



**U.S. Customs and  
Border Protection**

September 13, 2012

Todd Kreutzer  
Vice President, Global Supply Chain & Operations  
Elmer's Products, Inc.  
460 Polaris Parkway, Suite 500  
Westerville, OH 43082

Dear Mr. Kreutzer,

Enclosed is the U.S. Customs and Border Protection (CBP) audit report for the Focused Assessment (FA) Follow-up Audit of imports by Elmer's Products, Inc. (Elmer's). Our objective was to determine whether corrective actions specified in Elmer's Compliance Improvement Plan (CIP) were implemented and addressed the findings and recommendations identified in the FA Pre-Assessment Survey.

We concluded that the corrective actions specified in Elmer's Compliance Improvement Plan (CIP) were implemented and addressed the findings and recommendations identified in the Pre-Assessment Survey (PAS). As a result, additional follow-up work is not necessary and no additional work is planned at this time. Detailed information on the results of our audit is included in the enclosed report number 461-12-FA1-F1-22639.

We appreciate the assistance of Mr. David Coman, Customs Compliance Manager, and Mr. Jeff Lagos, Director, Sales and Operations Planning, whose cooperation assisted in the audit process. If you would like additional information regarding this audit, please contact Suzette Luecke, Assistant Field Director, Office of Regulatory Audit, Charlotte, North Carolina at (704) 329-6139.

Sincerely,

A handwritten signature in blue ink, appearing to read "R. Keith Richard".

R. Keith Richard, Field Director  
Office of Regulatory Audit  
Office of International Trade

Enclosure



**DEPARTMENT OF HOMELAND SECURITY  
U.S. CUSTOMS AND BORDER PROTECTION**

**Focused Assessment Program  
Follow-up Audit Report**

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**ELMER'S PRODUCTS, INC.  
461-12-FA1-F1-22639  
September 13, 2012**

**Office of Regulatory Audit  
Office of International Trade  
Charlotte, North Carolina**

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**SENSITIVE—PROPRIETARY INFORMATION**

**ELMER'S PRODUCTS, INC.**  
**461-12-FA1-F1-22639**

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**ELMER'S PRODUCTS, INC.**  
**461-12-FA1-F1-22639**

**Introduction and Background**

U.S. Customs and Border Protection (CBP) completed a Focused Assessment (FA) Follow-up Audit of Elmer's Products, Inc. (Elmer's) located in Westerville, Ohio. Elmer's primarily imports under Harmonized Tariff Schedule (HTS) chapters 35 and 84 which consists of prepared glues, other prepared adhesives, and pencil sharpeners. Elmer's declared import value and estimated duty paid for the period October 1, 2011 through January 23, 2012 was \$13,952,430.00, and \$371,317.72, respectively.

On February 22, 2011, we issued a Pre-Assessment Survey (PAS) audit report where Elmer's was found to represent an unacceptable risk to CBP for value, classification, and North American Free Trade Agreement (NAFTA). Specifically, Elmer's internal controls over declaring related party transaction values, identifying and reporting royalties and commissions, properly classifying products, and ensuring that a proper certificate of origin (COO) was obtained prior to declaring NAFTA treatment needed improvement.

On November 19, 2010, Elmer's submitted a disclosure for imports that were undervalued. Elmer's tendered \$375,168.76 for violations involving indirect payments and assists, royalties, foreign exchange payments, commissions, and inter-company transactions. On August 19, 2011, we issued a Disclosure Audit report where we determined the disclosure, dated November 19, 2010, was complete and accurate.

On August 11, 2011, Elmer's submitted a supplemental disclosure to the November 19, 2010 disclosure. Elmer's tendered \$72,677.87 for the period April 1, 2010 through February 1, 2011, the day that Elmer's had instructed their broker to begin flagging entries for reconciliation. Also on August 11, 2011, Elmer's submitted a separate disclosure for NAFTA violations covering the period April 28, 2006 through April 28, 2011 and tendered \$930,677.69.

**Objectives, Scope, and Methodology**

The objective was to determine whether corrective actions specified in Elmer's Compliance Improvement Plan (CIP) were implemented and addressed the findings and recommendations identified in the PAS.

The scope of our Follow-up Audit included the corrective actions taken by Elmer's to improve internal controls for import activities entered under IOR number 51-037036500 since the PAS audit report was issued. Fieldwork was conducted in Westerville, Ohio.

In order to determine whether the CIP was implemented and addressed the findings and recommendations from the PAS report, we performed the following:

- Reviewed the CIP and compared the procedures outlined in the CIP to the findings and recommendations from the PAS report;

- Reviewed the revised procedures and evaluated the implementation of the procedures for related party transactions and commissions, which included a review of selected accounts and transactions;
- Reviewed the revised procedures and evaluated the implementation of the procedures for royalties;
- Evaluated the implementation of the revised post entry review processes;
- Evaluated the implementation of the classification database review;
- Evaluated the revised NAFTA procedures and implementation of those procedures; and,
- Reviewed Elmer's quantification of the loss of revenue (LOR) as a result of the classification and NAFTA errors in the PAS.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Summary of Audit Results**

The corrective actions specified in Elmer's CIP were implemented and addressed the findings and recommendations identified in the PAS report. The seven recommendations and corresponding results are outlined below.

(1) Develop and implement procedures to accurately declare the value of related party transactions to CBP. Procedures were developed and implemented to accurately declare the value of related party transactions to CBP. Based on a review of five entry lines, the inter-company markup was included on the CBP Form 7501.

(2) Develop and implement procedures to declare royalty payments. Procedures were developed and implemented to ensure that dutiable royalties are identified and declared to CBP. Elmer's now participates in the reconciliation program to appropriately account for the additions. Elmer's quantified the LOR for the past entries in their disclosure submissions.

(3) Develop and implement procedures to identify and declare commissions to CBP. Procedures were developed to address reportable commissions in the future. No discrepancies were identified in the four commission accounts reviewed.

(4) Conduct post entry reviews for all entries that, at a minimum, include checks to ensure that the classification in the database was used and that the value was correctly declared on related party transactions. Elmer's has implemented a two-phased review process, which includes a review of all entries and a second level quarterly review of selected entries. Both processes have a check to ensure the classification in the database was used and both processes have a check that the value is correctly declared.

(5) Review and update the classification database periodically. The classification database was reviewed and updated. Elmer's database tracks the date of last review and who determined the

classification. Elmer's filed post entry amendments to correct classification errors identified during the database review.

(6) Maintain complete and properly executed Certificate of Origins at the time of entry. Elmer's eliminated their use of the NAFTA program and quantified the LOR in their August 11, 2011 disclosure.

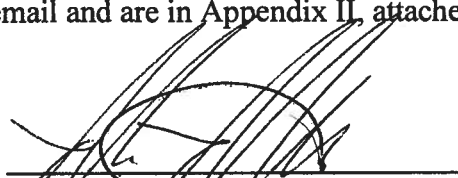
(7) Quantify and tender the LOR to CBP as a result of the misclassifications, value and NAFTA violations. Elmer's filed post entry amendments to address entries identified during their classification review. This combined with the disclosures already filed, we conclude that Elmer's has met the intent of this recommendation.

**Comments of Company Officials**

Comments from Elmer's officials were provided via email and are in Appendix II, attached.



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R. Keith Richard  
Field Director  
Office of Regulatory Audit, Charlotte  
Office of International Trade



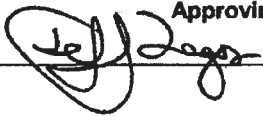
\_\_\_\_\_  
Mark MacVittie  
Acting Area Port Director  
Office of Field Operations  
Buffalo, New York

**COMPLIANCE IMPROVEMENT PLAN**

**FA COMPLIANCE IMPROVEMENT PLAN**

<b>Company Name</b>		Elmer's Products, Inc.	
<b>Date Compliance Improvement Plan Prepared</b>		June 29, 2011	
<b>CIP CONTENTS</b>			
<b>Name/Title of Responsible Official</b>		Jeff Lagos/ Director Supply Chain	
<b>Deficiency Disclosed on the Audit Results Sheet</b> <i>(should be taken from the "Condition" section of the Results Sheet)</i>  "Elmer's internal controls over declaring related party transaction values, identifying and reporting royalties and commission [sic], properly classifying products, and ensuring that a proper COO [sic] are obtained prior to declaring NAFTA treatment need improvement."			
<b>Corrective Action</b>		<b>Target Date</b>	<b>Responsible Department</b>
<i>(Specific action steps to be taken to correct the deficiency)</i>		<i>(Expected completion date for each action step)</i>	<i>(Title of department assigned to address each action step)</i>
1) Develop & implement improved documented internal controls over customs compliance matters (to include customs valuation, tariff classification, broker oversight, post-entry testing, etc.)	Revised documented internal controls	July 1, 2011	Operations
2) Flag entries with potential additions to value under the ACS Reconciliation Prototype	Program approval; broker instructions; report of flagged entries	April 1, 2011	Operations
3) Revise procedures regarding post-entry review to include all entries	Revised procedures; completed entry review checklists	July 1, 2011	Operations
4) Revise procedures regarding use, dissemination and testing of classification database	Revised procedures; transmitting correspondence	July 1, 2011	Operations
5) Revise broker instructions regarding NAFTA preference claims	Revised broker instructions	January 1, 2011	Operations

**COMPLIANCE IMPROVEMENT PLAN**

<b>Validation Action</b> <i>(Description of testing methodology to be used)</i>	
Elmer's Products, Inc. has recently hired a Customs Compliance Manager to help manage its import operations. The Customs Compliance Manager will be primarily responsible for ensuring that the improved internal controls described above work effectively.	
<b>Approving Official/Title</b>	<b>Date</b>
 / Director Supply Chain	6/29/11



**COMMENTS OF COMPANY OFFICIALS**

From: Coman, David [David.Coman@elmers.com]

To: DEAN, WILLIAM S; Lagos, Jeff

Cc:

Subject: RE: Elmer's: draft report

Attachments:  image001.png (253 KB)

Good afternoon, Seth.

Jeff and I reviewed the draft report and agree with the conclusions.

Please let me know when we should expect to receive the finalized report.

Thanks and have a great day.

Dave



David Coman  
Customs Compliance Manager  
Elmer's Products, Inc.