



Ref: IAD/FAR1/3

To: Commissioner, Her Majesty's Customs

From: Director of Internal Audit

Date: December 17, 2020

Re: **Final Internal Audit Report – Her Majesty's Customs – Partial Payment Programme and Courier Clearance Operations**

The Final Internal Audit Report on Her Majesty's Customs - Partial Payment Programme and Courier Clearance Operations is enclosed for your record and action.

As part of the audit reporting process, you were given an opportunity to acknowledge the audit findings, advised to take note of the various recommendations and asked to provide this office with a written response. Your management response was received on December 15, 2020 and is attached to the final draft of the report.

As communicated, a management response is crucial in the audit reporting process because it offers a balanced view to the content of the report. Furthermore, it forms part of the final report and demonstrates your commitment to taking corrective action towards resolving the issues identified. In your response, you indicated your agreement with twelve (12) of the fourteen (14) audit recommendations provided under the Courier Trader Declaration Processing Section, seven (7) of the eight (8) audit recommendations provided under the Customs Automated Processing System Section and seven (7) of the eight (8) audit recommendations provided under the Partial Payment Programme Section and you also provided your timetable for implementation. As a result to your disagreement with four (4) of the audit recommendations, a Director's Response is provided and is attached as part of this final report to ensure that all issues are resolved. The corrective action plans proposed indicates that you have agreed, to some degree, with the recommendations and you have accepted the responsibility for taking corrective action in resolving the issues and concerns identified in the report.

To ensure that the issues articulated in the report are resolved in a reasonable timeframe, a follow-up review will be conducted to which further communication will be provided to you.

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*Memorandum to Commissioner, Her Majesty's Customs
Re: Final Internal Audit Report. Her Majesty's Customs – Partial Payment Programme and Courier Clearance
Operations
December 17, 2020
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The Internal Audit Department thanks you for the opportunity to provide this value added service and look forward to providing the same in the future. Please feel free to contact me if you require further services.

Sincerely,


...
Dorea T. Corea (Mrs.)
Director of Internal Audit
Department of Internal Audit
BVI
7.2020
Department of Finance
BVI
7.2020
★
BVI
BVI VIRGIN ISLANDS

DTC/rg

cc: Deputy Governor
Financial Secretary
Auditor General

Attachment: Final Internal Audit Report – Her Majesty's Customs – Partial Payment Programme and Courier Clearance Operations



HER MAJESTY'S CUSTOMS

COURIER CLEARANCE OPERATIONS AND PARTIAL PAYMENT PROGRAMME

Audit Report

December 2020

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FINAL REPORT

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INTRODUCTION

Background

Her Majesty's Customs (HM Customs/Customs Department) is one of the Government of the Virgin Islands primary revenue collecting departments, responsible for collecting and accounting for a substantive portion of the Territory's annual revenue. The Department is also engaged in the protection of society by the prevention and interdiction of restricted and prohibited goods from entering the Virgin Islands.

The Customs Department is also actively engaged in the facilitation of legitimate trade. In addition to its primary functions, the Department also performs agency duties for other Government departments and statutory bodies such as the Department of Agriculture, Civil Aviation, Ports Authority and Postal Service. The Department is governed by the Customs Management and Duties Act, 2010 and its amendments.

The Department's mission is to serve the Government and the public with professionalism, fairness and integrity by, providing quality service, maximizing the collection of revenue, protecting the Territories borders and facilitating legitimate trade efficiently, effectively and economically in order to safeguard the well-being and security of the Territory.

Two (2) specific areas that fall under the remit of the Customs Department were reviewed for this audit exercise, namely, the Partial Payments Programme and the Courier Clearance Operations. The first area the Partial Payment Programme focused on the administration of a programme whereby customers who desire to import large valued items, are allowed to make installment payments over a certain period of time for the duties calculated on these items. The customer applies to the Commissioner of Customs, who in turn either approves or denies the request. The Deputy Commissioner and Assistant Commissioners can also approve requests for partial payment. Then over the approved installment payment period the customer's account is managed until all calculated duties have been paid in full.

The second area deals with the facilitation of trade for courier companies operating in the territory. Currently, there are numerous courier companies operating in the BVI that provide courier services through air and sea shipments. These courier companies are required to register with Her Majesty's Customs in order to conduct business. Several sections of the Customs Management and Duties Act, 2010 and its amendments govern the administration of these operations.

In an effort to ensure prompt reporting of findings and due to the anticipated length of time the area pertaining to courier clearance operations was estimated to require, the Internal Audit Department agreed to report the facts and findings discovered under the partial payment area in a memorandum after field work was completed. This report was provided to the management of HM Customs on October 7, 2019. The memorandum is attached as Appendix II in this report. The findings outlined in the body of this report address the second area of Courier Clearance Operations administered by Her Majesty's Customs.

Audit Objectives and Scope

The objectives were as follows:

1. To determine whether Her Majesty's Customs has adequate system of internal controls in place for the administration of its operations related to courier clearance procedures.
2. To determine whether Her Majesty's Customs has adequate controls in place for its Partial Payment Programme to ensure that all requisite revenues are assessed, collected and remitted in a timely manner.

The scope covered the year 2019 for both areas, however, for the Partial Payment Programme, review of information relating to this area encompassed activities of outstanding accounts since their inception.

Audit Limitation

The Customs Automated System (CAPS) utilized in the processing of courier trader declarations was utilized in reviewing couriers' deposit and adjustment declarations. However, during the course of the audit exercise the auditors were informed that customs officers have not been utilizing CAPS in the manner in which it should be used and as such the system contains a number of trader declarations that have possibly been processed (adjustment declaration prepared and subsequent payment made) but for which no entry clearing the deposit declaration was entered into the system. This has occurred due to officers accepting and processing manual adjustment declarations without entering the information in CAPS thereafter.

Audit Methodology

The audit methodology involved understanding and documenting the processes under review and the internal controls governing those processes, performing risk assessment to identify and evaluate potential risks and key controls, and developing an audit programme to test whether those controls were operating as intended.

Only findings of internal control weaknesses that could affect the adequacy and effectiveness of management systems have been reported; however, the audit's conclusion is based on our overall assessment of the control procedures against the audit objectives.

Audit Criteria

The results of the audit criteria tested are reported in Appendix I of this report.

Audit Approach

The audit's approach and methodology was risk-based, and consistent with the requirements of the international practice of internal auditing and the Internal Audit Act, 2011.

The following audit steps were performed in the execution of the exercise:

Planning Phase: Internal Audit conducted a risk assessment to determine the audit's objective and scope. Based on the risk assessment an audit program was developed for use in the audit's conduct phase.

Document Review: Internal Audit assessed key documentation to obtain an understanding of the processes and operations of Her Majesty's Customs.

File Review: Internal Audit selected and reviewed a sample of relevant files related to the scope of the audit.

Interviews: Internal Audit conducted interviews with members of Her Majesty's Customs management and staff.

The conduct phase of the audit commenced in September 2019 for the Partial Payment Programme area and October 2019 for the area relating to the Courier Clearance Operations.

Statement of Assurance

In my professional judgment as Director (Chief Audit Executive), sufficient and appropriate audit procedures have been conducted and evidence gathered to support the accuracy of conclusions reached.

This audit was conducted 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. The assurance is based on a comparison of the conditions, as they existed at the time, against pre-established audit criteria that were agreed upon with management. The assurance is applicable to the policies and processes examined.

Acknowledgements

We would like to thank the management and staff of Her Majesty's Customs for their cooperation and assistance provided to the audit team throughout the engagement.

FINDINGS AND RECOMMENDATIONS

Courier Trader Declaration Processing General Findings

Customs trader declarations are used by importers, or licensed customs brokers acting on their behalf, to clear imported goods from customs control into the commerce (home consumption) or into a licensed warehouse. Generally, all goods imported into the British Virgin Islands are liable for duties and taxes unless an exemption or concession applies. An Import Trader Declaration is a statement made by the importer (owner of the goods), or their agent (licensed customs broker), to provide information about the goods being imported. There are three (3) specific types of declarations an importer uses when importing cargo into the territory, an **import trader declaration** that is used for all cargo being directly imported into the territory, a **deposit trader declaration** which is used for the importation cargo of cargo under the following circumstances: (i) where at the time of importation sufficient information is not available to make a complete and true declaration or (ii) for perishable cargo or cargo with time constraints, importers are however required at all times to make a complete and true declaration even when utilizing this type of

declaration to import their cargo and an **adjustment trader declaration** which is needed once you have declared cargo using a deposit trader declaration in order to clear and settle the deposit. The Import Trader Declaration collects details on the importer, how the goods are being transported, the tariff classification and customs value. In the BVI, there has been an emergence of significant amount of imports through the use of courier services (third party) such as ██████████ and ██████████ etc. With the proliferation of the use of this method of importation, HM Customs has implemented processing procedures to facilitate the processing of imports through couriers. The audit found the following deficiencies in the processing of imports through these courier services:

1. The audit could not establish that written agreements and bonding mechanisms (insurance, banking arrangement, etc.) exist for all couriers that are allowed to operate under the standing deposit scheme. Agreements and supporting documents (bonding instruments) were provided for only two (2) couriers. Furthermore, although standing deposits were established for these couriers, the audit found that the Department has not put in place adequate controls to monitor the balances of these deposit accounts.

Recommendation 1 – Courier Trader Declaration Processing

It is recommended that HM Customs ensure that written agreements and bonding mechanisms are in place for all courier services utilizing the standing deposit scheme. It is further recommended that the Department implements a system whereby these agreements and bonding mechanisms are continuously monitored to ensure that they are kept current.

2. The Department has not established documented guidelines for the processing of declarations. As a result, there is no consistent approach to the processing of declarations within CAPS from officer to officer and from station to station. Furthermore, officers are allowed to select, on a discretionary basis, which declaration they process. The audit is concerned that this situation exposes the Department to two (2) significant risks:
 - a. First, the situation promotes an environment for inappropriate relationships to be fostered, where officer(s) can offer preferential treatment to importers in the processing of their declaration which may include the offer of gifts and/or payments.
 - b. Second, given that it is alleged that a number of customs officers provide brokerage services, whether legitimately or illegitimately, as a private interest for supplemental income, poses a significant conflict in that officers may be reviewing and releasing declarations for which they had a direct involvement in the preparation or at least may have significant influence in the processing of such declarations. Absent of appropriate controls to monitor, manage and minimize this conflict, the current process is ripe for fraud.

Recommendation 2 – Courier Trader Declaration Processing

It is recommended that HM Customs establish and publish to the Public guidelines for the clearance of imports entering the territory. Furthermore, it is recommended that the Department develops internal processing guidelines for its officers in administering their duties as it relates to the processing trader declarations and the clearance of imports. These guidelines should consider how each type of declaration is to be processed and ensure that appropriate processing controls are in place, such as segregation of duties, user accessibility considering roles and responsibilities, etc.

3. Based on research, CAPS is capable of only accepting Deposit declarations once the system has validated that there is sufficient credit within the Importer's "Deposit" account to allow the declaration to be released. However, due to this system control not currently functioning, Importer Deposit accounts are not monitored by the system. In the absence of such, the audit found that Deposit declarations are being accepted and approved without verification that there are sufficient balances in deposit accounts, as the Department has not implemented any compensating control to ensure that these accounts are properly monitored and in good standing.

Recommendation 3 – Courier Trader Declaration Processing

It is recommended that HM Customs reactivates the system control or implements a manual system to accurately monitor the use of each courier's standing deposit account. This will require that correct information outlining the agreed standing deposit account limits is in place and that CAPS reflects these amounts. This information within CAPS should be updated regularly to reflect the agreement and bonded amount for each courier utilizing the scheme. This control, whether automated or manual, is important to ensure that Government's interest is protected at all times.

4. Due to the lack of adequate monitoring, the Department could not provide the current standing deposit balances for the couriers participating in the scheme, although this information should be considered in determining whether a declaration will be released against the deposit or immediate payment would have to be made. The establishment and monitoring of standing deposit accounts is an integral mechanism to safeguard public revenues as imports/cargo is released without payment of customs duties and the standing deposits is the primary mechanism to ensure that Government's interest is adequately represented. The lack of monitoring of these accounts exposes the Public purse to significant risk of collection once the imported items are distributed to the individual importer. In addition, the lack of monitoring could also risk importers/couriers exceeding their bonding facility. Furthermore, the audit found numerous instances where declarations are being processed and merchandise released without any indication that the appropriate estimated duties were even calculated for the declaration, as the estimated duties on the Deposit declaration are zero rated.

Recommendation 4 – Courier Trader Declaration Processing

It is recommended that in reviewing deposit declarations that HM Customs ensure that sufficient amounts are available in deposit accounts before approving the declaration and releasing the imported goods. In addition, it is recommended that appropriate estimated duties are calculated and charged against standing deposits for all Deposit declarations.

5. Based on our research, Deposit declarations were intended to be used to facilitate the processing of imports where the importer did not have sufficient information to make a full declaration. This declaration type allows for the importation of goods as “bonded goods”, while securing Government’s interest. Although all information (invoices and descriptions) are unavailable at the time the declaration is being made, importers are still required to make fully detailed declarations (proper classification and rates) and highlight areas where sufficient information is lacking. An Adjustment declaration would be submitted with complete details (missing information) at a later date to clear/correct the corresponding Deposit declaration and to make payment. However, it was found that Deposit declarations are being used in a manner that both circumvents the requirement for the proper classification of imports and also in a manner that fails to adequately identify and assess Government’s risk exposure (revenue from duties). Furthermore, the audit found that corresponding Adjustment declarations are also submitted and processed in a similar manner. Consequently, Government’s operational objectives for the implementation of GAPS are not being achieved while being exposed to significant risk to revenues.
6. The audit also found that freight charges on Deposit declarations are significantly understated in comparison to the same charges on the corresponding Adjustment declaration, therefore, significantly reducing the amounts that are charged against the standing deposits. Table 1 below provides a sample of fifteen (15) deposit and adjustment declarations and shows the gross discrepancy between the freight charges applied on the deposit and adjustment declarations, the highest a difference of twenty-two thousand four hundred and five dollars and sixty-nine cents (\$22,405.69). This practice negates the Department’s goal of ensuring that Government’s revenues are protected as the 15% rate applied against the standing deposit would be grossly understated when compared to the adjustment declaration. For this sample of fifteen (15) declarations, Government had unsecured revenues of twenty-six thousand five hundred and forty-two dollars and six cents (\$33,635.72 - \$7,093.65 = \$26,542.06) in total.

Table 1: Discrepancy between freight charges applied on a sample of 15 Deposit TDs and their corresponding Adjustment Declaration

Deposit TD #	Deposit TD Freight	15% Standing Deposit Charge	Adjustment TD #	Adjustment TD Freight	15% Standing Deposit on Adjustment TD	Difference
1309913	\$ 2,563.60	\$ 384.54	1355650	\$ 21,273.64	\$ 3,191.05	\$ 18,710.04
1650860	\$ 1,664.82	\$ 249.72	1661719	\$ 10,726.64	\$ 1,609.00	\$ 9,061.82
1538222	\$ 1,388.90	\$ 208.34	1565621	\$ 11,236.62	\$ 1,685.49	\$ 9,847.72
1513068	\$ 4,040.00	\$ 606.00	1539683	\$ 13,115.57	\$ 1,967.34	\$ 9,075.57
1445972	\$ 3,005.00	\$ 450.75	1487974	\$ 10,511.02	\$ 1,576.65	\$ 7,506.02
1234426	\$ 1,756.10	\$ 263.42	1308626	\$ 13,324.10	\$ 1,998.62	\$ 11,568.00
1101757	\$ 6,647.00	\$ 997.05	1157510	\$ 12,421.42	\$ 1,863.21	\$ 5,774.42
1054865	\$ 3,850.00	\$ 577.50	1135987	\$ 15,451.80	\$ 2,317.77	\$ 11,601.80
1053214	\$ 4,200.00	\$ 630.00	1135177	\$ 19,152.97	\$ 2,872.95	\$ 14,952.97
1044635	\$ 4,200.00	\$ 630.00	1094846	\$ 22,222.89	\$ 3,333.43	\$ 18,022.89
1029081	\$ 4,250.00	\$ 637.50	1094788	\$ 26,655.69	\$ 3,998.35	\$ 22,405.69
1003516	\$ 3,460.00	\$ 519.00	1030451	\$ 9,534.75	\$ 1,430.21	\$ 6,074.75
948927	\$ 3,270.08	\$ 490.51	972604	\$ 19,609.76	\$ 2,941.46	\$ 16,339.68
872887	\$ 1,585.76	\$ 237.86	893743	\$ 10,234.60	\$ 1,535.19	\$ 8,648.84
853002	\$ 1,409.76	\$ 211.46	878330	\$ 8,766.64	\$ 1,315.00	\$ 7,356.88
Total	\$ 47,291.02	\$ 7,093.65		\$ 224,238.11	\$ 33,635.72	\$ 176,947.09
Difference between 15% standing deposit rate applied on Freight Charges on Deposit TDs and their corresponding Adjustment TD (Government's Unsecured Revenue for this sample)					\$ 26,542.06	

Recommendation 5 – Courier Trader Declaration Processing

It is recommended that HM Customs make it mandatory for all importers to make proper declarations for all entries, even when a Deposit declaration is being made. Items should be properly classified and correct duty rates applied. In instances where sufficient information is not available, this should be clearly stated on the declaration. The mandatory requirement to make proper declarations would better enable HM Customs to calculate the appropriate amount of duty to be charged against the standing deposit to protect Government's interest while also realizing the objective of CAPS implementation.

- Besides serving as a revenue generating entity within the Government, HM Customs is also engaged in the protection of society by the prevention and interdiction of restricted and prohibited goods from entering the Virgin Islands. The audit found that in the processing of courier services, particularly at the Beef Island station, due to various constraints, such as space and human resources, the Department (officers) has minimized this aspect of its mandate in an effort not to hamper trade (slow down the importation of goods) within the territory. A review of the duty rosters and through direct observation, it is apparent that the station lacks the requisite human resources to properly conduct compulsory tasks in fulfilling their mandate, as only two to three (2-3)

officers are assigned to a shift. This issue is further illustrated by the fact that majority of cargo is released without officers, even on a random basis, inspecting packages for restricted or illegal items. For example, observation of the process revealed that in some instances packages are loaded directly from the plane into the delivery van of the courier service without the seals on the bags ever being broken by a customs officer. In addition, the deposit declaration's supporting documentation was not reviewed before the goods were released. When inquiry was made into the declaration in CAPS, it was revealed that the entry was sent back to the courier to be adjusted, however, the imported goods were still released without the completed entry. This practice increases the probability that contraband and illegal items are entering the territory undetected which may have a negative impact on society.

8. Furthermore, the turnaround time for submission of declarations and the clearance of cargo for couriers does not allow for adequate review of declarations for couriers. The audit found that deposit declarations are usually submitted the day prior to the cargo's arrival and clearance, giving HM Customs less than 24 hours to review the declaration. As a result, there is potential for revenue to be lost due to incorrect classification of imported goods which results in incorrect duty rates being applied.

Recommendation 6 – Courier Trader Declaration Processing

It is recommended that HM Customs take a multi-step approach in resolving the issues identified in 6 and 7. The recommendations are contingent on the Department establishing appropriate policies and procedures for the processing of imports by couriers:

- **First, it is recommended that the Department establishes minimum documentation and processing standards for the processing of courier declarations with realistic timeframe. This should be done with both the Department's and couriers' objectives in mind.**
- **Second, it is recommended that the Department undertakes an assessment of its current capacity to meet the established standards and evaluate both the human resources and space needed to meet the established standards. The human resource component of the assessment should be done on the basis the Department has equipped officers (training and tools) to operate at an optimal capacity. This would ensure that any addition in human resources would be derived from a genuine need and not compensating for lack of performance by current resources.**
- **Third, it is recommended that the Department establishes and properly staff a centralized processing unit, similar to the CAPS unit, to process all electronic declarations. This Unit can be staffed by both clerical/administrative personnel as well as Customs Officers. This centralized unit will aid the**

Department in establishing appropriate segregation of duties while also allowing officers at the ports to focus on cargo inspection and enforcement.

- **Finally, it is recommended that the Department undertakes regular assessments (e.g. annually) of their clearance process to ensure that they remain at pace with the growing demands of this sector of the economy.**

9. Upon collection of cargo, courier services are required to present additional supporting documentation in the form of all invoices bearing the name of the importer, description of the item(s) being imported and the cost of cargo manifested on the airway bill document for cargo being collected. The audit found that due to the lack of standards and guidelines the following issues pertaining to invoices submitted by couriers exist. These issues pose a challenge to Customs Officers and others in ensuring that items are properly classified, correct rates are applied and correct revenues are collected:

- a. Invoices of a poor quality (ink is faded or barely visible) are accepted. These invoices in some instances lack proper description of the imported item(s), value(s) and supplier(s).
- b. Invoices are written in foreign languages making it difficult to understand what exactly is being imported and the cost in BVI currency.
- c. Invoices are illegible, thereby creating a challenge in accurately matching the imported item to the specific invoice to which it relates.

In addition, invoices are not organized in a coherent manner that would promote ease of review by the officers at the port. This situation could be a further deterrent as the process to find the supporting documents for a specific record on the declaration may be time consuming therefore creating a bottleneck in the clearance process.

Recommendation 7 – Courier Trader Declaration Processing

It is recommended that HM Customs implements standards within their guidelines for the acceptance of supporting documentation from importers. Furthermore, such guidelines should be provided to importers (couriers) as to the standard by which information should be submitted.

10. Given the voluminous nature of the declarations and supporting documentation, recordkeeping at the Department has been problematic. Couriers are required submit documentation both electronically and physically, however, the Department has not put in place adequate systems to manage the physical documents in an organized and easily retrievable manner. Presently, documents are boxed and stored. In addition, due to storage limitations, all documents are not stored electronically within CAPS which makes retrieval all the more difficult if future scrutiny is required.

Recommendation 8 – Courier Trader Declaration Processing

It is recommended that the Department implements an organized and easily retrievable system for their records pertaining to import clearance. This may require an upgrade to the CAPS server capacity so that all supporting information can be attached and stored

electronically. Consideration should be given to purging the system for attachments accompanying deposit declarations once the corresponding adjustment declarations have been finalized and appropriate documentation is attached.

11. The audit found that there is a general lack of understanding of the requirements for processing courier entries in CAPS or unwillingness by seasoned Customs Officers to adapt to changes in service delivery. It was admitted by officers, particularly at [REDACTED] that only [REDACTED] officers have a working knowledge of the system. Senior officers at the station indicated that they have not been adequately trained on the use of the system and are reluctant to utilize CAPS. As a result, they have not shown any initiative to fully become familiar with the functionality of the system and maintain an unsubstantiated viewpoint that the system is not fit for purpose. Consequently, the processing of courier packages is done with little to no oversight or supervision which has allowed the processing of couriers to descend into a chaotic state.

Recommendation 9 – Courier Trader Declaration Processing

It is recommended that HM Customs trains all Customs Officers on the proper usage of CAPS and develops internal guidelines to guide them in the processing of imports.

12. The audit found that CAPS is poorly and under utilized by the Department. Although the system was implemented in order to collect statistical information, the audit found that a significant amount of information/declarations have not entered the data stream. Upon inquiry with management, auditors were informed that we should not place significant reliance on the information derived from CAPS as information is missing or incomplete. In addition, auditors were informed that entries that were initiated in CAPS may have been completed manually but the information never entered into CAPS; however, due to the poor record management practices at the Department, the audit could not validate this assertion. In addition, some couriers were allowed by management to submit manual declarations that were never entered into CAPS. This has further degraded the quality of the information derived from the system.

Recommendation 10 – Courier Trader Declaration Processing

It is recommended that HM Customs undertakes an overhaul of CAPS to bring the system current. Subsequent to this, it is further recommended that the Department utilizes CAPS in the appropriate manner where ALL transactions (declarations) are processed in CAPS.

13. Furthermore, although one of the implementation objectives of CAPS was to facilitate reporting, the audit found that the reporting suite within the software is currently nonfunctional. To rectify this issue, the audit team was informed that the Department is currently in the process of procuring an additional reporting programme, however, the audit finds that based on the poor use of CAPS, the significant amount of missing data and the acknowledgement from HM Customs personnel about the reliability of the data currently in CAPS the additional expenditure to obtain reports will be of little benefit.

Recommendation 11 - Courier Trader Declaration Processing

It is recommended that the Department delay the purchasing of the reporting software and explore the reporting suite within CAPS once all the issues related to the deficiencies identified in this report are resolved and the system is functioning as it was intended to.

14. During the period under review, the processing of courier declarations was done at two (2) locations, within the CAPS Unit (centralized processing) and now at the port of entry where the cargo enters the territory. The audit found that when centralized processing was being conducted there was adequate segregation of duties within the process. However, there was a lack of continuity in the processing of the declaration in CAPS, once the process moved to the clearing of the physical good at the ports, as officers at the port did not update CAPS to show that the goods were released, in most instances. This could be as a result of equipment not being available at the ports. In addition, the audit found that there was a disconnect between the operations at the CAPS Unit and at the port of entry. Courier declarations are now processed at the port of entry; however, this has removed the key control of segregation of duties as the same officer(s) is/are now responsible for receiving and reviewing declarations as well as the inspection and release of the physical cargo. In addition, the processing of declarations at the ports also places additional burden on already diminished resources as the volume of cargo still being processed through this substation on a daily basis does not allow for the proper verification and reconciliation of Deposit declaration information submitted by couriers and subsequent validation of cargo released to couriers.

See recommendation provided after findings 6 and 7.

15. Once cargo is released via the Deposit declaration, the importer is required to submit an adjustment declaration within fifteen (15) days, however the audit found that there is a low compliance rate for this requirement. This will be expounded on further later in this report. Once adjustment declarations are submitted, the audit found that these declarations are also not properly reviewed or scrutinized by officers for accuracy of classification and rates and for completeness. Once submitted, a payment summary is generated and the importer is expected to remit payment to the Treasury cashier. However, there is no process in place to ensure that payments are actually remitted and there is a high risk for them going uncollected for extended periods. To verify that revenues were collected on payment summaries, HM Customs was provided with a sample of adjustment payment summaries to provide the receipt numbers on which the declaration was paid, of the forty-five (45) entries submitted correct receipts could only be provided for eight (8) of the entries. This is an unacceptable level of confirmation (18%).

Recommendation 12 – Courier Trader Declaration Processing

Given the human resources capacity within the Department, it is recommended that HM Customs undertakes an analysis to determine whether the 15 day timeframe is adequate for the submission and review of adjustment declarations. The timeframe for submission should be revised if the analysis reveals that the 15 day requirement is inadequate. Furthermore, it is recommended that monthly reconciliations of all deposit and adjustment declarations be conducted for all importers' utilizing deposit accounts to ensure that their accounts are kept current.

16. Inadequate physical resources at the [REDACTED] were found to be a factor for the inadequate processing and clearance of courier packages. Given the vast amount of packages that are now being processed by couriers through this station, it was found that the level of commerce has far exceeded the capacity of the station to conduct proper checks of the cargo being imported. Additionally, the station lacks a properly secured facility in which to warehouse packages/imports. Furthermore, the designated warehouse has been in a compromised state since the 2017 hurricanes and any seized goods stored therein may sustain damage, which would open the Government to unnecessary liability. The station also lacks appropriate equipment, such as a scanner, that would aid officers in scrutinizing goods entering the territory.

Recommendation 13 – Courier Trader Declaration Processing

Given the current space limitations, in the short term, it is recommended that the Department explores the feasibility of having couriers submit their declarations two (2) days in advance to allow HM Customs sufficient time for review. This review would allow for officers to select a sample of packages for review once the shipment arrives. Furthermore, the Department should implement equipment such as scanners to aid in scrutinizing the packages to ensure that contraband is not being imported.

17. The audit found that enforcement actions are seldom taken against couriers for noncompliance. As little scrutiny is placed on declarations before approval and no monitoring of the deposit accounts and payments is being conducted, which would serve as the basis for initiating enforcement actions, courier operations are still conducted without penalty even though the courier may be in breach of departmental policies or their deposit agreement. The lack of penalties to encourage compliance could foster or may have fostered an environment whereby couriers intentionally breach protocols or become complacent in fulfilling their obligations.

Recommendation 14 – Courier Trader Declaration Processing

It is recommended that HM Customs implements penalties for noncompliance in the submission of adjustment declarations. In addition, HM Customs should enforce its standing deposit requirements for couriers operating within the scheme. Finally, it is recommended that HM Customs initiate appropriate enforcement actions on couriers who are found to be intentionally breaching the Department's protocols when submitting

declarations (i.e. all entries should be made through CAPS; declarations should be accurate, etc.)

18. Wharfage charges are underpaid in some instances. A comparison of revenues collected by the BVI Ports Authority show that wharfage is calculated and paid on Deposit Declarations only. However, wharfage calculated on the corresponding Adjustment declarations are not submitted to BVI Ports Authority nor is the difference between the wharfage calculated on the two declarations remitted to the Authority. This practice has the potential to deprive the Authority of a significant amount of revenues. Table 2 illustrates the revenue loss for ten (10) declarations:

Table 2: Wharfage Charges applied on Deposit and Adjustment Declarations

Adjustment TD	ADJ. FOB	ADJ. Wharfage	Deposit TD	DEP. FOB	DEP. Wharfage	Wharfage Diff.
1383843	\$ 87,761.34	\$ 877.61	1363175	\$ 71,157.70	\$ 711.58	\$ 166.03
1340504	\$ 82,676.60	\$ 826.77	1284025	\$ 69,672.79	\$ 696.73	\$ 130.04
1539683	\$ 191,069.93	\$ 1,910.70	1513068	\$ 188,325.95	\$ 1,883.26	\$ 27.44
1530047	\$ 73,824.75	\$ 738.25	1505221	\$ 70,942.03	\$ 709.42	\$ 28.83
1720499	\$ 19,841.98	\$ 198.42	1699594	\$ 19,528.91	\$ 195.59	\$ 2.83
1488311	\$ 73,145.19	\$ 731.45	1448778	\$ 72,984.11	\$ 729.84	\$ 1.61
1373646	\$ 62,121.80	\$ 621.22	1335066	\$ 59,028.57	\$ 590.29	\$ 30.93
1340033	\$ 76,254.42	\$ 762.54	1271956	\$ 69,030.76	\$ 690.31	\$ 72.23
1602481	\$ 14,944.18	\$ 149.44	1594613	\$ 14,944.18	\$ 149.44	\$ 0.00
1614320	\$ 75,065.49	\$ 750.65	1599687	\$ 27,567.75	\$ 275.65	\$ 475.00
						\$ 934.94

19. A comparison of the wharfage charges reported on the Adjustment and Deposit trader declarations and the amounts paid to the BVI Ports Authority revealed discrepancies in the amounts reflected on these two declarations. Wharfage charges, for one particular courier, was made utilizing the calculated amount on the Deposit declaration. However, when the amounts were compared to the information on the Adjustment declaration the amounts in most instances varied. Further inquiry with the BVI Ports Authority revealed that Adjustment declarations are not submitted by the courier once they submit and clear their cargo on the Deposit declaration. Therefore, the BVI Ports Authority would not be aware as to whether there are monies due from courier. By utilizing Deposit declarations to make wharfage payments pose the risk of revenues being lost as the Adjustment declaration is the final declaration on which revenues are to be collected and the Deposit declaration is only a temporary facility to allow the importation of cargo to be done.

Customs Automated Processing System (CAPS)

On November 1, 2016, HM Customs rolled out the implementation of the Customs Automated Processing System (CAPS) which allowed all trader declarations to be completed and submitted electronically to the Department for processing. The implementation of CAPS was to facilitate the collection of accurate trade data, reduce the amount of time spent at a Customs port, and

expedite the clearance process of goods, efficiency in data mining for all stakeholders and risk profiling of non-compliant importers. Furthermore, the implementation of CAPS also assists in the development of accurate trade statistics in the classification of goods. The collection of trade statistics allows the Executive Branch of Government to make policy decisions on imports and/or export as incorrect classification results in flawed Government policy. All couriers are required to utilize CAPS to submit their declaration. Due to the evolving business structure of couriers' operations, particularly at the T. B. Lettsome International Airport, the Department has initiated standing deposits arrangements with some couriers in an effort to facilitate this business model. As a result, some couriers are allowed to submit a deposit declaration which is charged against the standing deposit and within 15 days of the cargo being released an adjustment declaration must be submitted along with the requisite payment. The audit found the following deficiencies and internal control weaknesses in the usage of CAPS to facilitate courier processing:

1. Based on information within CAPS, eight (8) couriers currently have standing deposits limits on their accounts, although not supported by any agreement or bonding mechanism. Furthermore, the balances on these accounts are not monitored, within CAPS or otherwise, to ensure that Government's interest is secured. The audit found that this issue presents a significant risk to the Government as the Department is unable to determine when a courier has exceeded its bonding arrangement. Additionally, this issue is further compounded based on the fact that other entities, outside of couriers, operate under similar arrangements.

Recommendation 1 – Customs Automated Processing System (CAPS)

It is recommended that HM Customs ensure that written agreements and bonding mechanisms are in place for all courier services utilizing the standing deposit scheme. It is further recommended that the Department implements a system whereby these agreements and bonding mechanisms are continuously monitored to ensure that they are kept current.

2. Although CAPS was intended to facilitate reliable trade statistics on which policy decisions can be based, the current usage of the system does not accomplish this intended goal. Based on our understanding, each declaration should be prepared in a manner that correctly classifies the imported items and based on the classification, the corresponding tariff to be applied. However, in reviewing a sample of declarations in CAPS, the audit found that items are not properly classified and incorrect tariff rates are being applied. One of the most egregious utilization of CAPS found during the audit is where multiple couriers are allowed to submit one record entry (TD) to process numerous transactions (records) without properly classifying the goods within CAPS. This practice is troubling for multiple reasons:
 - a. Because the imported goods are not classified in CAPS using the Harmonized Coding System, statistical information for CAPS will be inaccurate as the import is not captured in the system. Hence, policy decisions made based on the information from CAPS will be significantly skewed if not outright erroneous given the fact that a great deal of imports flow through these couriers on a weekly basis.

Recommendation 2 - Customs Automated Processing System (CAPS)

It is recommended that all declarations in CAPS be done utilizing the Harmonized Coding System so that accurate statistical information can be derived in order to achieve the main objective of implementing CAPS.

- b. Because proper, multi-record, declarations are not being made, the calculated duties reflected in CAPS is significantly different from the duties actually collected in the JD Edwards receipting systems. Upon inquiry, the auditors were informed that this practice was allowed to facilitate the volume of imports processed by these particular service providers, even though CAPS has the capability of accepting declarations via the file transfer protocol (FTP) directly from the courier's proprietary system once certain transfer protocols are met. This would enable full declarations to be captured while eliminating duplicity of efforts by the courier. Additionally, although no documentation could be provided to support the approval of this practice, one courier's payment summaries provided by HM Customs were altered to reflect the calculations and totals produced by the provider's proprietary system and not the payment summary approved by HM Customs. The following table illustrates the difference in revenue reported in the two (2) systems:

Table 3: Difference between revenues reported in JDE and CAPS

JDE		CAPS		Difference
Receipt #	Receipt Amount	Adjustment TD Number	Adjustment TD Amount (CAPS Pymt. Summary)	
270442599	\$ 331.70	1308972	\$ 287.53	\$ (44.17)
270442599	\$ 843.40	1308949	\$ 958.17	\$ 114.77
270442599	\$ 6,486.76	1308923	\$11,435.66	\$ 4,948.90
270442599	\$ 779.46	1308915	\$ 1,020.35	\$ 240.89
270442599	\$ 8,392.55	1308865	\$11,435.66	\$ 3,043.11
270442599	\$10,119.19	1341155	\$11,972.62	\$ 1,853.43
270442599	\$ 270.65	1340496	\$ 322.32	\$ 51.67
270442599	\$ 414.16	1340066	\$ 322.81	\$ (91.35)
270442599	\$ 275.79	1339944	\$ 226.63	\$ (49.16)
270442599	\$ 429.94	1339829	\$ 388.53	\$ (41.41)

These discrepancies are a result of the courier being allowed to apply a standard fifteen percent (15%) duty rate across the entire declaration in CAPS while applying the appropriate duty rate in its proprietary system. The practice of accepting one record entry not only skews any revenue report produced by CAPS but also makes it difficult to reconcile revenue collections across the two systems, CAPS and JDE.

Recommendation 3 - Customs Automated Processing System (CAPS)

It is recommended that HM Customs explore the possibility of conducting the revenue collection function in CAPS as opposed to JDE and transfer the revenue to JDE at the end of the day. This would create efficiency within the process as declarations would automatically be tied to the receipt eliminating the manual process that is currently being employed. In addition, requiring importers to make proper entries will eliminate the discrepancies between the two (2) systems.

3. Due to the lack of integration between CAPS, used to process the trade declarations, and the JDE System, used to collect the associated revenues, the Customs Department is required to manually update payment information derived from JDE into CAPS. This process is required to ensure that the requisite payment is made on all trade declarations. However, the audit found that approximately ninety percent (90%) of the trade declarations in CAPS were not updated with the payment receipt numbers showing that the trade declaration was in fact cleared. Furthermore, although the trader declaration number is listed on the payment receipts there is no reconciliation process in place to determine outstanding amounts. Monitoring of standing deposit balances is further complicated by this issue, as in practice, the amounts held against the standing deposit accounts are cleared once a payment summary has been issued against the adjustment trade declaration, when in reality the amount may not have been cleared.

The recommendation provided above also addresses this finding.

4. Although CAPS was implemented to enable the Government of the Virgin Islands to obtain accurate and reliable information to inform policy decisions, the audit found that the platform is severely limited in its reporting capabilities. When inquiries were made about specific reports such as a report detailing all deposit declarations without a corresponding adjustment declaration, we were told that such a report was not possible. In order to conduct audit tests on this area, the auditors had to obtain a database dump and perform the comparison via a spreadsheet. This scenario exposes a significant weakness in the current configuration/usage of CAPS as our manual process revealed **775** deposit trade declarations with a merchandise value of approximately **\$15,841,146.50 for 2019 with an estimated \$2.4 million in import duties at risk** (see table below) without corresponding adjustment declarations. Due to poor record management within the Department and the claim that some of the entries may have been completed outside of CAPS, the audit could not validate whether adjustment declarations were in fact completed and revenue collected on any of these deposit declarations. Some of these deposit declarations were several months delinquent. It is noteworthy to recognize that when a sample of the declarations were queried for one courier, the officer investigating found numerous other deposit declarations from prior years for which adjustment declarations were not submitted. This fact confirms the likelihood that there are a significant number of declarations in CAPS that were never completed. We suspect that this issue might be pervasive (as other entities outside of couriers also participate in the deposit scheme) and a multi-year issue.

Table 4: Deposit TDs with no Adjustment TDs within CAPS

Courier Name	No. of Deposit TD Outstanding with No adjustment	Merchandise Value
	345	\$ 11,343,768.53
	186	\$ 3,641,082.94
	209	\$ 798,862.57
	All 'Import' TDs	\$ -
	35	\$ 523,182.08
TOTAL	775	\$ 16,306,896.12
HELD AGAINST BOND (ESTIMATE)	15%	\$ 2,446,034.42

Recommendation 4 - Customs Automated Processing System (CAPS)

It is recommended that HM Customs works with the developers of CAPS to improve the reporting capabilities of CAPS. It is our understanding that HM Customs has purchased or is in the process of purchasing a reporting product from the developer; however, we implore the Department to first exhaust the existing reporting features. In addition, in any event, the Department must first ensure that controls are in place to ensure and validate the accuracy and completeness of the information in the database before any meaningful reporting is conducted. Purchasing reporting software at this time will yield little benefit if the information reported is incorrect or incomplete.

5. Based on the practice of utilizing Deposit and Adjustment declarations to facilitate the clearance process within CAPS, it is of paramount importance to have a rigorous reconciliation process to ensure that all Deposit declarations are cleared with a corresponding Adjustment declaration. The audit found no evidence that reconciliations are performed to ensure that all Deposit Declarations are cleared. Although it was communicated that [REDACTED] account was current as of October 2019, the audit team conducted a reconciliation of the account for the period January 2019 to November 2019 and selected fourteen (14) Deposit TDs for which corresponding Adjustment TDs were not processed. The merchandise value of these TDs totaled approximately \$500,000.00 which would have attracted an estimated payable duty of \$75,000.00 (15%) to be charged against the Standing Deposit, based on HM Customs practice. This sample was provided to HM Customs for confirmation with the courier, however, to date, confirmation has not been received that the appropriate duties were collected on these declarations. The absence of such reconciliation poses a significant risk that all Government revenues are being collected and accounted for. During the conduct of the audit and the submission of the above declaration for confirmation, monitoring of the current CAPS submissions reveal that one of the major courier operations was only now processing Adjustments entries for Deposits that dated as far back as 2018.

Recommendation 5 - Customs Automated Processing System (CAPS)

It is recommended that HM Customs conduct a full reconciliation of all deposit declarations to ensure that a corresponding adjustment declaration has been submitted and the associated revenues collected. The Department should immediately implement a process of manually tracking all deposit and adjustment entries going forward until the system and process issues are rectified which would allow this reconciliation and tracking to be completed in CAPS.

6. Customs Automated Processing System does not have the capability to track and monitor the compliance of submission of adjustment trade declarations. As a result, the audit found a low level of compliance with the 15-day requirement to clear the deposit declaration. To illustrate the level of non-compliance with the established submission timeframe, the auditors calculated the length of time from submission of a deposit declaration to an adjustment declaration to a receipt for twenty (20) declarations across three (3) couriers. This information is outlined in Table 5 below and highlights that, on average, it takes sixty-four (64) days from deposit declaration to adjustment declaration and one hundred and thirty-eight (138) days from adjustment declaration to payment (receipt). This issue poses a significant risk as established thresholds (security deposit) may be breached leaving Government vulnerable to losing revenues. Furthermore, the prevalence of the delinquencies also affects Government's financial position as the delay in collecting this revenue affects Government's cash flow and bank balances, which could reduce borrowing costs or provide investment opportunities.
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Table 5: Number of Days it takes to submit an Adjustment Declaration for a sample of 20 Deposit Declarations

Receipt #	Courier	Receipt Amount	ADI#	DEP #	Deposit TD Date Received	Ajstment TD Date Received	# of days Deposit to Adjustment	Receipt Date	# of days Adjustment to Receipt
270442599		\$ 10,119.19	1341155	1291467	22-Nov-18	3-Jan-19	42	2/22/2019	50
270443394		\$ 12,008.26	1318708	1252501	19-Oct-18	13-Dec-18	55	3/14/2019	91
270443394		\$ 11,532.67	1373539	1330323	20-Dec-18	31-Jan-19	42	3/14/2019	42
270443394		\$ 11,513.97	1355874	1320183	13-Dec-18	17-Jan-19	35	3/14/2019	56
270443397		\$ 11,054.49	1355650	1309913	6-Dec-18	17-Jan-19	42	3/14/2019	56
270443691		\$ 10,390.87	1309004	1242262	11-Oct-18	6-Dec-18	56	3/18/2019	102
270443380		\$ 8,035.45	888222	870758	31-Jul-17	18-Aug-17	18	3/13/2019	572
270443380		\$ 7,779.14	878249	842062	5-Jul-17	5-Aug-17	31	3/13/2019	585
270443380		\$ 7,114.56	878298	847640	10-Jul-17	5-Aug-17	26	3/13/2019	585
270443394		\$ 9,252.22	1355668	1311554	7-Dec-18	17-Jan-19	41	3/14/2019	56
270447696		\$ 5,303.22	1494491	1315548	11-Dec-18	13-May-19	153	5/23/2019	10
270446448		\$ 2,191.16	1463744	1445246	2-Apr-19	16-Apr-19	14	5/2/2019	16
270446445		\$ 795.80	1463777	1452614	8-Apr-19	16-Apr-19	8	5/2/2019	16
270403309		\$ 2,124.47	1517739	1356625	17-Jan-19	3-Jun-19	137	9/16/2019	105
270403120		\$ 1,719.37	1574672	1439710	28-Mar-19	23-Jul-19	117	9/3/2019	42
270403120		\$ 1,385.83	1577923	1421502	14-Mar-19	25-Jul-19	133	9/3/2019	40
270446227		\$ 1,663.85	1349976	1334986	27-Dec-18	12-Jan-19	16	4/29/2019	107
270446227		\$ 1,698.46	1347525	1320530	14-Dec-18	10-Jan-19	27	4/29/2019	109
270403120		\$ 1,530.46	1576867	1436617	26-Mar-19	24-Jul-19	120	9/3/2019	41
270403309		\$ 1,953.08	1563147	1381888	7-Feb-19	12-Jul-19	155	9/16/2019	66
	Total	\$119,166.52				Average	63.4	Average	137.35

- Although it is required that all imports be processed through CAPS, the audit could not find regular entries in the system for some courier services, i.e., [REDACTED]. Upon inquiry it was indicated that these entities were allowed to submit manual declarations outside of CAPS, however, documentation could not be provided to support this arrangement. Again, this practice undermines the overall objectives for which CAPS were implemented. The audit was unable to verify whether all declarations were cleared due to poor record management practices within the Department.

Recommendation 6 - Customs Automated Processing System (CAPS)

It is recommended that it be made mandatory that all declarations (deposit, adjustment and imports) be processed in CAPS. Therefore, it is recommended that HM Customs and its developers collaborate with importers of large quantity of packages to be able to utilize the File Transfer Protocol (FTP) feature rather than the Web Trader option.

- The audit found several instances where declarations were initially entered into CAPS as “DEPOSIT” declarations, but were subsequently changed and cleared as “IMPORT” declarations. This issue raises concern as the goods are released on Deposit declarations but payment is collected on the corresponding adjustment declaration. Goods for Import declarations are paid for at the time they are released from HM

Customs' control. Because of the difference in timing of the collection of revenue, clearing a **Deposit declaration** as an **Import declaration** may put revenues at risk as it might be assumed based on the declaration type that the revenues have already been collected when in fact they were not. It is our understanding that such a change could only be done at the database level requiring administrator access. Although, the audit team does not possess information technology capacity to validate this issue, we are concerned with the frequency with which this issue has occurred, the potential risks and the lack of a reason as to why such adjustments would be necessary.

Recommendation 7 - Customs Automated Processing System (CAPS)

It is recommended that all Deposit declarations be cleared with an Adjustment declaration. In addition, it is recommended that the department investigate these declarations in order to obtain an understanding as to why such manipulation at the database level was necessary and implement controls to avoid such future occurrences.

9. In processing declarations within CAPS, the system maintains a record of the status of the entry being processed. When the entry is started by the declarant the status code is recorded in the CAPS database as DEB (Entry Begun). Once the entry is submitted and passes the system validation process, the status code changes to VAL (Validated). Once the review process is completed the status code changes to REV (Reviewed). Finally, once the cargo is released from customs control the status code is updated to REL (Released) concluding the process of processing the declaration. The following table shows the status of declarations at the various stages of processing in CAPS by five (5) couriers in 2019. The following table further shows adjustment and import declarations for which a corresponding JDE receipt was not found. Due to the inconsistent manner (level of detail) in which receipts are issued for declarations we cannot conclusively state that revenue was not collected for all the declarations summarized in the following table.

Table 6: Status of declarations at the various stages of processing in CAPS for five (5) couriers in 2019

COURIER	TYPE OF RECORD							
		TOTAL	REV	DEB	VAL	REL	CAN	REC
	ADJ	46	18	25	2	0	1	0
	DEP	345	41	4	0	300	0	0
	IMP	28	23	2	0	2	0	1
	TOTAL	419	82	31	2	302	1	1
	TOTAL	REV	DEB	VAL	REL	CAN	REC	
	ADJ	91	34	19	30	8	0	0
	DEP	209	82	1	0	126	0	0
	IMP	4	2	2	0	0	0	0
	TOTAL	304	118	22	30	134	0	0
	TOTAL	REV	DEB	VAL	REL	CAN	REC	
	ADJ	19	5	8	5	1		0
	DEP	35	24	0	0	11	0	0
	IMP	161	129	28		4	0	0
	TOTAL	215	158	36	5	16	0	0
	TOTAL	REV	DEB	VAL	REL	CAN	REC	
	ADJ	63	0	0	0	63	0	0
	DEP	0	0	0	0	0	0	0
	IMP	0	0	0	0	0	0	0
	TOTAL	63	0	0	0	63	0	0
	TOTAL	REV	DEB	VAL	REL	CAN	REC	
	ADJ	0	0	0	0	0	0	0
	DEP	0	0	0	0	0	0	0
	IMP	19	17	1	1	0	0	0
	TOTAL	19	17	1	1	0	0	0
ALL COURIERS		1020	375	90	38	515	1	1

Note: Receipts are not issued on Deposit Declarations

- a. Of the 1020 declarations recorded in CAPS, 90 entries were started but were not reviewed, 37% (375) of the entries were reviewed but were not released and 38 were validated but not reviewed. Although the table above informs on the status of the entries in CAPS, the audit found that the statuses are not reflective of the actual state of the transactions in the processing stream. For example, based on the table, 147 deposit entries are recorded as reviewed but the system has not been updated to reflect that the imports related to these declarations have already been released from Customs' control.
- b. Customs declaration type '**Import**' requires the importer or declarant to pay the customs duties before the goods are released from customs control, as such, declarations are not secured against as security bond. The audit found 148 import declarations for which the status in CAPS is 'Reviewed'; however, the items were already released from customs control. In addition, a search of JDE did not yield a payment receipt for these declarations. Based on the manner in which information is processed within the two systems (JDE and CAPS) the audit could not definitively conclude that revenue was not collected on these declarations.

Recommendation 8 - Customs Automated Processing System (CAPS)

It is recommended that HM Customs utilizes the status codes within CAPS to reflect current state of processing of the declaration. For example, if the imported goods for a Deposit declaration has been released from customs control the status code should reflect "Released" and not still reflect "Reviewed" in CAPS.

CONCLUSION

It is our conclusion that Her Majesty's Customs does not have an adequate system of internal controls in place for the administration of its operations related to courier clearance procedures. The current process is void of clearly established guidelines for both customs officers and courier operators. Although CAPS was implemented to achieve specific objectives, the system is not being utilized in a manner that will achieve those objectives and in a manner that would ensure revenue maximization. The major concessions given to some operators in the manner in which trader declarations can be submitted and approved, lays waste to any meaningful reporting on import activities which will have a direct impact on policy decisions. The current use of standing deposits leaves Government exposed to an unnecessary and unacceptably high level of risk of loss revenues. We find that HM Customs have allowed courier operators to dictate the manner in which HM Customs processes are carried out and have become de factor customs officers servicing their business interests. We found the entire process to be starved of adequate resources, particularly at the [REDACTED] where the bulk of courier imports are processed, to effectively execute the clearance and monitoring function for this area. Overall, the facilitation of courier operations within HM Customs requires significant reform in order to be a value added service to the Government. **Finally, based on the significant number of issues highlighted in this report and their possible pervasiveness within the operations of Her Majesty's Customs, we find that other areas of the Department must be evaluated on an ongoing basis.**

APPENDIX I

No.	Criterion	Criterion Conclusion		
		Met	Partially Met	Not Met
COURIER CLEARANCE OPERATIONS				
1	There is a documented process to guide Customs Officers in the administration of Courier Services arrangement.			X
2	The Department has an adequate system for monitoring courier agents for compliance with Customs Duties Act.			X
3	The Department has an adequate system of reconciliation to ensure that all duties due and payable are paid by couriers.			X
4	The Department has adequate systems in place to ensure that contraband is not imported through the courier agents.			X
5	The Department has documented processes in place to guide Officers in initiating enforcement actions.			X
PARTIAL PAYMENT PROGRAMME				
1	There is a documented process to guide Customs Officers in the establishment of Partial Payment Agreements.			X
2	There is a documented process to guide Customs Officers in conducting enforcement actions.			X
3	There are adequate performance measures in place to monitor the performance of the programme.			X
4	There are adequate controls in place to ensure that all revenues outstanding are recoverable.			X

APPENDIX II



094

Ref.: IAD/FAR1/3

To: Acting Commissioner, Her Majesty's Customs

From: Director of Internal Audit

Date: October 7, 2019

Re: **Audit – Her Majesty's Customs – Partial Payment**

As you are aware the Internal Audit Department embarked upon an audit on the Partial Payment and Courier Operations of Her Majesty's Customs. We have concluded our fieldwork on the Partial Payment phase and will now move on to the Courier Operations. However, considering that the courier operations section of the audit exercise may require a much longer timeframe to complete the necessary testing and inquiries to fulfill the fieldwork requirements, we find it necessary to communicate our findings for the Partial Payment area at this stage.

The audit objective as it related to the Partial Payment area was to determine whether Her Majesty's Customs has adequate controls in place for its Partial Payment Programme to ensure that all requisite revenues are assessed, collected and remitted in a timely manner. In addition four criteria were developed and agreed upon which the operations of this area would be assessed. They were as follows:

1. There is a documented process to guide Customs Officers in the establishment of Partial Payment Agreements.
2. There is a documented process to guide Customs Officers in conducting enforcement actions.
3. There are adequate performance measures in place to monitor the performance of the programme.
4. There are adequate controls in place to ensure that all revenues outstanding are recoverable.

Background

The Customs Management and Duties Act, 2010 sets out the requirements by which Her Majesty's Customs (HMC/HM Customs/Customs) assesses and collects customs duties on behalf of the Government of the Virgin Islands. Over the years HM Customs has approved requests from importers to make payment of the assessed customs duties through partial payments on large valued items. Initially, this courtesy was only afforded to Government employees as repayment could be easily managed through salary deductions. However, the programme has evolved and now includes any importer who is approved by the Commissioner or an authorized officer to make custom duty payments through partial (installment) payments. A down-payment on the assessed duty is required and the balance is to be paid in installment payments over a

defined period. Once approval is given an agreement is to be entered into which sets out the terms and conditions governing the payment of the outstanding duty for the particular approved T-12. A file is created for the importer and accounts receivable record is set-up within the JDE System to manage repayment.

Facts and Findings

Over the years, HM Customs have operated the partial payment programme with varied level of success in terms of collecting all outstanding revenues. As at June 1, 2019 the programme had \$490,145.60 outstanding based on information provided by HM Customs. This outstanding balance spans the period 1996 to 2019. Although the Partial Payment Programme is generally provided for under Section 103 of the Customs Management and Duties Act, 2010 which empowers the Commissioner of Customs to grant security bonds or otherwise, in such form or manner as he directs for matters in respect of which he is required to discharge a duty under the Act, a review of the programme found the following issues in the management of the programme.

1. The Customs Department has not developed policies and procedures to guide the administration of the programme. As such, the programme is being poorly managed and at the discretion of the officer managing the file for the importer. For example, the programme lacks guidance in determining down payment amounts and payment terms. As such, the audit found broad inconsistencies in the amounts of the down payment required from importers and the timeframe given to importers for settling outstanding balances. We were told that such terms are usually determined on a case by case basis which potentially allows for bias to factor in the decision.
2. The approval of requests for customs duties to be made via partial payments lacks appropriate controls to guide approvers in arriving at a decision. The audit found that sufficient due diligence is not conducted or sufficient information collected to inform HM Customs' decision on the importer's ability to pay when deciding on requests. As the basis for the decision is not documented, from our review and through interviews, we have found that the decisions are arbitrarily made after personal representation from the importer and approvers are uninformed when making a decision on a request. A review of files revealed no formal request for partial payment arrangement for the importer which supports the information received that such request are usually made orally and usually in a hasty manner. In turn decisions made in this manner exposes the Government to significant financial risks as an importer can be approved who is unable to make the determined monthly installments.
3. To further illustrate the lack of due diligence carried out on requests for partial payment, our sample revealed that an employee who left the government's employ in [REDACTED] and defaulted on significant outstanding balances for both vehicle and personal loans was approved for partial payment in [REDACTED] of which he only made the down payment. The information on previous delinquencies is held within Government and is easily

retrievable but because due diligence was not performed this importer was allowed to enter into and default on a third agreement with the government.

4. The audit found that, in some instances, partial payments have been approved for multiple T-12s for the same importer. The decision to approve the subsequent partial payment was made even though the importer was delinquent in his payments of the previous agreement. Due to the lack of documented criteria for approvals the audit could not determine the reason for the approval, however, given the fact that the importer holds a senior position within the Custom's department may have influenced this decision and highlights the inequitable nature of the approval process. Unfortunately, no mechanisms were employed or conditions placed on the importer to ensure payment of the balances. Consequently, the importer defaulted on both T-12s (agreements).
5. Furthermore, inadequate information is collected on importers approved to make partial payments to aid in monitoring the installment payments. The Department usually only collects a telephone number and only recently began collecting forms of identification. In most instances, for the sample of files reviewed, no information was found that could accurately identify the importer, their place of employment and residence that would allow HM Customs to easily contact or locate the importer. Given the makeup of the importers utilizing the programme (individual importers rather than commercial importers), this may have significantly impacted any enforcement action pursued by the department.
6. Varying formats of partial payment agreements were found in the review of files. Some agreements reviewed gives Her Majesty's Customs the authority to seize the imported item while others omitted this condition. Furthermore, the agreement in its current format is ineffectually drafted as it does not consider penalties for default, interest and administrative fees to cover the costs which Government bears in facilitating payments through this method. Poorly written agreements such as these can give rise to the enforceability if the matter is subject to legal claim/dispute.
7. Agreements are not collateralized. In most instances, importers of vehicles are the ones that seek partial payment arrangements; however, given the risky nature of such imports it may be difficult for Government to recover the fees due if the importer suffers total loss of the imported item. Therefore, the Government stands to lose time and possibly revenue in having to resort to legal avenues to collect outstanding amounts. This scenario has already been evident as it was communicated that some importers have indicated that the imported item(s) were lost during the hurricanes of 2017 and therefore saw no need to continue to fulfill the agreement to settle outstanding balance.
8. The audit also found that in some cases, partial payments were initiated without having a signed agreement on file. Therefore, in the event of possible default on the outstanding duty, the Department can be challenged by the importer on the legitimacy of their claim. In other instances, the audit found where signed agreements containing errors were

replaced with new terms but was not re-executed. Instead what was done is that the new agreement was affixed to the old agreement which was deemed to have effectually corrected the error in the original agreement without requiring the importer to resign the agreement. This we found to be not only unenforceable but also unethical in the management of the programme. We were informed that such cases arose as a result of the importer failing to present themselves to sign the new agreement once the error is found.

9. Files reviewed evidenced that insufficient monitoring and enforcement is conducted on the terms and conditions of partial payment agreements for active files. The lack of adequate monitoring and enforcement was found to stem from the following:
 - a. No policies or procedures to guide monitoring and enforcement. For example, there is no policy that sets the standard timeframe for a determination to be made as to when an importer's account is deemed delinquent and what initial and subsequent actions are to be taken based on the level and duration of the delinquency.
 - b. Files are not monitored on a consistent basis, therefore, accounts fall into significant delinquency before any enforcement action is initiated which usually most times consists of a telephone call. This has resulted in importers with balances outstanding for approximately fourteen (14) years. Additionally, it was observed that on multiple accounts only the down payment was made and no further payment was made by the importer. From the files sampled, one (1) instance was identified where the importer made no down payment and no subsequent payment on the agreement.
 - c. Between 2004 to present, the programme has an average of 47 percent outstanding of duties to be collected. From 2004 through 2010, the programme suffered an average of 64 percent delinquency representing \$134,954.42 or 27 percent of the total outstanding balances. Given the duration of time that has elapsed, the nature of the imported items and the deficiencies in the agreements, it may be difficult for the IIM Customs to recover these outstanding balances. Based on the opinion of the Attorney General's Chambers, the recovery of outstanding balances may be limited by the Limitation Ordinance (Cap. 43) which "makes provision for the Limitation of action of contract, tort and certain other actions. Section 4, provides that such actions shall not be brought after the expiration of six (6) years from the date on which the cause of action accrued." Based on this opinion, the Government may be statute barred from recovering approximately two hundred and sixty-five thousand four hundred and eleven dollars and two cents (\$265,411.02).

To: Memorandum to Acting Commissioner, Her Majesty's Customs
 Date: October 7, 2019
 Re: Audit - Her Majesty's Customs - Partial Payment Operations
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Period	Original Amount	Payments	Outstanding Balance	Percentage Outstanding
2004-2008	\$ 151,919.57	\$ 54,280.25	\$ 97,639.32	64%
2009	\$ 22,640.87	\$ 8,255.45	\$ 14,385.42	64%
2010	\$ 36,395.28	\$ 13,465.60	\$ 22,929.68	63%
2011	\$ 17,511.59	\$ 8,686.96	\$ 8,824.63	50%
2012	\$ 190,380.53	\$ 141,409.00	\$ 48,971.53	26%
2013	\$ 93,325.11	\$ 37,293.14	\$ 56,031.97	60%
2014	\$ 36,749.29	\$ 25,711.21	\$ 11,038.08	30%
2015	\$ 44,641.85	\$ 21,558.81	\$ 23,083.04	52%
2016	\$ 27,615.02	\$ 22,359.73	\$ 5,255.29	19%
2017	\$ 132,118.68	\$ 55,567.25	\$ 76,551.43	58%
2018	\$ 112,285.88	\$ 41,494.07	\$ 70,791.81	63%
2019	\$ 66,157.39	\$ 39,562.13	\$ 26,595.26	40%
Virgin Gorda	\$ 45,860.90	\$ 29,232.43	\$ 16,628.47	36%
Salary Deduction	\$ 31,688.20	\$ 20,268.53	\$ 11,419.67	36%
Total	\$ 1,009,290.16	\$ 519,144.56	\$ 490,145.60	47%
* Average outstanding balance				

- d. Government employees who have entered into agreements for the payment of customs duties by partial payment have left the service with unpaid balances. This is possibly due to the lack of communication or information sharing between the required agencies to ensure that the amount is recovered before or recoverable after the officer demits office.
- e. Additionally, it was observed that payments were made for some Government officers via salary deductions while others were allowed to make direct payment to the Customs Department. We found that in the second option, the department weakened its control over the probability of repayment by not mandating salary deductions. Furthermore, the audit found that even when the first option was employed employees were allowed to demit office without making alternate arrangements to settle balances. In such instances, payments just ceased when the employee salary from government ceased.
- f. Installment amounts and payment dates outlined in agreements are not adhered to or enforced. Based on discussions with HM Customs, the internal policy exists whereby in administering the programme the repayment term of six months has been established as the maximum or repayment terms are usually determined to allow for repayment within the calendar year. Monthly installment amounts are usually determined using these parameters without consideration for the importer's ability to pay the derivative amounts. This we found to be a contributing factor to the high level of delinquency within the programme as there are several instances where the importer does make regular payments that are below the agreed installment amount. Additionally, it is the audit's determination that in some instances, importers have entered into agreements with HM Customs

with the intent of circumventing the payment of customs duties. This is evident in the numerous cases where the importer made no attempt to make any additional payment on balance beside the initial payment made to facilitate the release of the imported items from customs control.

- g. It was found that outstanding balances for customs duties for deceased persons are still being carried as outstanding amounts even though the chance of collection is nil as in most instances the agreements do not make any outstanding balance a part of the decedent estate.

10. Performance measures have not been developed nor have the performance of the programme been evaluated. The programme is simply administered on an ad hoc basis without any review to determine whether it is achieving the desired objectives for its existence. Information gathered from assessing performance measures can aid in identifying problem areas and root cause of issues which would allow for corrective actions to be implemented to bring the programme within the parameters of its objective. The lack of such evaluation has allowed the administration of this programme to become ineffective and have allowed for the serious deficiencies to go undiagnosed which have resulted in a high rate of delinquency and the accumulation of significant receivable balance.

11. In an attempt to assess the operations of the programme, a number of performance measures were calculated on the programme using the information available. The information reported below is based on the sample of 50 T-12 accounts selected.

Performance Measure/Indicator	Description (what it measures)	Calculation
Default Rate	The percentage of all outstanding payments that have been outstanding after a prolonged period of missed payments (Assumption of 6 months used as representing the prolonged period)	83%
Longest outstanding period	The length of time for which the repayment of outstanding customs duty has been outstanding	14 years 6 months
Shortest outstanding period	The length of time for which the repayment of outstanding customs duty has been outstanding the shortest	1 month
Largest outstanding amount	The largest outstanding amount to be collected	\$22,647.99
Active Customer Accounts per Collection Officer	Ratio of customer accounts to employee managing the account	25:2 (25 files managed by each employee)

Accounts Outstanding 30 days as of 8/31/19	Customer accounts outstanding 30 days or less	2
Accounts Outstanding 31 - 60 days as of 8/31/19	Customer accounts outstanding more than 30 days or more	1
Accounts Outstanding 61 or more days as of 8/31/19	Customer accounts outstanding 90 days or more	47

Recommendations

1. Given the high default rate and the lack of a discernible business or economic value, it is recommended that the partial payment programme be discontinued. In addition, it is further recommended that the Commissioner of Customs seek advice from the Attorney General Chambers on the recoverability of delinquent balances and employ any advice given to develop a course of action to collect monies deemed recoverable and to take the necessary actions to write off balances that are determined to have a low probability of ever being collected.
2. In the event that it is determined that the programme serves a legitimate business or service delivery objective for the Government of the Virgin Islands, we offer the following recommendations that would strengthen the control environment and improve the overall administration of the programme:
 - a. It is recommended that Her Majesty's Customs develop and document policies and procedures for the administration of payment for customs duties by partial payment. Policies and procedures should govern, approval, monitoring and enforcement and close-out. Furthermore, criterion should be developed to guide approvers in making decisions on applications which would also bring some level of transparency to the decision making process. This criterion should also address the required information that should be collected and assessed before approval is given.
 - b. It is recommended that guidelines or a formula be developed and applied on a consistent basis for the determination of repayment period, down payment amount, installment amount and assessing the importer's ability to make the down payment and the monthly installment payments.
 - c. It is recommended that Her Majesty's Customs implement the attached Draft Agreement provided by the Attorney General's Chambers to govern partial payment relationships going forward. It is further recommended that Her Majesty's Customs do not allow any importer to remove the imported item or make any payment before an agreement has been duly executed.

- d. It is recommended that all public officers wishing to utilize a partial payment arrangement be made authorize such payment through salary deductions. Furthermore, this information should be communicated to the relevant agencies, Ministry of Finance, Department of Human Resources, the employee's department and the Treasury Department in order to minimize the risk of public officers leaving the Public Service without settling outstanding balances.
- e. It is recommended that Customs write to the Financial Secretary concerning the outstanding amounts for deceased importers so that a determination can be made to write-off the uncollectible debt.
- f. It is recommended that Customs develops an objective for the programme and in turn develop relevant performance indicators to monitor its performance in line with its objectives.
- g. It is recommended that an administrative fee and other appropriate interest and penalties be attached to all agreements for partial payments. This may require Cabinet's approval and amendment to the Customs legislation.

Conclusion

The current partial payment programme administered by Her Majesty's Customs lacks appropriate and effective controls to ensure that all requisite revenues assessed are collected and remitted in a timely manner. The programme is void of a strict management structure and systems to ensure compliance of importers, some of them being Government employees and Customs Officers. As a result, customs duties under this programme have been in arrears for lengthy periods (approximately fourteen years) without any definitive actions taken to collect the debt. It is our conclusion that the programme, as currently structured and managed, serves more of a social interest and detracts from the revenue collection mandate of the department. As a result, significant government revenue is at risk of being loss.

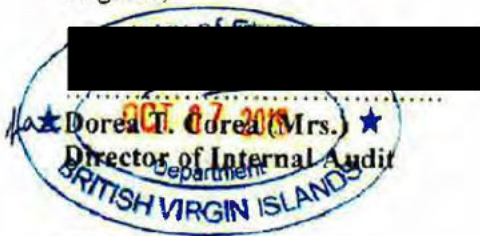
To: Memorandum to Acting Commissioner, Her Majesty's Customs
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Results of Criteria

No.	Criterion	Criterion Conclusion		
		Met	Partially Met	Not Met
1	There is a documented process to guide Customs Officers in the establishment of Partial Payment Agreements.			X
2	There is a documented process to guide Customs Officers in conducting enforcement actions.			X
3	There are adequate performance measures in place to monitor the performance of the programme.			X
4	There are adequate controls in place to ensure that all revenues outstanding are recoverable.			X

If you have any questions, please feel free to contact me at extension 4771.

Regards,



DC/rg

Attachment

cc: Financial Secretary

AGREEMENT

This Agreement is made the _____ day of _____, 20__ BETWEEN the Commissioner of Customs, of the one part and _____ of _____ (hereinafter referred to as the importer) of the other part (both parts hereinafter collectively referred to as "the parties").

WHEREAS the importer understands that full duty is payable by the owner of the dutiable goods at the time of first importation, and until all duties are paid on any item, the Customs Department shall have an interest with regard to such outstanding duties and the item.

AND WHEREAS the importer request of the Commissioner of Customs to be allowed to pay by installments, duties on _____ (item) imported into the Territory on _____ (vessel) on _____ day of _____, 20__.

NOW THEREFORE in consideration of the foregoing terms and conditions set forth herein, it is agreed as follows:

Payment by Installments

1. The Commissioner of Customs grants the importer payment by installments on the dutiable goods, subject to a lien on the subject matter of the goods as follows:

Balance due to be paid in installments of \$ _____ each, beginning on _____ and each month thereafter until paid in full by the _____ day of _____, 20__.

Payments to commence as per schedule:

	Date	Amount
First Payment due on	_____	\$ _____
Second payment due on	_____	\$ _____
Third payment due on	_____	\$ _____

Discharge of Lien

2. Upon full and final payment of the amount owed the lien shall be discharged.

Modifications

3. There shall be no modifications to any part of this Agreement unless mutually agreed by the parties in writing.

Assignment

4. This Agreement or any of its rights or duties hereunder shall not be assigned by either party without the prior written consent of the other.

Entire Agreement

5. This Agreement constitutes the entire agreement between the parties, and supersedes any prior agreements with respect to the subject matter hereof.

Governing Law and Jurisdiction

6. This Agreement will be governed by and construed in accordance with the Laws of the Virgin Islands and each party hereby submits to such jurisdiction.

IN WITNESS WHEREOF the Parties to this Agreement hereby execute this Agreement as of the date and year first written above.

Signed by the Commissioner of Customs
in the presence of

Witness

Commissioner of Customs

Signed by Importer
in the presence of

Witness

Importer

MANAGEMENT RESPONSE



Customs Department

Richard Stouff Building, Wickham's Cay 1
Road Town, Tortola, British Virgin Islands

Tel: 1-284-468-6800 Fax: 1-284-468-6825 Email: bvicustoms@gov.vg

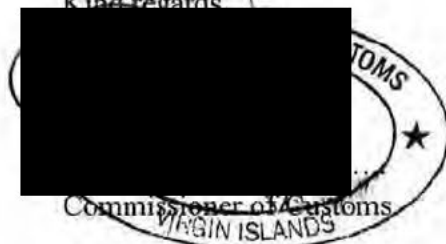
Ref: IAD/FAR1/3
To: Director of Internal Audit
From: Commissioner, Her Majesty's Customs
Date: December 14, 2020
Re: **Response to Audit Findings – Courier Trader Declaration Processing, CAPS Processing and Partial Payment**

On behalf of the Customs Department, I would like to extend our sincere gratitude and to the Director of Internal Audit and her Team for taking the time out of their busy schedule to execute this timely, much needed, and time consuming exercise.

We are equally grateful for the opportunity to meet with the Financial Secretary and your good team to address the concerns outlined in your report. Through this exercise, we were able to identify our strengths and weaknesses, highlight opportunities to efficiently protect and collect revenues, and properly inspect goods while facilitating legitimate trade; all in accordance with our mandate. Moreover, there is the opportunity to mitigate our exposure to threats (Money Laundering and Terrorist Financing, smuggling, loss of revenue, commercial fraud) against our community.

In closing, after review of our attached response to the Audit Report, we look forward to further partnering with your good office as we strive to streamline our business operations to be more efficient and effective for the benefit of all Stakeholders.

Kind regards



Cc: Financial Secretary

Encl:



HER MAJESTY'S CUSTOMS COURIER CLEARNACE OPERATIONS

The following recommendations are provided to address the issues and concerns articulated in the Internal Audit Report on Her Majesty's Customs – Courier Clearance Operations.

Courier Trader Declaration Processing

1. **It is recommended that HM Customs ensure that written agreements and bonding mechanisms are in place for all courier services utilizing the standing deposit scheme. It is further recommended that the Department implements a system whereby these agreements and bonding mechanisms are continuously monitored to ensure that they are kept current.**

AGREE/DISAGREE

In response to this finding, it is to be recorded that bonds can be cash or a guarantee from approved financial institutions or insurance companies. All Couriers utilizing a financial institution or insurance company bond have a file with the details included, outlining the terms and conditions. Cash bond holders were recorded in a Cash Bond Register. This register was destroyed in Immaria and attempts have been made to retrieve information from the Treasury Department and Importers/Couriers (as a last resort). This department has been feverishly trying to vacate cash bond and encourage the guaranteed bonds.

We must agree that the Department has fallen short in monitoring and ensuring files are kept current. These shortcomings were also identified by the department and we are implementing measures and controls to correct short comings.

CORRECTIVE ACTION PLAN

1. Better utilization of the CAPs features- the bond amounts will be monitored by the system and no entries can be submitted once bond limits have been met.
2. Assign Officers, on a rotational basis, as **Port Account Managers** to upkeep the deposits and adjustments files to ensure duty is collected on a weekly basis as outlined in bond agreements.
3. Expand the Port Account programs to respective Ports of Entries.
4. Ensure that all bond agreements are reviewed and updated.
5. Have all bonds expire annually on December 31 to ensure that all couriers are current with Trade Licenses and other government obligations including fulfilling customs requirements.
6. Strictly enforce terms and conditions in bond agreements that include suspension and termination of bond agreements.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

The department will start corrective action plan mentioned above in the first quarter of 2021. Bonds are already being updated and Courier files are being brought current with outstanding balance for proper turnover of records.

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

2. It is recommended that HM Customs establish and publish to the Public guidelines for the clearance of imports entering the territory. Furthermore, it is recommended that the Department develops internal processing guidelines for its officers in administering their duties as it relates to the processing trader declarations and the clearance of imports. These guidelines should consider how each type of declaration is to be processed and ensure that appropriate processing controls are in place, such as segregation of duties, user accessibility considering roles and responsibilities, etc.

AGREE/DISAGREE

We agree to the findings stated and we are confident that the above will correct concerns in this section. Although the department does not succumb to allegations we are aware of the temptations of participating in illegitimate (actions that may bring the Government into disrepute) brokerage services.

CORRECTIVE ACTION PLAN

We intent to prepare written documents to support the controls being implemented and include duties on job profiles of officers selected as Port Account Managers.

All staff of the Customs Department is made aware of the General Orders and repercussions that may be the result of bringing the Government in to disrepute. Currently the CAPs Senior Officer's job profile has been updated to reflect the task of assigning entries to be checked by officers on a daily basis.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Ending of January 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

3. It is recommended that HM Customs reactivates the system control or implements a manual system to accurately monitor the use of each courier's standing deposit account. This will require that correct information outlining the agreed standing deposit account limits is in place and that CAPS reflects these amounts. This information within CAPS should be updated regularly to reflect the agreement and bonded amount for each courier utilizing the scheme. This control, whether automated or manual, is important to ensure that Government's interest is protected at all times.

AGREE/DISAGREE

We agree to the findings and recommendations stated.

CORRECTIVE ACTION PLAN

All relevant Team Leaders and Port Account Managers are required to update Seniors, and Seniors are required to report, on a monthly basis, on the Couriers' accounts status (Compliance level).

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Immediately

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

4. It is recommended that in reviewing deposit declarations that HM Customs ensure that sufficient amounts are available in deposit accounts before approving the declaration and releasing the imported goods. In addition, it is recommended that appropriate estimated duties are calculated and charged against standing deposits for all Deposit declarations.

AGREE/DISAGREE

We agree to the findings and recommendations stated.

CORRECTIVE ACTION PLAN

The measures and controls mentioned above will address this concern.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Immediately

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 5. It is recommended that HM Customs make it mandatory for all importers to make proper declarations for all entries, even when a Deposit declaration is being made. Items should be properly classified and correct duty rates applied. In instances where sufficient information is not available, this should be clearly stated on the declaration. The mandatory requirement to make proper declarations would better enable HM Customs to calculate the appropriate amount of duty to be charged against the standing deposit to protect Government's interest while also realizing the objective of CAPS Implementation.**

AGREE/DISAGREE

We agree to finding with reasoning. Although this was allowed for a period to assist with the submission of large amounts of entries with each entry having an exhaustive list of records, reports were attached to reflect the true information and duty. At the time this was allowed because the CAPs system was not able to accept File Transfer Protocols (FTP) submissions and other issues. An Executive decision was made to deal with those issues in order to avoid any delay in shipments and revenue collection. The Department maintains International best practices and standards, and will facilitate legitimate trade and not be a barrier to trade.

Reference is made to the discrepancies and or inconsistencies with freight charges. It is important to note that these deposit entries are a quick release with limited information, hence the reason for bonds and adjustment entries (where all accurate information is to be provided). In addition, valuation for freight includes all expenses paid to get goods from supplier to the customer in the BVI. The reason for the large difference in freight is because at the point of importation the courier presents to customs the freight bill provided to them by the shipping company and when the adjustment is submitted, the freight presented is the cost the courier charges the customer. With the implementation of the new process mentioned, this transaction will be clear as the couriers bill is required as supporting documents.

CORRECTIVE ACTION PLAN

The issue with CAPS functions (accepting FTP files) are being rectified so all Couriers will be submitting proper adjustment entries. The department is currently reviewing the current Couriers declaration processing. Our intentions are to have an entry submitted per customer per shipment which would bring us in line with international standards in preparation for the Mutual Evaluation Exercise. This will eliminate the time it takes to review a 1000 plus record entry and it will enable the CAPS system to capture more accurate data (statistical and Intel) as per item being imported and the true importer.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

By the ending of second quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

6. It is recommended that HM Customs take a multi-step approach in resolving the issues identified in 6 and 7. The recommendations are contingent on the Department establishing appropriate policies and procedures for the processing of imports by couriers:

- First, it is recommended that the Department establishes minimum documentation and processing standards for the processing of courier declarations with realistic timeframe. This should be done with both the Department's and couriers' objectives in mind.
- Second, it is recommended that the Department undertakes an assessment of its current capacity to meet the established standards and evaluate both the human resources and space needed to meet the established standards. The human resource component of the assessment should be done on the basis the Department has equipped officers (training and tools) to operate at an optimal capacity. This would ensure that any addition in human resources would be derived from a genuine need and not compensating for lack of performance by current resources.
- Third, it is recommended that the Department establishes and properly staff a centralized processing unit, similar to the CAPS unit, to process all electronic declarations. This Unit can be staffed by both clerical/administrative personnel as well as Customs Officers. This centralized unit will aid the Department in establishing appropriate segregation of duties while also allowing officers at the ports to focus on cargo inspection and enforcement.
- Finally, it is recommended that the Department undertakes regular assessments (e.g. annually) of their clearance process to ensure that they remain at pace with the growing demands of this sector of the economy.

AGREE/DISAGREE

It has to be on record that the Customs Department has been operating with limited resources (human, equipment and improper facilities). We are asked every year to do more with less. Never the less, the Customs Department inspects cargo on a risk base approach, which is guided by the World Customs Organization (WCO) framework of standards. To inspect all imported cargo on a daily basis is not practical. Hence, Risk Management and Intelligence are utilized for checks and balances. In addition, as a means of curtailing fraudulent activities and the smuggling of contrabands, K-9 inspections are conducted at the port and post checks are done at the couriers work site by our special units.

CORRECTIVE ACTION PLAN

In order to effectively and efficiently mitigate international security risk, smuggling, revenue loss and combat Money Laundering and Terrorist Financing, it was recommended that we the Customs Department establish a **Courier Cargo Distribution Center (HMC CCD Center)** that will house all couriers and the CAPs Trader Declaration Unit, Flex Team and Task Force. This will enable an

efficient and transparent process, while importers receive their goods in line with International Standards, which will no doubt, yield an immediate and substantial increase in revenue, while facilitating legitimate trade and eliminating unfair trade practices. This facility, which will be sufficiently spaced and well organized will ensure a smooth operation and allow for full inspections. Officers will be stationed at this new Customs Controlled Area and no goods will leave without being properly inspected and revenues secured. The new processes and procedures will complement the operation and function of this much needed facility.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

The **Courier Cargo Distribution Center (HMC CCD Center)** has been presented in Standing Finance and funding has been approved. Lease agreement is to be signed January 2021 as mentioned in memo from the Ministry of Finance (Development Project 2021).

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Wade Smith (Commissioner of Customs)

- 7. It is recommended that HM Customs implements standards within their guidelines for the acceptance of supporting documentation from importers. Furthermore, such guidelines should be provided to importers (couriers) as to the standard by which information should be submitted.**

AGREE/DISAGREE

We have also identified these findings to be a challenge, hence the development of the new processes and facility mentioned above, which will ensure consistency and uniformity, while eliminating port shopping and creating a level playing field for all couriers.

CORRECTIVE ACTION PLAN

On completion of the new processes, officers and imported will be trained and informed.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

2021 Project

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 8. It is recommended that the Department implements an organized and easily retrievable system for their records pertaining to import clearance. This may require an upgrade to the CAPS server capacity so that all supporting information can be attached and stored electronically. Consideration should be given to purging the system for attachments accompanying deposit declarations once the corresponding adjustment declarations have been finalized and appropriate documentation is attached.**

AGREE/DISAGREE

We agree with findings and we are trying to eliminate manual filing of documents. The Ministry of finance storage facility in Purcell Tortola has been released because of mold issues.

CORRECTIVE ACTION PLAN

CAPS Programmers will purge the system of attachments to deposit entries on a quarterly basis.

The department has been slowly phasing out the need for keeping hard copies of entries, as electronic submissions are considered to be legally binding documents. A disclaimer will be added to the CAPS submission screen.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

By the ending of first quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 9. It is recommended that HM Customs trains all Customs Officers on the proper usage of CAPS and develops internal guidelines to guide them in the processing of imports.**

AGREE/DISAGREE

Findings have been acknowledged.

Since the development of the Trader Declaration Unit; a centralized unit that checks all entries submitted into CAPs, training other officers was not done due the specialized Unit.

CORRECTIVE ACTION PLAN

It has been agreed that going forward all stations will be responsible checking and processing of entries (utilizing CAPS) for goods being imported/exported. Training was conducted at Beef Island station with a focus of the courier processing and Road Town Station with fuel importation.

All officers will be trained as CAPS is extended to other stations. Will start with the Port Account Managers, and then extend to other officers.

- 3. It is recommended that HM Customs explore the possibility of conducting the revenue collection function in CAPS as opposed to JDE and transfer the revenue to JDE at the end of the day. This would create efficiency within the process as declarations would automatically be tied to the receipt eliminating the manual process that is currently being employed. In addition, requiring importers to make proper entries will eliminate the discrepancies between the two (2) systems.**

AGREE/DISAGREE

It was recommended in the past that we utilize JDE to avoid conflict between the two. However the CAPS developer (IBM) has indicated the cashiering feature in CAPS would be able to interact with JD Edwards.

CORRECTIVE ACTION PLAN

Seek approval from the Ministry of Finance and Treasury before implementation.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Ending of second quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 4. It is recommended that HM Customs works with the developers of CAPS to improve the reporting capabilities of CAPS. It is our understanding that HM Customs has purchased or is in the process of purchasing a reporting product from the developer; however, we implore the Department to first exhaust the existing reporting features. In addition, in any event, the Department must first ensure that controls are in place to ensure and validate the accuracy and completeness of the information in the database before any meaningful reporting is conducted. Purchasing reporting software at this time will yield little benefit if the information reported is incorrect or incomplete.**

AGREE/DISAGREE

Disagree. Because the reporting feature was a shelf product, the reporting capabilities did not meet the requirements of HM Customs. The Developers of CAPS are working on the final testing phase before presenting COGNOS reporting software. This system is designed to produce efficient reports and serve as a risk management tool.

CORRECTIVE ACTION PLAN

Ensure that this product meets the requirements of HM Customs before final payment is made.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

CORRECTIVE ACTION PLAN

The Department is confident that the answer is the **HMC CCD Center** previously described. It will address the challenges listed; inadequate facilities, limited space, lack of resources and equipment which is even highlighted after Irma, where facilities have been demolished and not rebuilt.

In addition, as mentioned above all Couriers will be assigned to a Port Account Manager that will be held accountable to ensure that couriers remain in compliance.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Pending approved budget

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Wade Smith (Commissioner of Customs)

Customs Automated Processing System (CAPS)

1. It is recommended that HM Customs ensure that written agreements and bonding mechanisms are in place for all courier services utilizing the standing deposit scheme. It is further recommended that the Department implements a system whereby these agreements and bonding mechanisms are continuously monitored to ensure that they are kept current.

2. It is recommended that all declarations in CAPS be done utilizing the Harmonized Coding System so that accurate statistical information can be derived in order to achieve the main objective of implementing CAPS.

AGREE/DISAGREE

Agreed

CORRECTIVE ACTION PLAN

Team has been put together to ensure all bond files are up to date, and adjustment entries are submitted properly. It's the Departments intent to change the current policies and procedures governing the couriers system (as mentioned before), which will create a more manageable process for submitting, reviewing and reconciling goods being imported via couriers.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Ending of first quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

CORRECTIVE ACTION PLAN

The CAPs Development Team is in consultation with management and IBM to find solutions tailor-made to meet the needs of the departments reporting requirements (COGNOS).

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

The department will ensure that COGNOS is functioning as required before final payment is made.

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Wade Smith (Commissioner of Customs)

- 12. Given the human resources capacity within the Department, it is recommended that HM Customs undertakes an analysis to determine whether the 15 day timeframe is adequate for the submission and review of adjustment declarations. The timeframe for submission should be revised if the analysis reveals that the 15 day requirement is inadequate. Furthermore, it is recommended that monthly reconciliations of all deposit and adjustment declarations be conducted for all importers' utilizing deposit accounts to ensure that their accounts are kept current.**
- 13. Given the current space limitations, in the short term, it is recommended that the Department explore the feasibility of having couriers submit their declarations two (2) days in advance to allow HM Customs sufficient time for review. This review would allow for officers to select a sample of packages for review once the shipment arrives. Furthermore, the Department should implement equipment such as scanners to aid in scrutinizing the packages to ensure that contraband is not being imported.**
- 14. It is recommended that HM Customs implements penalties for noncompliance in the submission of adjustment declarations. In addition, HM Customs should enforce its standing deposit requirements for couriers operating within the scheme. Finally, it is recommended that HM Customs initiate appropriate enforcement actions on couriers who are found to be intentionally breaching the Department's protocols when submitting declarations (i.e. all entries should be made through CAPS; declarations should be accurate, etc.)**

AGREE/DISAGREE

Agree

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

By the ending of 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin and Gerald Fleming (Asst. Commissioners)

- 10. It is recommended that HM Customs undertakes an overhaul of CAPS to bring the system current. Subsequent to this, it is further recommended that the Department utilizes CAPS in the appropriate manner where ALL transactions (declarations) are processed in CAPS.**

AGREE/DISAGREE

We agree with findings and recommendations.

CORRECTIVE ACTION PLAN

The department will streamline the manual processes to ensure information is captured in the system or otherwise. Currently we are in discussions of having an offline version of CAPs that can be uploaded when system goes down.

In addition the HMC CCD Center will provide a central location to standardize the courier processes and record keeping.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Ending of second quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 11. It is recommended that the Department delay the purchasing of the reporting software and explore the reporting suite within CAPS once all the issues related to the deficiencies identified in this report are resolved and the system is functioning as it was intended to.**

AGREE/DISAGREE

A shelf system was provided by IBM. This system did not meet the needs or full filled the challenges of HM Customs.

By ending 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Greg Romney (Deputy Commissioner)

- 5. It is recommended that HM Customs conduct a full reconciliation of all deposit declarations to ensure that a corresponding adjustment declaration has been submitted and the associated revenues collected. The Department should immediately implement a process of manually tracking all deposit and adjustment entries going forward until the system and process issues are rectified which would allow this reconciliation and tracking to be completed in CAPS.**

AGREE/DISAGREE

Prior to the Audit Report, a team was assigned to reconcile all Couriers Accounts and collect outstanding. In addition, there are ensuring that all adjustment entries are released in the system so proper records can be produced.

CORRECTIVE ACTION PLAN

Ensure all deposits files are current before handing over to the perspective Port Account Managers.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Ending of first quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 6. It is recommended that it be made mandatory that all declarations (deposit, adjustment and imports) be processed in CAPS. Therefore, it is recommended that HM Customs and its developers collaborate with importers of large quantity of packages to be able to utilize the File Transfer Protocol (FTP) feature rather than the Web Trader option.**

AGREE/DISAGREE

Agreed

CORRECTIVE ACTION PLAN

Have all Couriers submit entries via Caps.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

By the ending of the first quarter 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 7. It is recommended that all Deposit declarations be cleared with an Adjustment declaration. In addition, it is recommended that the department investigate these declarations in order to obtain an understanding as to why such manipulation at the database level was necessary and implement controls to avoid such future occurrences.**

AGREE/DISAGREE

We understand the concerns but in my opinion the statement is not accurate. However, it clearly demonstrates that the post audit function is effective. In instances of a post audit check (examination of the CAPS data), reconciling bond accounts, there was a large outstanding list of deposits that had no adjustment entries. Through discussion with Importers, it was later revealed that payment was made on goods released on deposits. After verification, it was noticed that the importers did an import entry instead of an adjustment entry. In order for this to be corrected in the system, the CAPS Administrators therefore make changes for the entry to be reflected as an adjustment so the system can properly reconcile deposit entries.

CORRECTIVE ACTION PLAN

Moving forward, we will implement a disclaimer, which will have all importers held accountable and responsible for all entries submitted. The new processes for couriers processing, once implemented, will give the officers reporting capabilities to conduct daily to weekly reconciliation.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

By ending of the first quarter of 2021

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

- 8. It is recommended that HM Customs utilizes the status codes within CAPS to reflect current state of processing of the declaration. For example, if the imported goods for a Deposit declaration has been released from customs control the status code should reflect "Released" and not still reflect "Reviewed" in CAPS.**

AGREE/DISAGREE

Status codes within CAPS are automatic codes that are generated after a procedure is complete. Utilizing CAPS feature to release cargo has been a challenge in the past due to processes at the Ports. We have recognized this to be a challenge prior Irmaria and this concern was addressed and rectified by constructing and equipping offices at the warehouses at the Port Purcell Cargo Port. Officers stationed at these offices and were trained. As we all know, September 7, 2017, as a result of category 5 hurricanes an entire warehouse was demolished. To date, there has been no

construction to rebuild the facility. The inadequate facility and equipment prevents us from performing this function.

CORRECTIVE ACTION PLAN

HMC Internal Audit Unit has made recommendations to ensure that the releasing function of CAPS is utilized. Additional training is needed and equipment to be provided.

ANTICIPATED CORRECTIVE ACTION PLANNED COMPLETION DATE

Once equipment is received, procedure will start immediately.

NAME OF CONTACT PERSON(S) RESPONSIBLE FOR ACTION PLAN

Tashima Martin (Asst. Commissioner)

**HER MAJESTY'S CUSTOMS
PARTIAL PAYMENT PROGRAMME**

The following recommendations are provided to address the issues and concerns articulated in the Internal Audit Report on Her Majesty's Customs – Partial Payment Programme.

1. Given the high default rate and the lack of a discernible business or economic value, it is recommended that the partial payment programme be discontinued. In addition, it is further recommended that the Commissioner of Customs seek advice from the Attorney General Chambers on the recoverability of delinquent balances and employ any advice given to develop a course of action to collect monies deemed recoverable and to take the necessary actions to write off balances that are determined to have a low probability of ever being collected.

Agree/Disagree	AGREE
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	Follow up with AG for assistance as discussed in 2019. A letter has been drafted, and Officers has been selected to be trained to assist with court proceedings.
Anticipated Corrective Action Planned completion date	Follow up with AG Chambers will be completed by ending of 1 st quarter 2021.
Names(s) of contact person(s) responsible for corrective action	Ms. Tashima Martin (Asst. Commissioner)

2. In the event that it is determined that the programme serves a legitimate business or service delivery objective for the Government of the Virgin Islands, we offer the following recommendations that would strengthen the control environment and improve the overall administration of the programme:

- a. It is recommended that Her Majesty's Customs develop and document policies and procedures for the administration of payment for customs duties by partial payment. Policies and procedures should govern, approval, monitoring and enforcement and close-out. Furthermore, criterion should be developed to guide approvers in making decisions on applications which would also bring some level of transparency to the decision making process. This criterion should also address the required information that should be collected and assessed before approval is given.

Agree/Disagree	AGREE
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	HM Customs will develop and document policies and procedure for administration of partial payments.
Anticipated Corrective Action Planned completion date	By Ending January 2021
Names(s) of contact person(s) responsible for corrective action	Ms. Tashima Martin (Asst. Commissioner)

- b. It is recommended that guidelines or a formula be developed and applied on a consistent basis for the determination of repayment period, down payment amount, installment amount and assessing the importer's ability to make the down payment and the monthly installment payments.

Agree/Disagree	AGREED
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	This will be included in the policies and procedures
Anticipated Corrective Action Planned completion date	By ending of January 2021
Names(s) of contact person(s) responsible for corrective action	Ms. Tashima Martin (Asst. Commissioner)

- c. It is recommended that Her Majesty's Customs implement the attached Draft Agreement provided by the Attorney General's Chambers to govern partial payment relationships going forward. It is further recommended that Her Majesty's Customs do not allow any Importer to remove the imported item or make any payment before an agreement has been duly executed.

Agree/Disagree	AGREED
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	Implement the Draft Agreement immediately
Anticipated Corrective Action Planned completion date	Immediately
Names(s) of contact person(s) responsible for corrective action	Ms. Tashima Martin (Asst. Commissioner)

- d. It is recommended that all public officers wishing to utilize a partial payment arrangement be made authorize such payment through salary deductions. Furthermore, this information should be communicated to the relevant agencies, Ministry of Finance, Department of Human Resources, the employee's department and the Treasury Department in order to minimize the risk of public officers leaving the Public Service without settling outstanding balances.

Agree/Disagree	AGREED
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	Currently this is being done. Will follow up with Salaries to ensure deductions can be viewed by IAT officers to update files and records.
Anticipated Corrective Action Planned completion date	By ending of January
Names(s) of contact person(s) responsible for corrective action	Tashima Martin (Asst. Commissioner)

- e. It is recommended that Customs write to the Financial Secretary concerning the outstanding amounts for deceased importers so that a determination can be made to write-off the uncollectible debt

Agree/Disagree	AGREE
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	Draft memo concerning the above
Anticipated Corrective Action Planned completion date	By ending of January 2021
Names(s) of contact person(s) responsible for corrective action	Tashima Martin (Asst. Commissioner)

- f. It is recommended that Customs develops an objective for the programme and in turn develop relevant performance indicators to monitor its performance in line with its objectives.

Agree/Disagree	AGREE
Reason for Disagreement and Alternate Proposed Recommendation	N/A
Corrective action planned	
Anticipated Corrective Action Planned completion date	End of 1 st Quarter 2021
Names(s) of contact person(s) responsible for corrective action	Tashima Martin (Asst. Commissioner)

- g. It is recommended that an administrative fee and other appropriate interest and penalties be attached to all agreements for partial payments. This may require Cabinet's approval and amendment to the Customs legislation.

Agree/Disagree	DISAGREE
Reason for Disagreement and Alternate Proposed Recommendation	This decision has to be done by the Financial Secretary.
Corrective action planned	
Anticipated Corrective Action Planned completion date	
Names(s) of contact person(s) responsible for corrective action	Wade Smith (Commissioner)



DIRECTOR'S RESPONSE



GOVERNMENT OF THE VIRGIN ISLANDS
INTERNAL AUDIT DEPARTMENT

AUDIT AREA: HER MAJESTY'S CUSTOMS
COURIER CLEARANCE OPERATIONS AND PARTIAL PAYMENT
PROGRAMME

DIRECTOR'S RESPONSE – AREAS OF DISAGREEMENT

The following responses are provided to address areas of disagreement stated in the Management Response provided.

Fact and Finding 13 – Courier Trader Declaration Processing

Furthermore, although one of the implementation objectives of CAPS was to facilitate reporting, the audit found that the reporting suite within the software is currently non-functional. To rectify this issue, the audit team was informed that the Department is currently in the process of procuring an additional reporting programme; however, the audit finds that based on the poor use of CAPS, the significant amount of missing data and the acknowledgement from HM Customs personnel about the reliability of the data currently in CAPS, the additional expenditure to obtain reports will be of little benefit.

Recommendation 11 - Courier Trader Declaration Processing

It is recommended that the Department delay the purchasing of the reporting software and explore the reporting suite within CAPS once all the issues related to the deficiencies identified in this report are resolved and the system is functioning as it was intended to.

<p>Agree/Disagree</p> <p><i>Please provide reason(s) for disagreement with proposed recommendation.</i></p>	<p>A shelf system was provided by IBM. This system did not meet the needs or fulfil the challenges of HM Customs.</p>
<p>Corrective action planned</p> <p><i>If action is dependent on any conditionality such as approval of higher authority or need of additional resources, state details.</i></p>	<p>The CAPs Development Team is in consultation with management and IBM to find solutions tailor made to meet the needs of the departments reporting requirement (COGNOS).</p>
<p>Anticipated completion date</p>	<p>The department will ensure that COGNOS is functioning as required before final payment is made.</p>
<p>Names(s) of contact person(s) responsible for corrective action</p>	<p>Wade Smith (Commissioner of Customs)</p>

Fact and Finding 4 – Customs Automated Processing System (CAPS)

Although CAPS was implemented to enable the Government of the Virgin Islands to obtain accurate and reliable information to inform policy decisions, the audit found that the platform is severely limited in its reporting capabilities. When inquiries were made about specific reports such as a report detailing all deposit declarations without a corresponding adjustment declaration, we were told that such a report was not possible. In order to conduct audit tests on this area, the auditors had to obtain a database dump and perform the comparison via a spreadsheet. This scenario exposes a significant weakness in the current configuration/usage of CAPS as our manual process revealed **775** deposit trade declarations with a merchandise value of approximately **\$15,841,146.50 for 2019 with an estimated \$2.4 million in import duties at risk** (see table below) without corresponding adjustment declarations. Due to poor record management within the Department and the claim that some of the entries may have been completed outside of CAPS, the audit could not validate whether adjustment declarations were in fact completed and revenue collected on any of these deposit declarations. Some of these deposit declarations were several months delinquent. It is noteworthy to recognize that when a sample of the declarations were queried for one courier, the officer investigating found numerous other deposit declarations from prior years for which adjustment declarations were not submitted. This fact confirms the likelihood that there are a significant number of declarations in CAPS that were never completed. We suspect that this issue might be pervasive (as other entities outside of couriers also participate in the deposit scheme) and a multi-year issue.

Table 4: Deposit TDs with no Adjustment TDs within CAPS

Courier Name	No. of Deposit TD Outstanding with No adjustment	Merchandise Value
	345	\$ 11,343,768.53
	186	\$ 3,641,082.94
	209	\$ 798,862.57
	All 'Import' TDs	\$ -
	35	\$ 523,182.08
TOTAL	775	\$ 16,306,896.12
HELD AGAINST BOND (ESTIMATE)	15%	\$ 2,446,034.42

Recommendation 4 - Customs Automated Processing System (CAPS)

It is recommended that HM Customs works with the developers of CAPS to improve the reporting capabilities of CAPS. It is our understanding that HM Customs has purchased or is in the process of purchasing a reporting product from the developer; however, we implore the Department to first exhaust the existing reporting features. In addition, in any event, the Department must first ensure that controls are in place to ensure and validate the accuracy and completeness of the information in the database before any meaningful

reporting is conducted. Purchasing reporting software at this time will yield little benefit if the information reported is incorrect or incomplete.

<p>Agree/Disagree</p> <p><i>Please provide reason(s) for disagreement with proposed recommendation.</i></p>	<p>DISAGREE. Because the reporting feature was a shelf product, the reporting capabilities did not meet the requirements of HM Customs. The Developers of CAPs are working on the final testing phase before presenting COGNOS reporting software. This system is designed to produce efficient reports and serve as a risk management tool.</p>
<p>Corrective action planned</p> <p><i>If action is dependent on any conditionality such as approval of higher authority or need of additional resources, state details.</i></p>	<p>Ensure that this product meets the requirements of HM Customs before final payment is made.</p>
<p>Anticipated completion date</p>	<p>By ending 2021</p>
<p>Names(s) of contact person(s) responsible for corrective action</p>	<p>Greg Romney (Deputy Commissioner)</p>

Director’s Response: Recommendations 11 and 4

Based on your indication that the software is in the final stages of testing indicates that the purchase decision has already been made. Therefore, I implore HM Customs’ vigilance in ensuring that all its reporting needs are addressed to avoid additional costs in the future to address this issue. In addition, I further reiterate the need for HM Customs to address the data integrity issues that currently plagues the system prior to the deployment of the reporting software, as failure to address such issues will render the reporting software useless in meeting the desired objectives.

Fact and Finding 8 – Customs Automated Processing System (CAPS)

The audit found several instances where declarations were initially entered into CAPS as “DEPOSIT” declarations, but were subsequently changed and cleared as “IMPORT” declarations. This issue raises concern as the goods are released on Deposit declarations but payment is collected on the corresponding adjustment declaration. Goods for Import declarations are paid for at the time they are released from HM Customs' control. Because of the difference in timing of the collection of revenue, clearing a **Deposit declaration** as an **Import declaration** may put revenues at risk as it might be assumed based on the declaration type that the revenues have already been collected when in fact they were not. It is our understanding that such a change could only be done at the database level requiring administrator access. Although, the audit team does not possess information technology capacity to validate this issue, we are concerned with the frequency with which this issue has occurred, the potential risks and the lack of a reason as to why such adjustments would be necessary.

Recommendation 7 - Customs Automated Processing System (CAPS)

It is recommended that all Deposit declarations be cleared with an Adjustment declaration. In addition, it is recommended that the department investigate these declarations in order to obtain an understanding as to why such manipulation at the database level was necessary and implement controls to avoid such future occurrences.

Agree/Disagree	We understand the concerns but in my opinion the statement is not accurate. However, it clearly demonstrates that the post audit function is effective.
<i>Please provide reason(s) for disagreement with proposed recommendation.</i>	In instance of a post audit check (examination of the CAPs data), reconciling bond accounts, there was a large outstanding list of deposits that had no adjustment entries. Through discussion with Importers, it was later revealed that payment was made on goods released on deposits. After verification, it was noticed that the importers did an import entry instead of an adjustment entry. In order for this to be corrected in the system, the CAPs Administrators therefore made changes for the entry to be reflected as an adjustment so the system can properly reconcile deposit entries.
Corrective action planned	Moving forward we will implement a disclaimer which will have all importers held accountable and responsible for all entries submitted. The new processes for couriers processing once implemented will give officers reporting capabilities to conduct daily to weekly reconciliation.
<i>If action is dependent on any conditionality such as approval of higher authority or need of additional resources, state details.</i>	
Anticipated completion date	By ending of the first quarter of 2021
Names(s) of contact person(s) responsible for corrective action	Tashima Martin (Asst. Commissioner)

Director's Response – Recommendation 7

This recommendation was provided to address the issue related to the audit discovering that several declarations were initially entered into CAPs as "DEPOSIT" declarations, but were subsequently changed and cleared as "IMPORT" declarations and the fact that because of the timing of the collection of revenue, revenues may be at risk of being uncollected.

Mention was made of the HM Customs' post audit function being effective which involves examining the CAPs data and reconciling bond accounts, but the auditors did not observe evidence that this function is a regular and consistent process undertaken by HM Customs in reconciling trader declarations detailed in CAPs. HM Customs was not aware that this issue existed prior to this exercise and the fact that the Department had to rely on the importers and not on its own independent verifications indicates that the department's post audit function may not be effective. Furthermore, the fact that the system allows a Deposit Declaration to be cleared with an Import Declaration highlights a control weakness in the input controls within CAPS.

Recommendation 2g – Partial Payment Programme

It is recommended that an administrative fee and other appropriate interest and penalties be attached to all agreements for partial payments. This may require Cabinet's approval and amendment to the Customs legislation.

Agree/Disagree <i>Please provide reason(s) for disagreement with proposed recommendation.</i>	DISAGREE This decision has to be done by the Financial Secretary.
Corrective action planned <i>If action is dependent on any conditionality such as approval of higher authority or need of additional resources, state details.</i>	
Anticipated completion date	
Names(s) of contact person(s) responsible for corrective action	Wade Smith (Commissioner)

Director's Response – Recommendation 2g

While it is understood that the Financial Secretary, as the head of the Ministry of Finance, has to submit this request to Cabinet, the Department responsible for the new initiative (revenue or expenditure) has to propose and take lead in beginning the process for it to be submitted to Cabinet for consideration and approval. Therefore, Her Majesty's Customs through the Commissioner would have to take the lead in order for the process to commence to have these fees applied once the approved structure and relevant support mechanisms are in place to govern the Partial Payment Programme.