

Chapter

2

Canada Customs and
Revenue Agency

Managing the Risks
of Non-Compliance for Customs

All of the audit work in this chapter was conducted in accordance with the standards for assurance engagements set by the Canadian Institute of Chartered Accountants. While the Office adopts these standards as the minimum requirement for our audits, we also draw upon the standards and practices of other disciplines.

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Canada Customs and Revenue Agency

Managing the Risks of Non-Compliance for Customs

Main Points

2.1 The events of September 11, 2001 have had a dramatic impact on the Canada Customs and Revenue Agency's Customs program and the Agency has faced many challenges as it seeks to deter and detect non-compliance at the border. In our April 2000 and December 2001 reports, we made several recommendations to the Agency for managing the risks of non-compliance for its Customs program. We found that the Agency has made substantial progress in implementing two of our recommendations. That is, the Agency is now collecting advance passenger information from most airlines to help it target high-risk air travellers and it is using a new system at airports that allows better screening of travellers.

2.2 In other cases, however, the Agency has only partially implemented our recommendations, even those that would help make the border more secure. We found that the Agency had developed a strategy for collecting information from other government entities about the risks that arise from the responsibilities it undertakes on their behalf and has started to collect this information. It has put in place an action plan to strengthen its compliance verification regime and has conducted a preliminary analysis of the results of completed compliance verifications to help identify high-risk areas of non-compliance. Until the strategy is fully implemented and a complete analysis is done, gaps will remain in the Agency's risk assessments, and border management and post-release verification plans.

2.3 The Agency has introduced tools to help customs officers determine their training needs. It has also developed new courses and continues to offer existing ones. However, customs officers continued to express concerns about their training and the Agency is unable to fully assess whether they have received the training they need. The Agency is developing an ambitious training program and long-term learning plan for its compliance verification officers in response to our December 2001 recommendations.

2.4 The Agency has not made any significant progress in collecting the information that would enable it to tell Parliament whether its risk management strategy is working or to support its assessment of how well it is achieving its objectives for the Customs program.

2.5 On 12 December 2001, the Canadian and American governments signed the Smart Border Declaration. The Declaration includes a 30-point *Action Plan for Creating a Secure and Smart Border* and the Agency is in charge of eight of the Action Plan's initiatives. Two of these are NEXUS and Free and Secure Trade (FAST), which are binational programs that are intended

to make it easier for low-risk travellers and commercial shipments to cross the border. In 2001 we were concerned that the Agency was planning to go ahead with a similar Canadian program for commercial shipments before solidly establishing its compliance verification regime that ensures that the importers involved comply with trade laws and regulations. The Agency has worked hard to improve the regime, but, in our view, it is not yet solidly established and the Agency needs to proceed with caution with its programs for commercial shipments.

2.6 We also found that the Agency has made progress implementing the other initiatives in the Action Plan. It has set up joint targeting units with United States customs officials to target in-transit marine containers, signed an agreement with the United States to share information on customs fraud, and completed a joint review of customs and immigration practices at international seaports. It has discovered some legal issues related to establishing joint border facilities with the United States and is studying them. As well, it is putting in place the mechanisms to enable the sharing of advance passenger information.

2.7 The Agency was allocated \$433 million over six years as part of the government's public security and anti-terrorism initiative. It analyzed why it needed the funds and what it expects to achieve with them, but it has not systematically tracked the actual spending.

The Agency has responded. The Agency agrees with our recommendations and has indicated the actions it has planned or has under way to address them.

Introduction

2.8 In April 2000 we reported the results of our audit of how the Canada Customs and Revenue Agency manages the risks at ports of entry for travellers entering Canada. In December 2001 we reported the results of our audit of how it manages the risks of non-compliance for commercial shipments entering the country. We identified several risk-management problems in both audits. This follow-up provides a status report on how well the Agency has improved its efforts to manage these risks. The Office also recently completed an audit that included how Citizenship and Immigration Canada manages immigration risks at ports of entry. The results of that audit were reported in the Auditor General's 2003 Report, Chapter 5, Citizenship and Immigration Canada—Control and Enforcement.

2.9 The Customs program is an important part of the Canada Customs and Revenue Agency. The Agency's 2002–03 *Report on Plans and Priorities* says the expected outcome of the Customs program is that "Canadians' health, safety, security, and business interests are protected, and Canada's economic growth is supported, through responsible border and trade management."

2.10 The Agency spends about 16 percent of its resources on the Customs program (Exhibit 2.1). Spending for the Customs program increased in 2002–03. However, it is projected to fall in the next two years, while the Agency's total planned spending will increase. About 8,300 people are employed by the Customs program, more than half of whom are uniformed customs officers. However, this number is expected to fall by 2004–05.

What we found in 2000 and 2001

2.11 Our 2000 audit found that the Agency was modernizing its Customs operations and using new technology. However, we found that it did not have an overall compliance strategy for its Customs program. We also found that while the Agency was using a risk management approach to determine which travellers present the greatest danger to Canadian society, its risk assessment was incomplete because it lacked important information from other

Exhibit 2.1 The Agency's resources for its Customs program and other business lines*

	Actual 2000–01	Actual 2001–02	Planned 2002–03	Planned 2003–04	Planned 2004–05
Customs services (\$ millions)	495.9	560.2	592.1**	533.2	527.6
All business lines (\$ millions)	3,101.5	3,399.3	3,363.8	3,364.5	3,431.9
Full-time equivalents—Customs services	7,206	7,348	8,398	8,174	8,075
Full-time equivalents—all business lines	43,173	45,729	47,551	47,498	48,028

* The Agency's other business lines are tax services, benefit programs and other services, appeals, and corporate management and direction.

** The planned spending for 2002–03 includes funding found in Budget Plan 2001 for public security and anti-terrorism initiatives.

Source: Canada Customs and Revenue Agency, Annual Reports to Parliament and 2002–03 *Report on Plans and Priorities*

departments and agencies. Finally, we found that customs officers at land borders and airports needed to be better equipped and trained to do their complex jobs.

2.12 Our 2001 audit found that the Agency had made it easier for importers to bring legitimate goods into Canada and had provided them with several options to process commercial shipments. However, it needed to improve its enforcement activities, specifically, identifying high-risk commercial shipments and analyzing the outcome of its activities. We also found that, after six years and a lot of effort, the Agency had made little headway in assessing how well importers were complying with Customs trade laws and regulations. However, the Agency was working on a revised approach that looked promising.

2.13 The House of Commons Standing Committee on Public Accounts held a hearing on our 2001 audit and issued a report on 12 December 2002. The Committee echoed many of our concerns and made six recommendations to the Agency. The government will be responding to the Committee's report in May 2003.

What has happened since 2001

2.14 The events of September 11, 2001 had a dramatic impact on the Customs program. Within hours of the attacks, ports of entry across Canada were placed on high alert, and customs officers were mobilized to process the many U.S.-destined planes that were diverted to Canada. In the days and weeks following the attacks, the Agency increased the screening of travellers and shipments to detect potential terrorist activities.

2.15 Since then, Canadian and American government departments and agencies have strengthened their partnerships to improve security and other services at the border, while facilitating the flow of legitimate people and goods. On 12 December 2001 the Smart Border Declaration was signed by both governments. The Declaration includes a 30-point *Action Plan for Creating a Secure and Smart Border* that is supported by these four pillars:

- the secure flow of people,
- the secure flow of goods,
- a secure infrastructure, and
- co-ordination and information sharing in the enforcement of the plan's objectives.

2.16 The Agency is in charge of implementing the following initiatives of the Action Plan:

- putting in place a single, alternative inspection system called NEXUS to enable pre-approved travellers to easily cross the border;
- sharing advance passenger information and passenger name records for air travellers;
- ensuring customs and immigration practices are in place at international seaports, including ferry terminals;

- putting in place harmonized commercial processing for the two-way movement of commercial goods from pre-approved traders;
- processing truck and rail cargo at locations away from the border to improve security and facilitate trade;
- creating joint border facilities in remote locations;
- sharing information on customs fraud with the United States and sharing other customs data under the terms of the North American Free Trade Agreement; and
- working with the United States Bureau of Customs and Border Protection to target high-risk marine containers that arrive at Canadian seaports on their way to the United States or that arrive at American seaports on their way to Canada.

2.17 As part of its public security and anti-terrorism initiative announced in the 2001 Budget, the government set aside \$433 million in funding over six years for the Agency to develop projects to increase the security of Canadians. Some of these projects have been expanded to binational initiatives in the 30-point Action Plan. Our Office intends to report in 2004 on the additional public security and anti-terrorism funding and how it was spent.

2.18 Since September 11, 2001, the Agency has faced many challenges and has spent a lot of time reviewing its border operations. Some of the initiatives that were part of the *Investing in the Future: The Customs Action Plan 2000–2004* are being implemented sooner than originally planned. In implementing the Smart Border Declaration, the Agency is focussing on increasing the level of co-operation with the United States and on binational programs. Border management is evolving quickly as both countries seek to improve security without impeding the free flow of legitimate goods and people.

Focus of the follow-up

2.19 The objective of our follow-up audit was to determine the progress the Agency has made in addressing the recommendations we made in our April 2000 and December 2001 reports and implementing the eight initiatives in the Smart Border Declaration's 30-point Action Plan for which Customs has the lead role. Although our previous audit work was completed before September 11, 2001, many of our recommendations were aimed at improving the way the Agency manages the risks it faces at the border and measuring how effectively this is done. We also wanted to determine whether the Agency had appropriately planned how it will spend its \$433 million portion of the \$7.7 billion set aside in the 2001 Budget under the government's public security and anti-terrorism initiative. The scope and criteria for this audit are set out in About the Follow-Up at the end of this chapter.

Observations

Compliance strategy

Implementation of the Compliance Improvement Plan is progressing slowly

2.20 In 2000 we found that the Agency did not have a compliance strategy for its Customs program that described its plans to encourage voluntary compliance, or that outlined its approach to responsible enforcement. A well-articulated, comprehensive strategy is a key element for promoting compliance and managing risk intelligently.

2.21 In 2001 we found that the Agency had introduced its Compliance Improvement Plan. The plan laid out a systematic method of managing the Customs program that is based on risk. It was supported by a border management plan, a post-release verification plan, and a client services plan. The Agency knew that it would be several years before the Compliance Improvement Plan reached its full potential. In particular, there were many information gaps that needed to be filled.

2.22 The 2002–03 Compliance Improvement Plan outlines the following:

- national customs priorities for border examinations of travellers and commercial shipments;
- compliance verifications of how well importers are following trade laws;
- client service activities to promote compliance, and
- investigations of smuggling and fraud.

Border examinations are conducted at ports of entry and focus on threats to Canadians' health, safety, and security, such as terrorism and contraband. The other activities outlined in the plan are usually done away from the border.

2.23 One of the goals of the Compliance Improvement Plan is to collect and analyze information about compliance trends so that the Agency can identify and address non-compliance appropriately. However, as the Agency stated in its annual report for the year ending 31 March 2002, it has not made as much progress with the Plan as it had expected. For example, it is still studying which baseline measures would be best for measuring and reporting on overall compliance levels. As well, information gaps continue to make it difficult to do the analysis. We encourage the Agency to press ahead with this initiative.

Assessing risk

2.24 When developing a compliance strategy it is important to understand the risks, determine how significant they are, and find the best way to control them. Every traveller and shipment that enters Canada presents a risk, although in most cases the Agency considers that risk to be low (Exhibit 2.2). In order to reduce delays as much as possible, the Agency's main focus at the border is checking health, safety, and security risks. Even so, examining each traveller and shipment is neither desirable nor practical. The Agency uses various techniques to focus on the travellers and shipments that present the greatest risk. In our April 2000 and December 2001 reports, we described some of these techniques, identified certain weaknesses, and recommended ways to improve them.

Exhibit 2.2 Every traveller and shipment that crosses the border presents a potential risk

Inadmissible people who will enter Canada:

- illegal migrants;
- terrorists;
- people with criminal records.

Illegal goods (contraband) that will enter Canada:

- cocaine, heroin, ecstasy, cannabis, and others;
- pornography, especially child pornography;
- weapons and firearms.

Restricted goods or goods needing permits that will enter Canada:

- alcohol and tobacco;
- endangered species;
- textiles, milk protein, and prescription drugs;
- hazardous waste;
- contaminated goods, like those with foot and mouth disease.

Travellers, importers, carriers, and drivers that make incorrect declarations (innocently or intentionally):

- incorrect answers to questions posed by customs officers;
- incorrect description of goods, including country of origin, quantities, value, end-use, and tariff classification (important for targeting).

Risk assessment still has gaps

2.25 Customs performs a front-line function at ports of entry, enforcing its own laws and parts of those of other government entities. These include Citizenship and Immigration Canada, the Canadian Food Inspection Agency, and Environment Canada. In 2000 we found that the Agency's assessment of the risks that exist at ports of entry did not include information from other government entities about the risks that arise from the responsibilities it undertakes on their behalf. This year we found that the Agency had developed a strategy for an organized approach to gathering this information and using it in its Compliance Improvement Plan. We also found that it has started to collect information on other government entity risks and incorporate it into its border management and post-release verification plans. The Agency needs to implement the strategy in a timely manner so that its plans include the risk priorities of other government entities to help its officers focus their efforts on the areas of highest risk. In the longer term the Agency needs to integrate information on other government entity risks into its overall risk assessments.

2.26 In 2000 we recommended that the Agency complete or update, on a priority basis, memoranda of understanding (MOU) with other government entities on whose behalf it acts. This is important to help ensure roles and responsibilities are understood and information is communicated in a timely fashion. Discussions have since taken place and the Agency has told us that it plans to complete or update most key Customs-related MOUs with other

government entities by 31 March 2005. We note that MOUs have already been signed with five other entities. This includes the MOU with Citizenship and Immigration Canada that was signed on 6 March 2003.

Targeting of high-risk air passengers has improved

2.27 Customs uses targeting procedures to identify high-risk air travellers before they arrive in Canada. These procedures include comparing passenger names with databases that contain intelligence information, as well as information on previous customs or immigration infractions.

2.28 In 2000 we noted that some Customs targeting units received advance passenger information for air travellers on an ad hoc basis, at the carrier's discretion. We recommended that the Agency make obtaining advance passenger information a high priority.

2.29 Legislation was passed in 2001 that requires airlines to provide advance passenger information and passenger name records to the Canada Customs and Revenue Agency. Advance passenger information includes the full name, date of birth, citizenship, and a few travel document details. The passenger name record includes more detailed travel information such as all the destinations where the traveller flew and how the ticket was paid for. In October 2002, the Agency started collecting advance passenger information and it expects to begin collecting passenger name records in the summer of 2003. It is using this information to identify high-risk passengers and plans to keep it in a database for six years to help it and other agencies identify security, public health, and criminal threats. The Privacy Commissioner of Canada had raised concerns about the Agency's plans to keep the information, but these have been resolved.

2.30 The Agency also set up passenger targeting units at eight major Canadian airports to review information received and target high-risk passengers. Targeted passengers usually go through a secondary examination that entails more extensive questioning. Citizenship and Immigration Canada officers also work in three of these units and are expected to be working in all eight by the spring of 2003. The Agency and Citizenship and Immigration Canada are also working with the United States Bureau of Customs and Border Protection to share information on high-risk travellers. For example, joint passenger analysis units were set up at the Vancouver International Airport and the Miami International Airport in September 2002. These are pilot projects and will be evaluated in the spring of 2003.

2.31 When we visited Canadian airports in December 2002, we noted that customs officers were receiving limited advance passenger information from the airlines. Several airlines were still testing their ability to electronically transmit the information to the Agency. In the meantime, some airlines were faxing the information to the Agency. By March 2003 the situation had improved so that most airlines were transmitting their information electronically. However, one major airline was transmitting information about North American flights but not about most international flights. Until the

Agency receives passenger information electronically on the vast majority of passengers arriving in Canada, the targeting program will be constrained.

Pre-approval programs for low-risk travellers are moving ahead

2.32 A key objective of the Customs Action Plan 2000–2004 and the Smart Border Declaration is to pre-approve low-risk travellers to enable them to cross the border quickly so that customs officers can focus on other travellers who may be high-risk. There are two pre-approval programs for travellers:

- CANPASS—a Canadian program, and
- NEXUS—a joint Canadian-American program.

2.33 Land borders. In 2000 we reviewed the Agency's experience with the CANPASS–Highway program and noted that its potential had not been achieved. CANPASS–Highway has now been replaced by NEXUS Highway. Travellers who receive a NEXUS Highway card are considered low-risk by Canada and the United States and can use their card to enter either country. NEXUS Highway was first introduced at the Blue Water Bridge (Sarnia–Port Huron) in 2000 and was expanded to other locations in British Columbia and Ontario in 2002–03. The Blue Water Bridge pilot project was evaluated and the results were encouraging. The Agency needs to firm up its evaluation plans for the new locations so that it can be sure that the program's objectives are being met.

2.34 Airports. While CANPASS–Highway has been replaced with NEXUS Highway, the Agency plans to go ahead with its CANPASS–Air program for air travellers. This program had been piloted for several years at the Vancouver International Airport but had little success. A CANPASS–Air enrolment centre was opened in Vancouver in March 2003. The plans call for centres to be opened in other airports sometime in the future. The Agency is also planning to introduce NEXUS Air as a one-year pilot project at the Ottawa and Montréal airports in 2004.

2.35 The Agency has not conducted feasibility studies for either the CANPASS–Air initiative or the NEXUS Air initiative, although it is planning to conduct a marketing survey. We are concerned about this because such studies are needed to show whether these initiatives would be a worthwhile investment. We noted this same concern in 2000 with respect to the CANPASS–Highway program.

Targeting of high-risk commercial shipments needs further improvement

2.36 Identifying which commercial shipments present the highest risk of not complying with Canadian laws is an important part of enforcing those laws. It also allows low-risk shipments to enter Canada more easily. In 2001 we found some weaknesses in the targeting process, and recommended improvements. The Agency agreed to work on the improvements, provided the necessary systems and financial resources were available.

2.37 This year we found that few improvements had been made to address our concerns about targeting high-risk commercial shipments. At the same

time, the Agency has developed and delivered a course on targeting commercial shipments and has improved its targeting of in-transit marine containers. At one land border port, we also noted that there was an increased emphasis on targeting high-risk shipments and providing the necessary resources to do so. However, at another land border port, we noted that the targeting function had been eliminated and that customs officers were relying on information provided by the Agency's Contraband and Intelligence Services Directorate to target high-risk shipments.

2.38 We also found that the number of commercial shipment examinations had doubled between 1 April 2001 and 31 March 2002 over the previous year. This included an increase of 50 percent in the number of random examinations. However, we found that Customs did little to analyze the results of these random examinations, which could help it improve its targeting. As well, customs officers again told us that, if other operational priorities intervene, they pay less attention to conducting random examinations. This too could diminish the usefulness of random examinations in identifying potential high-risk targets.

2.39 Marine benchmarking study. One of the initiatives in the Smart Border Declaration is to review customs and immigration practices at international seaports, including ferry terminals. Officials from the Agency, Citizenship and Immigration Canada, the United States Customs Service, and the United States Immigration and Naturalization Service conducted the study and reported the results in May 2002. The objective of the study was to identify best practices, strengths, and weaknesses, and make recommendations. The next step in this project is to develop an action plan to address the recommendations.

2.40 Targeting marine containers. Many of the containers arriving at Canadian seaports are going to American destinations. Similarly, some containers arriving at American seaports are going to Canadian destinations. As part of their joint 30-point Action Plan, Canada and the United States are working to improve container inspection by targeting in-transit marine containers. Joint targeting units were set up in 2002 in Halifax; Montréal; Vancouver; Newark, New Jersey; and Seattle, Washington. At Canadian ports, American officers target containers going to the United States and these are examined by Canadian customs officers. At American ports, Canadian officers target containers going to Canada and these are examined by United States customs officers. Unit officers told us that the ability to exchange information helped them target high-risk containers. This initiative's effectiveness at finding inadmissible people or contraband has not been evaluated.

2.41 Sharing information on customs fraud. The 30-point Action Plan includes an initiative for both countries to share information about customs fraud. An agreement has been signed that sets out the terms and conditions under which such information can be shared. For example, the agreement states that only information on specific importers suspected of having

committed customs fraud in either country can be shared. To date, neither country has requested information covered in the agreement.

Initiatives for low-risk commercial shipments not supported by a solid compliance verification regime

2.42 A key objective of the Customs Action Plan 2000–2004 and the Smart Border Declaration is to enable low-risk commercial shipments to cross the border quickly so that customs officers can focus on other shipments that may be high-risk. This is accomplished by pre-approving importers, transportation companies, and drivers. There are two pre-approval programs for commercial shipments:

- Customs Self Assessment (CSA)—a Canadian program, and
- Free and Secure Trade (FAST)—a joint Canadian-American program.

2.43 Customs Self Assessment program. At the time of our 2001 audit, the Agency was planning to implement the CSA program. The program allows pre-approved importers to bring their shipments across the border quickly and account for them more easily. Importers, transportation companies, and drivers must all be pre-approved to participate in the program. Once the participants are approved, there is limited checking of shipments at the border. Rather, the Agency relies on its compliance verifications to ensure that importers have properly accounted for the goods and that they have paid all taxes and duties owing. Compliance verifications are critical in a self-assessment environment. In 2001 we were concerned that the Agency was planning to implement the CSA program before it had solidly established its compliance verification regime. The Standing Committee on Public Accounts expressed similar concerns and recommended in December 2002 that the CSA program be delayed.

2.44 However, the Agency had already gone ahead with the CSA program. To date, five large importers have been approved to use the program, as well as many transportation companies and drivers. These five companies import about 21 percent of the total value of all the goods imported into Canada. The Agency is targeting importer participation in the program, by 2005, that would represent 50 percent of the total value of all the goods imported into Canada. This would include about 1,000 large importers. As the participation rate in the CSA program increases, the risk of not discovering any non-compliance also increases if a solid compliance verification regime is not in place.

2.45 Since our 2001 audit, the Agency has put in place the framework to strengthen its compliance verification regime and measures to analyze compliance results. It has started to implement a new, two-part approach for verifying importers' compliance. However, in our view, the Agency has not yet solidly established its compliance verification regime (paragraphs 2.60 to 2.67). We remain concerned that it cannot adequately ensure that pre-approved importers are complying with Canada's trade laws and regulations.

2.46 Free and Secure Trade program. The Canadian and American governments have introduced a binational program called FAST to make it

easier for low-risk commercial shipments to cross the border. Importers, transportation companies, and drivers must all be pre-approved by the CSA program to participate in FAST. Application centres have been set up at several border crossings. To date, two importers have been approved under the FAST program. As with the CSA program, we are concerned that the Agency is pressing ahead with FAST before its compliance verification regime has been solidly established. In our view, the Agency needs to proceed cautiously with the CSA and FAST programs.

2.47 Moving the clearance process. The Smart Border Declaration's 30-point Action Plan also includes an initiative to move the clearance process away from the border. For example, Canadian and American customs officers could conduct their operations in one country or the other, at a shared facility. The goal of this initiative is to reduce delays at the border. Discussions have taken place between the Agency and the United States Bureau of Customs and Border Protection. However, some legal issues need to be worked out before a plan can be presented to officials, approved, and put in place.

Tools and training

2.48 Customs officers must administer Customs legislation and parts of laws that govern other departments and agencies. They must know about passport and visa requirements, as well as laws that cover a broad range of products and services. Customs officers who work at the primary inspection line must quickly decide whether to let travellers and commercial shipments go on their way, or send them for a secondary inspection where they will be questioned more extensively and, in some cases, examined.

2.49 Given the complexity of customs officers' jobs, it is vital that they have the information, tools, and training they need to make correct decisions quickly. In our 2000 and 2001 audits, we found that information was not consistently shared, systems that the officers relied on needed to be improved, and training was uneven.

Improved system used to process travellers at airports

2.50 Travellers arriving in Canada by air are asked to complete a Customs Declaration Card before they arrive at Customs. An officer reviews their declaration and conducts a brief interview.

2.51 In 2000 we found that one of the key systems that was used to help customs officers decide whether to send a traveller for a secondary examination was outdated and used less than 50 percent of the time. Since then, the Agency has installed the Integrated Primary Inspection Line System. This system is directly linked to databases at the Agency and at Citizenship and Immigration Canada so that customs officers have immediate access to "lookouts" and enforcement information. A lookout alerts customs officers to watch for particular individuals and to send them for a secondary examination. We found that officers were using this system for at least 90 percent of the air passengers they processed. This is a significant improvement over 2000.

Problems with system used to process travellers at land borders are unresolved

2.52 Travellers arriving in Canada at land border crossings remain in their vehicles while a customs officer interviews them. Declaration cards are not required at land border crossings. Travellers usually only need to show some form of identification.

2.53 At many land border crossings, customs officers use the Primary Automated Lookout System—Highway to screen travellers. The system reads licence plates and compares them with a Customs database to check for previous enforcement actions and/or lookouts. Officers can also use the system to check for immigration lookouts.

2.54 In 2000 we found that the system read licence plates correctly about 70 percent of the time. For the remaining 30 percent, customs officers had to manually correct the recorded information before the system was able to compare it with the database. We recommended that the Agency explore the possibility of improving the system. Although the Agency discussed the reliability of the licence-plate readers with the manufacturer, we have found no improvement. This is a concern because correcting the information diverts the officer's attention away from interviewing the occupants in a vehicle. This raises the risk that travellers that should be sent for a secondary examination are not. This risk is greater when the officer does not correct the licence plate reading.

2.55 We also note that the Agency's system is based on licence plate information and cannot automatically connect with Citizenship and Immigration Canada's lookout system, which is based on personal identification information. Unless customs officers enter an individual's name into the Primary Automated Lookout System, they are unlikely to know if there is an immigration lookout for that individual. But they are doing this less than 10 percent of the time. Instead, they rely on their judgment to decide whether to refer travellers to a secondary immigration examination.

2.56 Finally, we note that the Integrated Primary Inspection Line System used in airports is also available at 11 highway crossings to process individuals travelling by bus. It is also being tested at two highway crossings to process commercial truck drivers.

Concerns remain about controlling commercial shipments in Windsor

2.57 In 2001 we were concerned that the facility for examining commercial shipments at the Ambassador Bridge in Windsor is about two kilometres from the bridge. Unless officers escorted a truck from the bridge to the facility, which rarely happened, the Agency could not be sure that the truck went directly to the facility, or that no one had tampered with the shipment. The Standing Committee on Public Accounts was also concerned about this situation. In December 2002 it recommended that the Agency develop a solution as soon as possible and that a report containing options, solutions, and an action plan be written and tabled in the House of Commons no later than 31 March 2003.

2.58 This year we found that the Agency had issued a bulletin on escorting high-risk shipments in November 2001. Officials told us that escorts are used in high-risk situations when there is a specific lookout for a truck or driver, or when a customs officer is convinced the shipment or the driver is high-risk and is unlikely to go to the examination facility. We believe this is the same process that was followed in 2001.

2.59 The Agency plans to report on the Ambassador Bridge (as requested by the Standing Committee on Public Accounts) in the government's response to the Committee's report. It is expected to be tabled in the House of Commons in May 2003.

Interim measures being used to analyze results of compliance verifications

2.60 In 2001 we recommended that the Agency develop a national computer system to capture the results of all compliance verification activities. The Standing Committee on Public Accounts also stressed that the Agency should thoroughly assess its data and information systems requirements and take timely action to improve its information management systems for compliance verification.

2.61 Since then, we noted that the Customs Branch has developed a detailed business case for a national compliance verification reporting system, which is expected to cost about \$20 million over a five-year period. The next step in the process is to seek senior management's approval for the system and its funding.

2.62 As an interim measure, the Branch developed a spreadsheet-based process to capture the results of some of its verifications. In 2000–01 it conducted compliance verifications to check whether importers had classified and valued goods correctly. The Agency prepared a preliminary analysis of the results of 74 of these verifications that had looked at three high-risk commodities: textiles/apparel, steel, and footwear. The analysis showed an error rate that ranged from 25 to 31 percent for the classification of these commodities and from 19 to 27 percent for valuation. Agency officials indicated that based on these results, potential trade data errors could reach more than \$11 billion for these commodities. In 2001 we also noted high error rates of 29 percent for classification and 15 percent for valuation for all commodities. Accurate trade data are important for negotiating and monitoring trade agreements and are used by businesses to make domestic and foreign investment decisions.

2.63 We were encouraged that the Agency had done this analysis to identify compliance problems, and had used it to plan its compliance verification activities for 2002–03. But the Agency did other verifications in 2000–01. However, because the spreadsheet is not yet fully developed, the Agency did not analyze the results of those verifications to identify high-risk areas of non-compliance. As the new reporting system is developed and the results of more compliance verifications are collected and analyzed for subsequent years, the Agency should be in a better position to determine the degree of compliance

with trade laws and regulations, and whether compliance has improved or deteriorated.

New approach to verifying importers' compliance is partially implemented

2.64 At the time of our 2001 audit, the Agency was piloting a new, two-part approach for verifying importers' compliance because it had experienced great difficulty implementing the previous approach. This approach includes compliance assessment reviews and a new verification process. A compliance assessment review is designed to measure an importer's level of compliance and to identify areas where the importer is most likely to be non-compliant. The new verification process involves detailed testing of identified high-risk areas to determine the extent of non-compliance. The testing of the methodology and most of the training of compliance verification officers in all regions were completed in November 2001. Interim guides were also provided to compliance verification officers to help them conduct the verifications.

2.65 Since our 2001 audit, about 260 compliance assessment reviews have been completed. Officials have done a limited analysis of the results of those reviews. However, they were unable to tell us how many new verification processes had been conducted as a result of the risks identified by compliance assessment reviews.

2.66 In February 2002, the Agency developed a comprehensive, three-year action plan for managing the implementation of compliance assessment reviews and the new verification process. The plan outlined several components that are still being developed, including the following:

- creating the trade verification manual,
- creating a verification report template,
- developing time standards for compliance assessment reviews and the new verification process,
- enhancing client profile procedures, and
- developing a quality assurance framework.

The action plan laid out the work needed to implement the new approach, which is critical to strengthening the compliance verification regime.

2.67 Progress has been made in implementing compliance assessment reviews and the new verification process. However, it is too early to determine the effectiveness of the new approach since the results of verifications have not yet been collected, reviewed, or analyzed. As part of the action plan, the Agency indicated that it will evaluate the methodology for compliance assessment reviews and the new verification process in 2003–04.

Slow progress in improving customs officer training

2.68 Training provides customs officers with the knowledge and skills they need to do their complex jobs. The Agency has designed several courses for officers. They are offered at the Agency training facility in Rigaud, Quebec, as well as in regional offices and at ports. Some courses are mandatory, such as the eight-week induction course for new recruits. Officers are then expected

to take additional mandatory training, depending on the area in which they will be working. For example, there is a three-to-five day course for processing land or air travellers, and a three-week course for processing commercial shipments. Other mandatory and discretionary courses are also offered on several topics.

2.69 In 2000 we were concerned that the training needs of all employees were not being assessed on a regular basis, that training plans were not being developed each year, and that the Agency did not keep complete training records. Since then, the Agency has introduced a competency profile for customs officers. This profile helps officers determine where they have training needs. We found that about 20 percent of officers had used the competency profile.

2.70 We also found that about half of the officers have completed an individual learning plan. The plan, which is approved by the officer's supervisor, identifies the formal and informal training that the officer would like to take to be able to do a better job. However, more than two thirds of the officers we surveyed indicated that they were not aware of the training courses being offered, and about half said that their supervisor did not take a proactive role in helping them determine their training needs. Better information about when and where courses are being offered and more active participation by supervisors would improve the learning plans. We also noted that the Agency does not have an accurate record of the courses its officers have taken. This means that it is unable to fully assess whether employees have received the training they need.

2.71 In 2000 we recommended that appropriate training be provided in a timely manner. The Agency has continued to offer its existing courses and has prepared and delivered new courses to inform its officers about changes in laws, and to teach them how to use new equipment and systems, and how to deal with new threats. For example, over 60 percent of officers have received training on the recent changes to the *Immigration and Refugee Protection Act*. As well, the Agency recently developed a one-day training course on chemical, biological, radiological, nuclear, and explosive threats, which has been delivered to over 85 percent of its customs officers. At the same time, officers told us that they did not have sufficient training to detect fraudulent documents or use new drug identification tools and technologies. They also said that they had not received refresher training in key areas which they felt they needed to keep their skills up-to-date. Furthermore, many officers indicated that they did not receive the training they needed to do their jobs when they needed it. They also told us that training was often allocated on an ad hoc or preferential basis, or only if it did not require travel and overtime costs. In our view, training should be allocated based on need.

2.72 The Agency is expanding its self-directed training courses to provide “just-in-time” learning as close to the workplace as possible. Training officials told us that officers who took these courses said that they had improved their understanding of the area they had studied. At the same time, about 60 percent of officers told us that they were concerned about the

effectiveness of this type of training. Officers said that there are not enough computers or training hours available, there are constant interruptions, and there is little opportunity to ask questions and discuss the material with colleagues. We encourage the Agency to take these concerns into account as it develops more self-directed learning courses and particularly if the subject matter is complex.

2.73 In 2000 we were concerned that students were not being trained consistently across the country. We noted that headquarters had developed a three-week course for new students, but that local ports sometimes shortened it to two weeks. We also noted that after classroom training, students were expected to “shadow” a customs officer. However, the time spent shadowing an officer varied from one day to one week. This year we found that students were still receiving two to three weeks of training and that the time spent shadowing varied from one location to another. In 2001–02 the Agency employed approximately 1,200 student customs officers. Because they make critical decisions at the primary inspection line, we remain concerned that the inconsistent training of students could pose an unnecessary risk for Customs.

Compliance verification officer training has moved forward

2.74 In 2001 we identified several concerns related to the training of compliance verification officers. Since then, we noted that the Agency has worked to improve training by doing the following:

- In the spring of 2002, the Agency conducted focus groups in Calgary, Montréal, and Toronto with compliance verification officers who had various levels of expertise to determine their training needs.
- In September 2002 the Agency drafted a long-term learning plan. The plan was approved by headquarters and regional compliance verification directors and is to be presented to the Customs management committee for approval by June 2003.

2.75 The Agency outlined in its learning plan that it would develop and pilot an apprenticeship program; determine a core curriculum for beginner, intermediate, and senior compliance verification officers; and ensure that the training provided is appropriate and timely, and that it will be evaluated.

2.76 To build the long-term training framework, the Agency has also

- developed an introductory course for compliance verification officers and delivered several of these sessions, mostly to new officers;
- developed, piloted, and finalized for national use a basic accounting course, as well as completed the related trainer’s course;
- started to develop an intermediate-level accounting course for 2003–04; and
- targeted the development of an advanced-level accounting course and an auditing course for 2004–05.

2.77 We are encouraged by these steps. However, we are concerned that the proposed development date for the introductory-level auditing course has been moved several times and is now targeted for 2004–05. Compliance verification officers need to have a sound knowledge of auditing techniques, in addition to accounting practices and trade regulations. We believe that the Agency needs to develop the auditing course sooner so that the training framework provides a solid foundation for training compliance verification officers.

Improving border security

Plans for spending public security and anti-terrorism funds

2.78 The federal government announced in its 2001 Budget that it would spend \$7.7 billion between 2001–02 and 2006–07 to enhance the personal and economic security of Canadians. The goals of the spending were to keep Canadians safe, terrorists out of Canada, and Canada's borders secure, open, and efficient. The Agency's share of the funding was \$433 million (Exhibit 2.3).

Exhibit 2.3 How the Agency plans to spend its funding for public security and anti-terrorism (\$ millions)

	2001–2002	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007	Total
Public Security—hiring and training new customs officers	40	17	16	16	16	16	121
Better tools for assessing risk and detecting inadmissible people							
• Advance passenger information	6	11	10	9	9	9	54
• Integrated Primary Inspection Line System	4	11	5	3	3	3	29
• Intelligence Management System	2	2	2	1	1	1	9
Strengthening technology at airports and seaports	7	54	17	16	14	14	122
Customs-controlled areas at airports	5	5	5	4	4	4	27
Better service to small business	—	5	5	2	2	1	15
Sub-total	64	105	60	51	49	48	377
Expediting pre-approved travellers*	—	15	15	12	8	8	58
	64	120	75	63	57	56	435
Less: Allocation to Justice							2
Agency total							433

* The December 2001 Budget included estimated costs for expediting pre-approved travellers that were originally intended to be full cost-recovery initiatives. The Agency plans to fund these initiatives through user fees and internal sources.

Source: Canada Customs and Revenue Agency

2.79 The Agency has allocated this funding to the following projects:

- hiring and training new customs officers to provide enhanced vigilance at all border locations;
- developing and using the advance passenger information and passenger name record targeting and analysis tools;
- acquiring additional equipment for the Integrated Primary Inspection Line System and installing the system at additional locations;
- implementing the Customs Intelligence Management System used to identify high-risk individuals and organizations;
- acquiring additional equipment such as x-ray machines to be used at international airports and seaports, as well as developing new systems to improve risk assessment;
- acquiring new equipment for areas in international airports that are controlled by Customs, and hiring and training new customs officers to work in those areas;
- improving service to small businesses through new Internet applications and dedicated client services officers; and
- expanding the NEXUS Highway program and developing the CANPASS–Air program to expedite pre-approved travellers.

One of these projects—NEXUS Highway—is also an initiative in the 30-point Action Plan. The funding for another project—advance passenger information—is to support a Canadian implementation. This project has been expanded to a binational initiative in the 30-point Action Plan, and the Agency is seeking additional funding. Similarly, the funding for CANPASS–Air is to support a Canadian implementation. This project has been expanded to NEXUS Air, a binational initiative in the 30-point Action Plan for which the Agency is seeking additional funding.

2.80 The Treasury Board has approved the Agency’s original funding requests for all of the projects except the last one, expediting pre-approved travellers. The Agency plans to fund that project through user fees and internal sources. We reviewed the funding requests and found that the Agency had analyzed why the funds were needed and had set out the results the Agency expected to deliver. This was supported by a description of the risks, calculations of the resources needed to achieve the goals for each project, and any assumptions made in preparing the calculations.

2.81 While it is too early to determine what has been accomplished to date, we found that the Agency has not systematically tracked its spending on these projects. We are concerned that it will not be able to fully account for how the funds have been spent.

Measuring performance

Improvements to performance measures are at the planning stage

2.82 The expected outcomes of the Customs program are to protect Canadians’ health, safety, security, and business interests, and support Canada’s economic growth through responsible border and trade

management. We expected that the Agency would have performance measures in place to show how well it is achieving these outcomes.

2.83 In 2000 and 2001 we noted that there were many gaps in the Agency's performance measures for its Customs program. We recommended several improvements, including that the Agency should collect the information it needs to assess how effective its risk management approach is.

2.84 Since we conducted our audits, the Canada Customs and Revenue Agency has presented two annual reports to Parliament. Under the *Canada Customs and Revenue Agency Act*, the Auditor General is required to assess the fairness and reliability of the performance information in the annual report.

2.85 The Agency's report for the year ending 31 March 2002 recognizes that its conclusions about the performance of its Customs program are based largely on a qualitative assessment and that more work is needed to develop comprehensive performance indicators. Nevertheless, the Agency concluded that it had mostly met its anticipated results for its Customs program. The Agency plans to address the weaknesses in its Customs performance measures.

2.86 The Standing Committee on Public Accounts expects the Agency to develop a comprehensive performance measurement regime and to gather and use quantitative information to reinforce its management practices and accountability reporting. We agree with the Committee's expectations. While we recognize that this is a long-term project, we expect to see progress each year.

Conclusion and Recommendations

2.87 Overall, the Agency is making satisfactory progress in implementing the recommendations from our 2000 and 2001 audits of the Customs program. It has substantially implemented two of our recommendations. That is, it is now collecting and using advance passenger information and it is using a new system to better screen air travellers. However, there is still much to be done in several critical areas. These include integrating the risks of other government entities into Customs risk assessments, analyzing examination results to provide better information for targeting high-risk travellers and shipments, analyzing compliance verification results to identify high-risk areas of non-compliance, and ensuring customs officers get the training they need in a timely manner.

2.88 With respect to the Smart Border Declaration's 30-point Action Plan, the Agency has made good progress in implementing the initiatives for targeting in-transit marine shipments, implementing the NEXUS program for low-risk travellers, and sharing information on customs fraud with the United States. As well, some progress has been made to implement the other five initiatives in the Action Plan.

2.89 The Agency has appropriately planned (except in the area of accountability) how it will spend its \$433 million share of the funding for the government's public security and anti-terrorism initiative. It has not systematically tracked its spending on these projects and will likely not be able to fully account for how the funds have been spent.

2.90 Recommendation. The Agency should complete the implementation of the recommendations from our 2000 and 2001 reports in a timely manner.

Agency's response. We agree with the Office of the Auditor General that we are making satisfactory progress in implementing the recommendations from the Office's 2000 and 2001 audits of our Customs program.

The Agency agrees with the recommendation and will continue to work on implementing the action plans that have been prepared to respond to the two audits under review.

The Agency has implemented NEXUS, advance passenger information/passenger name record, Free and Secure Trade (FAST), and the Customs Self Assessment program as alternative ways to process travellers and commercial shipments. CANPASS—Air will be implemented in the summer of 2003. The Agency plans to monitor the results of these initiatives in the next fiscal year.

2.91 Recommendation. The Agency should complete the implementation of the eight initiatives in the 30-point Action Plan for which Customs has the lead role, taking into account the observations made in this chapter.

Agency's response. The Agency agrees with the Office of the Auditor General that we are making good progress with respect to the Smart Border Declaration's 30-point Action Plan.

The Agency has made good progress in implementing the following initiatives: NEXUS Highway; NEXUS Air; advance passenger information/passenger name record; FAST; and in the exchange of trade data with the United States Bureau of Customs and Border Protection; in the marine benchmarking study, which has been completed; and in targeting in-transit marine containers. We will continue to work on these initiatives to ensure that border security is maintained and enhanced.

2.92 Recommendation. The Agency should track the spending and results achieved on the public security and anti-terrorism initiative.

Agency's response. We agree with the Office of the Auditor General that the Agency has appropriately planned how it will spend its \$433 million share of the funding for the government's public security and anti-terrorism initiative.

The Agency agrees with this recommendation and will work toward keeping better track of Agency spending on the public security and anti-terrorism initiative. The Agency will improve the system in this regard.

About the Follow-Up

Objectives

To determine the progress the Canada Customs and Revenue Agency has made to address the recommendations we made in our April 2000 and December 2001 reports, and to implement the eight initiatives in the Smart Border Declaration's 30-point Action Plan for which Customs has the lead role.

To determine whether the Agency had appropriately planned how it will spend its \$433 million portion of the \$7.7 billion set aside in the 2001 Budget under the government's public security and anti-terrorism initiative.

Scope and approach

Our follow-up audit covered the recommendations and supporting observations in our 2000 Report, Chapter 5, Travellers to Canada: Managing the Risks at Ports of Entry and our 2001 Report, Chapter 8, Managing the Risks of Non-Compliance for Commercial Shipments Entering Canada. We also reviewed the eight initiatives in the Smart Border Declaration's 30-point Action Plan for which the Agency has the lead role and the Agency's plans for spending the \$433 million it was allocated under the government's public security and anti-terrorism initiative.

We interviewed Agency officials in Ottawa and in selected ports of entry. We also analyzed data provided by the Agency, and conducted a statistical survey of customs officers working at ports of entry to obtain their opinions on training. Our survey estimates at the national level are accurate within plus or minus 6 percent, 19 times out of 20.

Criteria

We expected that the Canada Customs and Revenue Agency would have made satisfactory progress in implementing our recommendations.

The criteria from the 2000 and 2001 audits remain relevant. Therefore, we expected that Customs would have done the following:

- put in place risk assessment and targeting processes that effectively differentiate between low-risk and high-risk travellers and commercial shipments;
- appropriately planned and implemented its new initiatives in alternative ways to process travellers and commercial shipments, and monitored results to ensure that it is reaching its goals;
- put in place mechanisms and processes to ensure that it is appropriately managing risks arising from the responsibilities it carries out on behalf of other government entities;
- ensured that management and staff are able to acquire and maintain the knowledge and skills they need to fulfill their role in risk management;
- clearly stated its risk management strategy and established appropriate criteria to assess the risks associated with the movement of people and goods across the border;
- designed, implemented, and monitored a post-release verification regime to ensure compliance;
- measured and reported on the results of its traveller and commercial programs for purposes of accountability and continuous improvement; and
- designed an action plan for spending the public security and anti-terrorism funding that includes a needs analysis, expected results, resource requirements, risks, assumptions, and accountabilities for each project.

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