



THE U.S. CONSUMER PRODUCT SAFETY COMMISSION

Report on the Performance Review Over IPERIA Program for CPSC

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KEARNEY & COMPANY

*Point of Contact:
Jeff Green, Senior Partner
1701 Duke Street, Suite 500
Alexandria, VA 22314
703-931-5600, 703-931-3655 (fax)
jgreen@kearneyco.com*

Kearney & Company's TIN is 54-1603527, DUNS is 18-657-6310, Cage Code is 1SJ14.



U.S. CONSUMER PRODUCT SAFETY COMMISSION
WASHINGTON, DC 20207

Christopher W. Dentel
Inspector General

Tel: 301 504-7644
Fax: 301 504-7004
Email: cdentel@cpsc.gov

Date: May 13, 2016

TO : Elliot F. Kaye, Chairman
Robert S. Adler, Commissioner
Marietta S. Robinson, Commissioner
Ann Marie Buerkle, Commissioner
Joseph Mohorovic, Commissioner

FROM : Christopher W. Dentel, Inspector General

SUBJECT: Improper Payments Elimination and Recovery Act Review

According to the Government Accountability Office, improper Federal payments to individuals, organizations, and contractors totaled an estimated \$127.4B during fiscal year (FY) 2014¹. The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), further amended by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), as implemented by the Office of Management and Budget (OMB) Memorandum (M) 15-02, requires that Federal agencies take several steps to reduce improper payments and that Inspectors General review annually their agency's improper payment reporting in their agency's Performance and Accountability Report (PAR) or Agency Financial Report (AFR), as appropriate.

To assess agency compliance with IPERA for FY 2015, the Consumer Product Safety Commission (CPSC), Office of Inspector General (OIG) retained the services of Kearney & Company (Kearney) an independent public accounting firm. Under a contract monitored by the OIG, Kearney issued an inspection report regarding the CPSC's compliance with IPERA. The contract required that the inspection be performed in accordance with the Council of the Inspectors General on Integrity and Efficiency's (CIGIE), Quality Standards for Inspection and Evaluation (QSIE). Kearney determined that the CPSC was compliant with IPERA for FY 2015.

In their FY 2014 review, Kearney had concluded that the CPSC did not comply with IPERA and had identified some areas in which the CPSC could improve its process in identifying improper payments. Kearney had found that although the CPSC had performed a program-specific risk

¹ The GAO improper payment estimate for FY 15 is not yet available.

CPSC OIG Hotline: 1-866-230-6229 CPSC's Web Site: <http://www.cpsc.gov/en/About-CPSC/Inspector-General/>

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assessment for those activities identified as susceptible to significant improper payments, the risk assessment performed was not compliant with IPERIA. The support provided for the risk assessment was not consistent with the conclusions of the risk assessment itself, as required by OMB M-15-02. Inconsistencies were also found between the documentation of the Standard Operating Procedure (SOP) for the IPERIA review and the actual procedures performed for the risk assessment. Specifically, Kearney had noted that the documented procedures received for the risk assessment could not be re-performed by following the procedures listed in its SOP.

In addition, Kearney had found that for FY 2014 the improper payment estimate developed by the CPSC had not been in compliance with IPERIA as it was based on FY 2013 data instead of FY 2014 data, as required by OMB M-15-02. OMB M-15-02 allows improper payment estimates to be developed on financial data that is not concurrent with the reporting FY, as long as OMB has approved it in advance and in writing. The CPSC was not able provide OMB approval for using FY 2013 data instead of FY 2014 data. Finally, Kearney noted that the CPSC's AFR had not included all of the relevant OMB required disclosures.

In this year's review, Kearney found the CPSC was compliant with IPERA, as amended by IPERIA, and OMB M-15-02. Kearney found that the CPSC performed program-specific risk assessments for those activities identified as susceptible to significant improper payments and the risk assessment performed was consistent with the CPSC SOP and other support provided for this review. Also, unlike the prior year (FY 2014), the CPSC performed their FY 2015 risk assessment based on current year (FY 2015) data.

Kearney also noted that the CPSC's FY 2015 AFR contained the proper disclosures in accordance with OMB Circular A-123, Appendix C, Parts I and II disclosure requirements; as well as, OMB A-136, 11.5.8 IPIA Reporting Detail Requirements.

In connection with the contract, we reviewed Kearney's report and related documentation and inquired of its 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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OBJECTIVES

As requested by the Consumer Product Safety Commission (CPSC), Kearney & Company, P.C. (defined as “Kearney,” “we,” and “our” in this report) reviewed CPSC’s fiscal year (FY) 2015 Improper Payments Elimination and Recovery Improvement Act (IPERIA) Program. Kearney conducted this performance review in accordance with Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States, and the Quality Standards for Inspection and Evaluation (QSIE), issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE).

The objective of the performance review was to ensure that CPSC is taking sufficient steps to identify, prevent, and recapture improper payments in accordance with IPERIA. The review objective is to determine whether CPSC is in compliance with IPERIA.

Specifically, this review and resulting report should provide sufficient findings and recommendations to allow it to serve as:

1. A rigorous evaluation of CPSC’s compliance with the Improper Payments Elimination and Recovery Act (IPERA) and Office of Management and Budget (OMB) Memorandum (M)-15-02
2. A consistent and understandable mechanism for reporting the results in the format established by CIGIE’s QSIE and GAGAS
3. A roadmap that CPSC can follow to improve its processes.

BACKGROUND

In July 2010, IPERA, which amended the Improper Payments Information Act of 2002 (IPIA), was enacted to further reduce improper payments. IPERA clarified the programs to be reviewed and expanded improper payments recapture activities. IPERA also required Inspectors General (IG) to determine whether an agency complies with IPERA and established additional requirements for agencies that were deemed noncompliant. In April 2011, OMB issued guidance for agencies implementing IPERA requirements in Appendix C, Revised Parts I and II, of OMB Circular A-123, *Management’s Responsibility for Internal Control*. The guidance defines the programs and payments that agencies must assess for the risk of improper payments and provides requirements for determining whether the risk of improper payments is significant, developing an estimate of improper payments, performing recapture review activities, and reporting improper payment activities.

In January 2013, IPERIA¹ was enacted and further amended IPIA by requiring, among other things, that OMB identify high-priority Federal programs for greater levels of oversight and review, provide guidance to agencies for improving estimates of improper payments, and establish a working system for pre-payment and pre-award review.

¹ Public Law (P.L.) No. 112-248

In our FY 2014 Performance Review Report, Kearney concluded that CPSC was not in compliance with IPERA and identified some areas in which CPSC could improve its process in identifying improper payments. Our report recommended that CPSC implement the following:

- Enhance the level of documentation for the IPERIA process with regards to instruction and performance
- Provide training to those individuals who perform the assessment and review
- Enhance the IPERIA disclosures released in the annual CPSC Agency Financial Report (AFR).

Kearney obtained and reviewed CPSC's corrective actions associated with the FY 2014 IPERIA review findings and recommendations. CPSC maintained a formal corrective action plan (CAP), including the findings, recommendations, corrective action descriptions, completion dates, and documentation evidencing the actions were completed. Kearney reviewed the documentation supporting the actions taken and found that CPSC appropriately completed the corrective actions associated with the FY 2014 IPERIA Inspection Report findings and recommendations.

Improper payments are payments that should not have been made or were made in an incorrect amount. These include overpayments and underpayments, duplicate payments, payments made to an ineligible recipient, payments for an ineligible good or service, payments for goods or services not received (except for such payments authorized by law), payments that do not account for credit for applicable discounts, and payments for which an agency cannot determine whether the payments were proper because of insufficient or lack of supporting documentation.

IPIA, as amended by IPERA² and further amended by IPERIA, requires agencies' Offices of Inspectors General (OIG) to annually assess compliance with improper payments requirements.³ In accordance with this requirement, Kearney, an external firm acting on the OIG's behalf, conducted a review of CPSC's compliance with IPERIA during FY 2015.

REVIEW RESULTS

We conducted this review in accordance with GAGAS and CIGIE's QSIE. Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our review objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our review objectives.

Kearney found that CPSC is compliant with IPERIA and the OMB M-15-02, as promulgated by OMB. Kearney noted that CPSC:

- Published an AFR on the agency website and included required disclosures

² Unless otherwise indicated, the term "IPIA" implies "IPIA, as amended by IPERA" in this report.

³ P.L. No. 111-204 § 3(b)

- Completed corrective actions associated with the prior-year (FY 2014) IPERIA inspection
- Completed prior-year noncompliance requirements as it prepared plans describing the actions the agency will take to become compliant and submitted to the required congressional committees, as well as the OIG and OMB
- Completed a risk assessment and the methodology is consistent with the guidance outlined
- Completed payment recapture review program cost effectiveness analysis and notified the OIG and OMB of the outcome and details supporting the conclusion.

Kearney found that CPSC performed program-specific risk assessments for those activities identified as susceptible to significant improper payments and the risk assessment performed was consistent with CPSC's Standard Operating Procedure (SOP) and other support provided for this review. In addition, as opposed to the prior year (FY 2014), CPSC performed its FY 2015 risk assessment based on current-year data.

Kearney also noted that CPSC's FY 2015 AFR contained the proper disclosures in accordance with OMB Circular A-123, Appendix C, Parts I and II; and OMB Circular A-136, Section II.5.8, *IPIA Reporting Detail Requirements*. However, Kearney noted that CPSC completed the Internal Controls over Improper Payments analysis.

Over the past four years, CPSC has made several improvements to its IPERIA review process, to include a review of all payment activities, centralization of documentation, and enhanced documentation for performance of the annual IPERIA review. In addition, CPSC has hired highly competent individuals to perform the annual IPERIA review.

IPERIA and OMB M-15-02 require Federal agencies to fulfill the following six criteria in order to achieve full compliance:

1. Publish and post an AFR or Performance Accountability Report (PAR) for the most recent FY and any accompanying materials required by OMB on the agency website
2. Conduct a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 of the United States Code (U.S.C.)
3. Publish improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment
4. Publish programmatic CAPs in the AFR or PAR, if required
5. Publish annual reduction targets for each program assessed to be at risk and estimated for improper payments, if required and applicable
6. Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the AFR or PAR.

For FY 2015, CPSC is in compliance with the requirements for Federal agencies, as promulgated in IPERIA and OMB M-15-02.

Risk Assessment

Kearney conducted this review to assess CPSC’s compliance with IPERIA during FY 2015. CPSC leveraged the FY 2015 third quarter Fund Balance with Treasury (FBWT) reconciliation data and identified total disbursements by activity (i.e., salaries and benefits paid to employees, contracts, Blanket Purchase Agreement [BPA] calls, travel, employee reimbursements, purchase card, travel centrally billed account, fleet card, and other miscellaneous obligations). CPSC then categorized these activities into two separate programs:

- Program 1 (~\$73.9M) – Payroll (i.e., salaries and benefits paid to employees)
- Program 2 (~\$29.4M) – Non-Payroll (i.e., contracts, BPA calls, travel, employee reimbursements, purchase card, travel centrally billed account, fleet card, and other miscellaneous obligating documents).

CPSC applied the significant improper payment test to each program. The results yielded the conclusion that CPSC does not have a program or payment activities based on amounts that fall under the definition of a significant improper payment.

CPSC performed a qualitative risk assessment by scoring each program’s risk of incurring significant improper payments according to a total risk score of the eight separate risk factor scores applied. The total risk score was assessed as “Low,” “Medium,” or “High” in each program. The combined risk scores, by program, for all risk factors, were determined to be “Low.” Additionally, the same methodology was applied to the aggregate disbursement amount, which also was assessed as “Low.” The risk factors applied were consistent with those outlined in OMB Circular A-123, Appendix C, Part I.A.9, Step I.b, *Systematic Method*. Accordingly, CPSC did not, and was not required to, execute OMB Circular A-123, Appendix C, Part I.A.9, Step II, *Evaluate all selected programs using a quantitative evaluation based on a statistical sample*.

CPSC also revised the IPERIA SOP from the prior year and developed a corresponding process flowchart outlining the procedures to conduct for the FY 2015 IPERIA analysis. CPSC followed the SOP, utilized current-year data, and confirmed that the individual who performed the analysis had evidence of training. Specifically, the individual completed the “Improper Payments in Government Training Workshop” in 2015. CPSC also maintained a detailed workpaper set, documenting the FY 2015 IPERIA analysis, which includes the following activities conducted:

- IPERIA population (disbursements by activity; aggregated by program)
- Improper payments test
- Qualitative risk assessment
- AFR disclosures mapped to OMB Circular A-136, Section II.5.8, *IPIA Reporting Detail Requirements* and source data tables included in the FY 2015 AFR
- Payment Recapture Audit Program cost benefit analysis
- Internal Controls over Improper Payments
- Actual individual disbursements recovered in FY 2015 by activity.

CPSC's methods and procedures of risk assessment are consistent with OMB M-15-02 guidelines.

Payment Recapture Audit Program Cost Effectiveness Analysis

OMB Circular A-123, Appendix C, Part I.D, *Payment Recapture Audits*, states: "...agencies to conduct payment recapture audit (also known as recovery audits) for each program and activity that expends \$1M or more annual if conducting such audits would be cost effective."

Further, OMB Circular A-123, Appendix C, Part I.D, *Payment Recapture Audits* states: "If an agency determined that it would be unable to conduct a cost-effective payment recapture audit program for certain programs and activities that expend more than \$1M, then it must notify OMB and the agency's Inspector General of this decision and include any analysis used by the agency to reach this decision."

We requested, obtained, and reviewed CPSC's payment recapture audit program cost effectiveness analysis conducted as a part of the FY 2015 IPERIA analysis. CPSC evaluated two options:

- Option 1 – Employ one General Schedule (GS) 12 full-time equivalents (FTE) at a cost between \$75 to \$100K
- Option 2 – Contract the services; based on the General Services Administration (GSA) Schedule labor rates and estimated number of hours to complete the recapture audit at a cost of ~\$38K.

The estimated costs associated with both options exceeded the estimated overpayment collections of amount of \$10K. Accordingly, CPSC concluded that conducting a Payment Recapture Audit Program would not be cost-effective. To properly notified OMB and the OIG of the decision, CPSC distributed formal memorandums on CPSC letterhead from the Chief Financial Officer (CFO), via e-mail. The memorandums included the results of the detailed analysis supporting the conclusion that the Payment Recapture Audit Program would not be cost-beneficial.

OMB-Required Disclosures

CPSC improved the AFR disclosures related to the results of the FY 2015 IPERIA review process. Kearney noted that CPSC adequately addressed all of the IPERIA disclosure requirements in its FY 2015 AFR, as required by OMB M-15-02:

- AFR Other Accompanying Information included IPERA Reporting Details as disclosures
- AFR included a description of the program-specific risk assessments performed for each program
- AFR contained information about the agency's recapture efforts

- AFR met the required OMB Circular A-136, Section II.5.8, *IPIA Reporting Detail Requirements*.

OMB M-15-02 also includes additional AFR disclosures, only “if required.” Agencies are required to comply with these disclosures only if programs are determined to be at high risk of incurring significant payments. Since CPSC concluded, as a part of its risk assessment, that risk was low for all programs, it is not required to disclose the following:

- Improper payment estimates or all programs and activities identified as susceptible to significant improper payments during its risk assessment
- A description of CAPs
- Annual reduction targets for programs determined to be at risk.

CONCLUSION

Based on the review results previously noted, Kearney concludes that CPSC’s FY 2015 IPERIA review is in compliance with IPERIA and with OMB M-15-02. CPSC has made significant strides in the development of internal controls for its IPERIA review process. For example, Kearney notes that the documentation is significantly enhanced in the current year and facilitated the external review of the IPERIA review process. Kearney discussed our review results with the CPSC’s management (see *APPENDIX B – MANAGEMENT’S VIEWS ON CONCLUSIONS AND FINDINGS*).

APPENDIX A – SCOPE AND METHODOLOGY OF THE REVIEW

Scope and Limitations

This review covers the IPERIA review performed by CPSC's Finance staff. The scope of this review included transactions identified by CPSC as meeting the OMB M-15-02 definition of a payment made during FY 2015. In its self-review, CPSC identified approximately \$103.4M in payments that met the definition of a payment, as defined by OMB M-15-02. Kearney conducted our review from February through May 2016 at CPSC's Headquarters (HQ) in Bethesda, Maryland.

Methodology and Work Performed

Kearney conducted this review in accordance with CIGIE's QSIE and GAGAS, which require that we obtain sufficient data to provide a reasonable basis for reaching conclusions. These standards also require that Kearney ensure that the evidence supporting findings, conclusions, and recommendations is sufficient, competent, and relevant, such that a reasonable person would be able to sustain the findings, conclusions, and recommendations. Sufficiency of data needed and tests of evidence varied based on the review objectives, findings, and conclusions. Kearney's team designed the review to obtain insight into CPSC's current processes and procedures, as well as to assess compliance with IPERIA requirements.

APPENDIX B – MANAGEMENT’S VIEWS ON CONCLUSIONS AND FINDINGS

U.S. CONSUMER PRODUCT SAFETY COMMISSION
BETHESDA, MD 20814

To: Kearney & Company

From: Priscila I. Susi

Date: May 12, 2016

Re: Management’s Views on Conclusions and Findings on FY2015 IPERIA Program Review

We appreciate the Office of Inspector General’s thorough review of the CPSC IPERIA program for fiscal year 2015. We accept the successful conclusion of the audit that the CPSC’s IPERIA program for fiscal year 2015 is in compliance with IPERIA 2012 and with OMB Bulletin M-15-02 and that the audit resulted to no findings.

APPENDIX C – ACRONYMS

| Acronym | Definition |
|------------|--|
| AFR | Agency Financial Report |
| BPA | Blanket Purchase Agreement |
| CAP | Corrective Action Plan |
| CFO | Chief Financial Officer |
| CIGIE | Council of the Inspectors General on Integrity and Efficiency |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CPSC | U.S. Consumer Product Safety Commission |
| FBWT | Fund Balance with Treasury |
| FMFIA | Federal Managers Financial Integrity Act of 1982 |
| FTE | Full Time Equivalent |
| FY | Fiscal Year |
| GAGAS | Generally Accepted Government Auditing Standards |
| GSA | General Services Administration |
| HQ | Headquarters |
| IG | Inspectors General |
| IPERA | Improper Payments Elimination and Recovery Act of 2010 |
| IPERIA | Improper Payments Elimination and Recovery Improvement Act of 2012 |
| IPIA | Improper Payments Information Act of 2002 |
| Kearney | Kearney & Company, P.C. |
| Memorandum | M |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| PAR | Performance Accountability Report |
| P.L. | Public Law |
| QSIE | Quality Standards for Inspection and Evaluation |
| SOP | Standard Operating Procedures |
| U.S.C. | United States Code |

APPENDIX D – EVALUATION AGAINST 2014 GOVERNMENT ACCOUNTABILITY OFFICE’S (GAO) GREEN BOOK REQUIREMENTS

Purpose: To compare the IPERIA Program internal control system to the requirements of the 2014 GAO Green Book

Source: Kearney

Scope/Subject: Kearney evaluated the current internal control environment against the requirements of the 2014 GAO Green Book and provided the results in our report.

Conclusion: All 17 Principles were noted as demonstrating readiness.

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.”

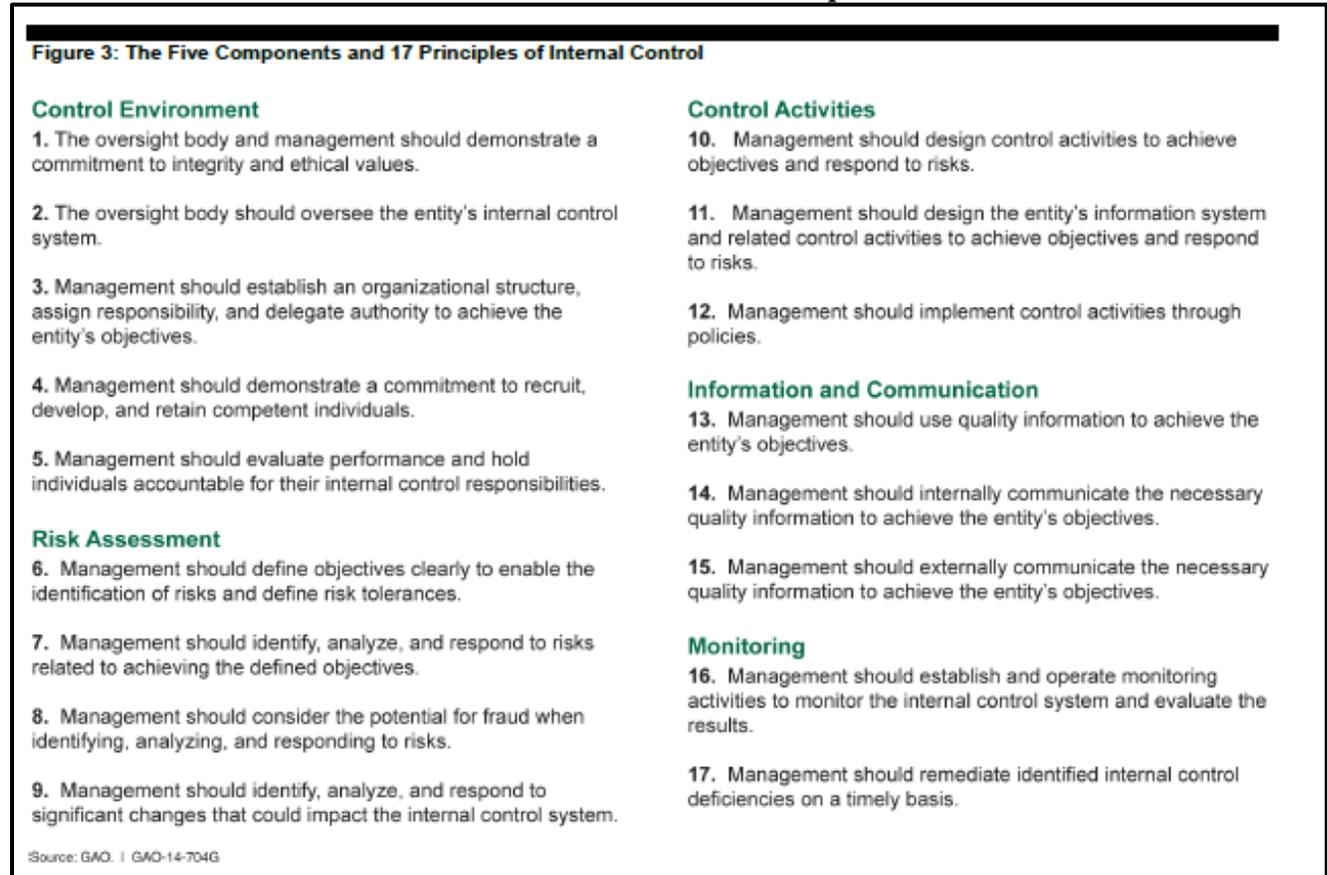
Sections 3512 (c) and (d) of Title 31 of the U.S.C. (commonly known as the Federal Managers’ Financial Integrity Act [FMFIA]) requires the Comptroller General to issue standards for internal control in the Federal Government. *Standards for Internal Control in the Federal Government* (known as the Green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

OMB Circular No. A-123 provides specific requirements for assessing and reporting on controls in the Federal Government. The term “internal control” in this document 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 quasi-governmental entities, as well as not-for-profit organizations, as a framework for an internal control system. Management of an entity determines, based on applicable laws and regulations, how to appropriately adapt the standards presented in the Green Book as a framework for the entity.

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 (control environment, risk assessment, information and communication, control activities, and monitoring). The Green Book adapts these principles for a Government environment.

The 2014 GAO Green Book OV2.05 states: “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 any one principle on a comparison basis would render the entire control system of the IPERIA Program ineffective from the standpoint of the 2014 GAO Green Book.

The 2014 GAO Green Book Principles



Procedure

We evaluated the internal control system for the IPERIA Program against the 2014 Green Book using the evidence we gathered during our regular procedures and the Green Book readiness survey with the CPSC IPERIA Program official.

Results

We noted that CPSC “demonstrates readiness” for the requirements of the 2014 GAO Green Book (see table below).

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