was not paid. After further review, we found problems with the methodology of the formula calculation for conversions. Since the company was unwilling to quantify loss of revenue, the team proceeded to ACT

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

Same as Situation C except that the company refused to establish internal control procedures to ensure that the correct quantity is reported to Customs. Therefore, the team proceeds to the ACT process.

PART 4 WORKSHEET FOR EVALUATING INTERNAL CONTROL (WEIC) - QUANTITY

PURPOSE: To determine whether Quantity 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: • Interviews and requesting evidence from the company and • 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

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
1.	Are internal controls over quantity formally documented?					
2.	Are written policies and procedures for quantity for specific or compound duty rates, quota/visa, or other admissibility issues approved by management?					
3.	Are written policies and procedures reviewed and updated periodically?					
4.	Do written internal control procedures assign responsibility for quantity to a position rather than an individual?					
5.	Does the company have good interdepartmental communication concerning quantity issues?					
6.	Is only one department/individual primarily responsible for assuring compliance with quantity requirements?					

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
7.	Does the individual overseeing quantity compliance have adequate knowledge and training and the authority to ensure that internal control procedures for quantity are established and followed by all company departments?					
8.	Are internal controls over quantity periodically tested?					
9.	Were the results of the periodic internal control tests documented?					
10.	If weaknesses were found during internal control testing, were corrective actions implemented?					
11.	Does the company use conversions for units of measure as required by Customs?					
12.	Is the quantity variance override authority limited to appropriate personnel?					
13.	Does the company count quantities received and make a record of such counts and discrepancies?					

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
14.	Are receiving reports retained and readily available?					
15.	Are receiving reports readily traceable to entry summaries?					
16.	Is broker notified of quantity variances in order to amend Customs entry summary information?					
17.	Does the company have internal control procedures to address specific issues identified in the profile?					
18.	Does the company have written procedures to take corrective actions as necessary?					
19.	Does company provide adequate broker oversight?					
20.	Does the company identify, analyze, and mange risks related to quantity?					
21.	Has the company identified any risks related to classification and implemented control mechnisms?					

No.	Internal Control (IC)	Yes	No	Work Paper Reference		Comments
				IC Manual Page Number	Is Implementation of Control Supported by Documentation and/or Interviews?	
22.	Does the company have internal control to address specific issues identified in the profile?					
23.	List company-specific procedures and controls 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 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.