

Table of Contents

EXECUTIVE SUMMARY	2
1.0 INTRODUCTION	5
1.1 BACKGROUND	5
1.2 RISK ASSESSMENT.....	6
1.3 AUDIT OBJECTIVE AND SCOPE.....	6
1.4 APPROACH AND METHODOLOGY	7
1.5 AUDIT CRITERIA.....	7
1.6 STATEMENT OF ASSURANCE.....	7
2.0 AUDIT OPINION.....	8
3.0 FINDINGS, RECOMMENDATIONS AND ACTION PLANS.....	9
3.1 CURRENCY SEIZURES	9
3.2 SAFEGUARDING OF ASSETS	11
3.3 MONITORING.....	14
3.4 RISK MANAGEMENT.....	16
3.5 EFFICIENCY	19
Appendix A – Key stakeholders and their involvement.....	21
Appendix B – Audit criteria.....	22
Appendix C – Seizure levels under the <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act</i>	23
Appendix D – Forms.....	24
Appendix E – Acronyms.....	24

EXECUTIVE SUMMARY

BACKGROUND

The Canada Border Services Agency Audit Committee approved an audit of currency seizures as part of the *Three-year Risk-Based Audit Plan for Fiscal Years 2010–2011 to 2012–2013*.

The Government of Canada introduced the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the Act) in 2002. The Canada Border Services Agency (the Agency) is responsible for administering and enforcing Part 2 of the Act, sections 12 to 39, which relate to the movement of currency and monetary instruments (e.g. cheques and bank drafts) across the border. This part of the Act came into effect January 6, 2003. Part 2 requires every person and entity to report the importation or exportation of currency or monetary instruments of \$10,000 CAD or more.

SIGNIFICANCE OF THIS AUDIT

Currency seizures represent an important tool for disrupting criminal activity. Of note is that the *2010–2011 Evaluation of the Integrated Proceeds of Crime Initiative* done by Public Safety Canada explains that to deter criminal activity a country must “create an environment that is hostile to organized criminals and crime groups” by depriving them of their resources, such as money.

This audit should be of interest to management because it assessed how the Agency managed seized monies, i.e. seized currency and monetary instruments, and penalties. Weaknesses in managing and monitoring currency seizures could result in a failure to detect and correct issues such as missing funds, which could result in liability and compromise the Agency’s reputation. The audit is also significant because it looked at the Agency’s risk-management approach to detecting cross-border movements of currency, and any weaknesses in this approach could hinder the Agency’s efforts to interdict the flow of illicit monies.

AUDIT OBJECTIVES AND SCOPE

The broad objective of the audit was to determine whether the Agency appropriately administers and monitors the Cross-Border Currency Reporting Program. The audit focussed on the management, deposit and interdepartmental settlement to Public Works and Government Services Canada of forfeited monies and collected penalties for the period from April 1, 2009, to March 31, 2010. The audit also examined whether monies were seized at an appropriate level and under the correct legislation, as well as monitoring and the risk management approach.

STATEMENT OF ASSURANCE

The Internal Audit and Program Evaluation Directorate of the Canada Border Services Agency has completed the Audit of Currency Seizures.

The audit approach and methodology followed the *International Standards for the Professional Practice of Internal Auditing* as defined by the Institute of Internal Auditors and the *Internal Auditing Standards for the Government of Canada* as required under the Treasury Board's *Policy on Internal Audit*.

AUDIT OPINION

For the period under audit 2009–2010, it was concluded with a high level of assurance that seizures and penalties were generally accounted for. However, deficiencies were noted in one region and were primarily related to controls over the safeguarding of currency.

Some currency seizure decisions by officers were not adequately documented, and the monitoring by management was not taking place as intended.

This translates to a moderate¹ risk exposure to the Agency.

KEY FINDINGS

Detailed guidance on indicators or criteria is necessary to assist border services officers in the identification of possible illicit monies. Updated guidance would better support the officers in the execution and the documentation of their decisions, and would mitigate the risk that illicit monies could be released.

A transaction audit of seizures for the 2009–2010 fiscal year indicated that most seizures had been properly accounted for. However, the whereabouts of a few forfeiture seizures and penalty payments could not be traced.

We noted weaknesses in key controls, such as reconciliation, designed to ensure that monies at ports of entry had been adequately safeguarded. Delays in reconciliation have resulted in a backlog of \$3.1 million dollars waiting to be transferred to Public Works and Government Services Canada.

Border services officers' narrative reports for level four seizures were adequately written, whereas reports for penalty seizures were not. This issue was not detected by monitoring processes.

Management of border risk related to illicit monies was adequate. However, between 2009–2010 and 2010–2011, the number of seizures carried out under the Act decreased nationally by one third. The audit found no evidence that the Agency had done an analysis of these statistics. Understanding trends would assist the Agency to allocate resources to areas of the greatest risk.

¹ Moderate risk exists where key controls are not operating as intended, are poorly designed or do not exist, and the related risk is more than inconsequential. However, compensating controls exist. Corrective action is needed to avoid sole reliance on compensating controls and/or ensure controls are cost effective.

Results of enforcement activities were not being reported upwards by two of three currency enforcement teams. Any weakness in the upward report of results could hinder the Agency's efforts to develop a future targeting program.

RECOMMENDATIONS

This report makes four recommendations. These relate to providing better guidance for border services officers on making and documenting their "seize or release" decisions; strengthening the Agency's controls to include monthly reconciliation procedures; improving the monitoring of currency seizures; and ensuring performance information is available for future decision making. Management plans to address each recommendation.

MANAGEMENT RESPONSE

The Programs, Operations and Comptrollership branches all agree with the recommendations set out in this audit.

The Vice-Presidents of the Programs, Operations and Comptrollership branches have consulted in order to determine the best way forward for the Agency in addressing the recommendations provided by Internal Audit.

All branches have acknowledged that some weaknesses have been identified which must be addressed through a Management Action Plan. This plan will include updates to the CBSA Enforcement Manual, sending reminders to front line operations on existing policies and procedures, increased monitoring of program results and enhanced reporting mechanisms to allow for further analysis of program trends. The three affected areas of the Agency have outlined the timelines within which changes will be implemented.

1.0 INTRODUCTION

1.1 BACKGROUND

The Canada Border Services Agency's Audit Committee approved an audit of currency seizures as part of the *Three-year Risk-Based Audit Plan for Fiscal Years 2010–2011 to 2012–2013*.

The Office of Primary Interest for this audit is the Detection Program, Emerging Border Programs Division, Border Programs Directorate, Programs Branch. The Offices of Secondary Interest are the Revenue Accounting and Reporting Division, Comptrollership Branch, and the Border Operations Directorate, Operations Branch, which includes the Regions.

The Government of Canada introduced the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (the Act) in 2002. The Canada Border Services Agency (the Agency) is responsible for administering and enforcing Part 2 of the Act, sections 12 to 39, which relate to the movement of currency and monetary instruments (e.g. cheques and bank drafts) across the border. This part of the Act came into effect January 6, 2003². Part 2 requires every person and entity to report the importation or exportation of currency or monetary instruments of \$10,000 CAD or more³. Multiple stakeholders are involved in administering Part 2 of the Act. **Appendix A** includes a table showing the key stakeholders and their principle involvement in administering this legislation.

Unreported monies⁴ may be seized at four levels – ranging from a penalty (levels one, two or three), to complete forfeiture (level four)⁵. Agency ports of entry deposit seized forfeited monies and penalties to Agency bank accounts. The Revenue Management Division subsequently sends the funds to the Seized Property Management Directorate, Public Works and Government Services Canada (PWGSC), as required by the Act.

In some cases, uncommon foreign currencies or monetary instruments (cheques or money orders) may be forwarded directly to PWGSC by courier. As well, monies suspected to be illicit⁶ may be transferred to police for further investigation. The *2010–2011 Evaluation of the Integrated Proceeds of Crime Initiative* done by Public Safety Canada explains that to deter criminal activity a country must “create an environment that is hostile to organized criminals and crime groups” by depriving them of their resources, such as money.

If a traveller does not agree with the seizure action, then that person may appeal to the Recourse Directorate. The Directorate then does an impartial third-party review of the seizure.

This program area has been previously audited by the Agency in 2005–2006 and by the Office of the Auditor General (OAG) in 2007. The OAG observed that “fairly large amounts of money

² CBSA Enforcement Manual, Part 2, Enforcement Priorities, Chapter 2, “Currency and Monetary Instruments”.

³ Reports are done manually by completing the applicable form, E677, E667 or E668, and submitting it to the Agency.

⁴ The expression “monies” refers both to currency and monetary instruments.

⁵ The expression “penalty seizure” refers to a seizure where the seized monies are offered for release upon payment of a penalty; these seizures are levels one, two and three. The expression “level four seizure” refers to seizures where the seized monies are not offered for release, but instead forfeited to the Government of Canada.

⁶ The expression “illicit monies” refers both to proceeds of crime and terrorist financing.

were seized with terms of release”⁷. The OAG commented that border services officers (hereafter referred to as “officers”) did not sufficiently document the rationale behind the decision to release the seized funds upon payment of a penalty. The officers believed that the process to support a level four seizure was cumbersome. The OAG concluded that they did not have assurance that officers were appropriately seizing proceeds of crime or terrorist financing. The OAG recommended that documentation of the decision to release large sums of non-reported monies upon payment of a penalty be improved.

1.2 RISK ASSESSMENT

The risk assessment conducted during the planning phase identified the following key risk areas:

Stewardship

- Ports of entry could fail to either deposit or forward funds in a timely manner, misplace or record monies incorrectly, or inappropriately administer monetary instruments, which could affect the dollar value of the seizure and/or the ability of the Agency to deposit the monies. The Agency’s ability to settle monies to PWGSC in a timely manner could also be compromised.

Policy and Program

- The application the Act may be inconsistent and may not be monitored by management; consequently control vulnerabilities may not be detected and corrected.
- Seizures are intended to disrupt the activities of criminals and terrorists. If proceeds of crime or terrorist financing are released instead of being seized, or if officers fail to document their “seize or release” decisions adequately, criminal or terrorist activities could continue.

Risk Management

- If an appropriately designed risk-based approach for detecting movements of cross-border currency is lacking, the Agency risks missing potential seizures. Where this occurs, it could affect program delivery or efficiency and result in a waste of government resources.

1.3 AUDIT OBJECTIVE AND SCOPE

The objective of the audit was to determine whether the Agency appropriately administered and monitored the Cross-Border Currency Reporting Program.

Specifically, the audit’s three lines of enquiry – Stewardship, Policy and Program, and Risk Management – determined whether:

- monies are kept secure, administered appropriately and transferred to PWGSC in a timely manner;
- the Agency seizes monies that may relate to proceeds of crime, money laundering and terrorist financing at the appropriate level and under the appropriate legislation; and

⁷ Office of the Auditor General report published October 2007, Chapter 5, “Keeping the Border Open and Secure”.

- The Agency uses an appropriate risk-based approach to manage the Cross-Border Currency Reporting Program in a consistent and efficient manner.

The audit focussed on the management, deposit and interdepartmental transfer to PWGSC of forfeited monies and collected penalties for the period from April 1, 2009, to March 31, 2010. The audit was national in scope, and seizures from all Regions were audited. The audit assessed the risk that officers were seizing proceeds of crime money at levels one, two or three, and subsequently releasing the seized money upon payment of a penalty.

The audit did not directly examine areas of lower risk or areas covered by previous audits. These included physical security, the collection and keying of declared currency reports, client service and the management of personal information, and the relationship between the Agency and external stakeholders.

1.4 APPROACH AND METHODOLOGY

The examination phase of this audit used the following approach:

- reviewing and analyzing legislation, policies, procedures, guidelines, and reports;
- analyzing data, reports and information from various sources such as the Integrated Customs Enforcement System, the Customs Commercial System, the Revenue Ledger, reports from PWGSC, the Customs Management Reporting System and the Occurrence Reporting System;
- interviewing stakeholders – specifically staff in the Programs, Comptrollership and Operations branches, and external stakeholders such as PWGSC;
- flowcharting and analyzing work-flow processes;
- documenting, analyzing and assessing the control framework for the presence, adequacy and appropriateness of preventive, detective and corrective controls, with respect to managing seized, retained or detained monies and collected penalties;
- surveying the Regions through a written questionnaire;
- obtaining and analyzing deposit information and/or proof of disposition (i.e. shipment to PWGSC via courier); and
- reviewing and tracing seizures from inception to settlement to PWGSC and analyzing anomalies to identify system and administration weaknesses.

1.5 AUDIT CRITERIA

Appendix B lists the audit's lines of enquiry and criteria.

1.6 STATEMENT OF ASSURANCE

The Internal Audit and Program Evaluation Directorate of the Canada Border Services Agency has completed the Audit of Currency Seizures.

The audit approach and methodology followed the *International Standards for the Professional Practice of Internal Auditing* as defined by the Institute of Internal Auditors and the *Internal Auditing Standards for the Government of Canada* as required under the Treasury Board's *Policy on Internal Audit*.

2.0 AUDIT OPINION

For the period under audit 2009–2010, it was concluded with a high level of assurance that, seizures and penalties were generally accounted for. However, deficiencies were noted in one region and were primarily related to controls over the safeguarding of currency.

Some currency seizure decisions by officers were not adequately documented, and the monitoring by management was not taking place as intended.

This translates to a moderate⁸ risk exposure to the Agency.

⁸ Moderate risk exists where key controls are not operating as intended, are poorly designed or do not exist, and the related risk is more than inconsequential. However, compensating controls exist. Corrective action is needed to avoid sole reliance on compensating controls and/or ensure controls are cost effective.

3.0 FINDINGS, RECOMMENDATIONS AND ACTION PLANS

3.1 CURRENCY SEIZURES

Audit criterion: *If monies are suspected as being proceeds of crime or terrorist financing, the Agency should either seize the monies, or sufficiently document in a report any decision to release them.*

An examination of penalty seizure reports, intelligence reports, and a survey of the Regions indicated that this criterion was partially met.

The audit found that some decisions to release seized monies lacked support. These findings reflect previous observations by the Office of the Auditor General where the OAG recommended that officer reports be improved to better support their decisions to release large sums of non-reported monies upon payment of a penalty.

Indicators of suspected proceeds of crime

According to government-wide policy, assets may be seized at the border if they are suspected to be proceeds of crime or terrorist financing, pending investigation. Accordingly, monies being imported or exported may be seized at the border if the officer suspects they are illicit, or if the monies were not reported. In certain situations, monies suspected to be illicit may not be seized under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*. In these cases the officer may consider seizing them under the *Criminal Code*.

A suspicion that monies are illicit is based on indicators, such as the observations of an officer and their knowledge of currency smuggling. Officers are not obligated to prove the monies are illicit; rather they must have a reasonable suspicion based on grounds they can articulate.

A combination of indicators may lead an officer to suspect monies are illicit. For example:

- The cash: cash that is worn, older series bills or not in the denomination of the currency of the destination country are indicators that monies may be illicit. Another indicator is the amount of cash a traveller is carrying. It may be too high, considering the stated purpose of the trip.
- The destination: a traveller going to or coming from a known drug source or tax haven country may be of interest.
- The traveller: monies may be of interest if, for example, the traveller is nervous or untruthful, even after the cash is discovered; the traveller does not know how much money they are carrying; the amount of money carried is not consistent with their income or bank account; the traveller cannot substantiate the source of the money; or intelligence information raises a flag such as a previous seizure or criminal conviction.

Decisions to release monies

The Agency is a key player for the Government of Canada in the seizure of monies suspected to be illicit. Over the past three fiscal years, officers made 467 level four seizures on monies suspected to be illicit. The value of these seizures was over \$16 million.

A review of officer reports for level four seizures demonstrated that reports for level four seizures were, for the most part, well documented. Three quarters of level four currency seizures were appealed for 2009–2010, and only 10% were overturned.

In examining the currency seizure process, the audit reviewed the decisions of officers on whether to hold or release monies suspected to be illicit and the management's monitoring of these decisions. An overriding principle is that the Agency should ensure that seizures comply with government-wide policy to seize illicit monies.

To assess whether officers' narrative reports for penalty seizures had supported their release decisions, a sample of 72 reports on penalty seizures were reviewed. The audit found that 56 reports (78%) did not present sufficient information to support a conclusion that the monies were not proceeds of crime or terrorist financing.

As well, intelligence reports on potential proceeds of crime were also reviewed over a two-month period. In a number of cases, officers referred to multiple indicators suggesting that the monies in question may have been illicit yet the monies had been released.

According to the Act, an officer can seize unreported monies with a value equal to or greater than \$10,000 CAD. Seizures of illicit monies are not limited to the Act. They may also be seized under the *Criminal Code*, which has no threshold of \$10,000 CAD and allows even reported monies to be seized. These seizures are done in consultation with the police. In a small number of cases, amounts under the \$10,000 CAD threshold had been improperly seized under the Act rather than the *Criminal Code*. By not taking advantage of the provisions of the *Criminal Code*, the Agency may be losing opportunities to interdict suspected illicit monies on behalf of the Government of Canada.

Guidance for conducting seizures

The CBSA Enforcement Manual provides the officers with guidance on the currency program and conducting currency seizures. We found that the guidance could be improved to better support the enforcement of the legislation, including the execution and documentation of seizures.

The Enforcement Manual discusses the need to establish reasonable grounds for seizing suspected proceeds of crime. However, the manual does not provide information on what those grounds should be (the indicators), or guidelines on what information should be included in the seizure narrative report to support the officer's decision. Further clarity on when to use the Act versus the *Criminal Code* would support the use of the appropriate legislation in undertaking a seizure action.

Detailed guidance is all the more important given that officers do not routinely conduct currency seizures. Therefore, they must have crystal clear written instructions and this may mitigate the risk that illicit monies could be released.

Recommendation 1:

The Vice-President of the Programs Branch should update the guidance in the CBSA Enforcement Manual to support the officers when making their seizure and release decisions. Guidance should clarify the use of the Criminal Code versus the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and include proceeds of crime indicators and guidelines for writing narrative reports.

Management Action Plan	Completion Date
The Agency agrees with this recommendation.	
1.1 The Programs Branch will introduce the following guidelines by means of an Enforcement Bulletin: <ul style="list-style-type: none"> • clarification on the use of the <i>Criminal Code</i> versus the <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act</i>; • guidelines for writing narrative reports, including specific examples for each seizure level; • guidelines on proceeds of crime indicator that would help support seizure decisions by officers. 	March 31, 2012 May 31, 2012 June 30, 2012
1.2 The Programs Branch will incorporate the above mentioned guidelines into the <i>CBSA Enforcement Manual</i> .	September 30, 2012
1.3 The Programs Branch, Detection Programs, will complete a one year assessment of currency seizure narratives (after guidance has been given to the field) to determine if seizures for currency are being completed at the right level (seizure levels one to four) and under the right legislation.	June 30, 2013

3.2 SAFEGUARDING OF ASSETS

Audit criterion: *The Agency should ensure that forfeited monies and penalties are protected from loss and fully recorded and accounted for.*

The results of a transaction audit of currency seizures indicate that this criterion was partly met. Monies were protected from loss, with the exception of one region.

Procedures for handling seizures

The Agency can seize unreported monies at four levels – ranging from three penalty levels to complete forfeiture. The officer establishes the appropriate seizure level through interviewing the

traveller, examining their baggage and vehicles, and accessing information from electronic sources.

If the officer determines that a level one, two or three seizure is appropriate (as outlined in **Appendix C**), a penalty is levied and the traveller has two options: 1) pay the penalty and the seized monies are returned to the traveller; or 2) not pay the penalty. In the latter case, the seized monies are forfeited and are deposited into the Agency's bank account.

If the officer suspects that the monies are proceeds of crime or terrorist financing, then a level four seizure is done, and the monies are kept as forfeit. Level four seized monies may be handled in one of three ways:

1. deposited to an Agency bank account, recorded as revenue for the Agency and then transferred to PWGSC as required by the Act;
2. forwarded directly to PWGSC by courier, e.g. in the case of monetary instruments such as cheques or money orders; or
3. transferred to a police agency.

All level four seizures are investigated by the appropriate law-enforcement agency.

As part of the seizure process, the officer enters pertinent details about the seizure into the Integrated Customs Enforcement System (ICES). This information includes details about the traveller and the seized currency and/or monetary instruments.

After monies have been seized or a penalty collected, the funds are deposited at a financial institution. A Revenue Report is prepared and recorded in the Customs Commercial System (CCS) as per the Agency's *Comptrollership Manual*.

Controls for safeguarding seized monies

Controls may be preventive or detective. Preventive controls are designed to prevent errors from occurring. Detective controls are designed to identify instances in which errors have occurred.

In looking at the extent to which the Agency had adequately safeguarded and accounted for seized monies, the audit team reviewed 100% of the level four seizures for the 2009–2010 fiscal year. This represented 197 seizures. With respect to penalty seizures, a sample was selected. The objective was to trace monies relating to level four seizures and penalties in order to determine if the monies were dealt with appropriately.

Level four seizures. With respect to level four seizures, the audit team confirmed that in 175 cases (89%) the Agency had followed proper procedure and the seized funds had been handled appropriately. In 22 cases (11%), documentation was insufficient to enable us to confirm whether the funds had been deposited and recorded as required. Of note is that all of these anomalies were located in one Region with 21 (of 22) occurring at one office in this Region.

Penalties. With respect to penalties, a total of 2,281 penalties were issued in 2009–2010. In 1,897 cases (83%), the auditors confirmed that the amounts had been deposited and recorded correctly. However, in the remaining 384 cases – representing \$188,500 in penalties levied – the audit team could not readily confirm that all penalties levied had been deposited. Examination of a sample of penalty seizures revealed a number of possible reasons for this. The most frequent reason was that the transaction had been coded incorrectly (i.e. wrong revenue code or wrong

seizure number). Other reasons included that funds had possibly not been deposited, the funds had not been recorded as revenue and/or the penalty had not been paid.

We determined that some key controls were insufficient. One such key control was reconciliation. The Comptrollership Branch had not regularly reconciled amounts shown in the ICES, Revenue Reports and deposits. Monies must be located and reconciled as a prerequisite to transferring these funds to PWGSC. Delays in reconciling have resulted in a backlog, currently valued at \$3.1 million in monies waiting to be transferred.

Reconciliation should occur at least monthly. It is our understanding that the Comptrollership Branch has since implemented procedures to address the backlog.

We also noted that several Agency offices had not been keeping revenue records in accordance with the CBSA's *Comptrollership Manual*. For example, bank-stamped deposit slips (or equivalent) were missing or Revenue Report screens were not being printed and attached to the records. Therefore, Agency management in those offices could not demonstrate that they had verified on a daily basis that the revenue had been accurately recorded in the CCS.

While the dollar amount of these cases is low, it exposes the Agency to risk. There are key controls that need to be implemented. In general, the auditors observed that management at some Agency ports of entry did not always implement the necessary controls in regards to safeguarding the monies, and the preparation and filing of Revenue Reports.

Recommendation 2:

The Vice-President of the Comptrollership Branch should strengthen the key preventive and detective controls to ensure monies at the ports of entry are adequately safeguarded. Reconciliations should be done monthly between the ICES, the Revenue Reports and the deposits. All outstanding amounts should be followed up with Operations Branch in a timely manner.

Management Action Plan	Completion Date
The Agency agrees with this recommendation.	
2.1 The Comptrollership Branch, in consultation with the Operations Branch, will issue a memorandum to all Regions as a reminder of the procedural requirements documented in the <i>CBSA Enforcement Manual</i> for the correct handling, accounting and reporting of seized currency.	October 31, 2011
2.2 The Comptrollership Branch is currently reconciling daily the cash deposits on a national level, which includes seized currency. In addition, the Comptrollership Branch has in place procedures, currently being performed, for the monthly reconciliation of seized currency, as recorded in the ICES.	Implemented

<p>2.3 To improve the timeliness of reconciliations, the Comptrollership Branch will:</p> <ul style="list-style-type: none"> • advise the Regions that data and support material for the level four seizures are to be forwarded monthly to Headquarters; • develop, in consultation with the Operations and Programs branches, a service standard for the timely resolution of outstanding items affecting the reconciliation of seized currency; • document these new procedures for inclusion in the <i>CBSA Enforcement Manual</i>; and • track ports of entry compliance with the implemented controls to ensure procedures and policies are being followed. 	<p>October 31, 2011</p>
<p>2.4 The Comptrollership Branch, in consultation with the Operations Branch, will establish a mechanism to report quarterly (aging report) to the Comptrollership Standing Committee, and to senior and regional management, on status of reconciliations. Monitoring the notes associated with each outstanding currency seizure will ensure procedures and policies are being followed.</p>	<p>October 31, 2011</p>

3.3 MONITORING

Audit criterion: *Program management should have clearly defined responsibilities for monitoring the currency program and reporting on results.*

This criterion was not met.

A key control for a program is monitoring it to provide information on how well it is working.

The Agency has established processes to monitor currency seizures.

- Seizures are automatically placed on an electronic review work list in the ICES. Superintendents at ports of entry are required to review each seizure action and the supporting narrative report within five working days.
- Ports of entry superintendents or cash supervisors are required to review and sign off deposit information and Revenue Reports.
- The *Process Monitoring Framework* established by Operations Branch contains a module on the Cross-Border Currency Reporting Program.

The audit team examined the work lists in the ICES and found that, at some ports of entry, Superintendents had not completed their reviews on a timely basis. This issue was not widespread throughout the Agency. However, at fourteen ports of entry the timeliness of the reviews warrants management's attention. As well, the quality of the review by superintendents presented some concern. As noted above, superintendents must review the officers' narrative

reports supporting their decision to seize and at what level. As noted in section 3.1, in many cases the narrative reports did not support the action of a penalty seizure.

The Agency offices in the Regions are required to carry out a self-report monitoring exercise at least once each year through the Process Monitoring Framework (PMF). PMF procedures include ensuring that monies are kept safe and accounted for, that sufficient explanation is provided in the ICES narrative reports, and that a transfer document is completed when transferring monies to the police or bank. The audit team obtained all PMF reports from 2008 onwards relating to the Cross-Border Currency Reporting Program. While superintendents noted certain deficiencies in the PMF reports, they did not mention many of the issues identified in this audit.

Recommendation 3:

The Vice-President of the Operations Branch, in consultation with the Comptrollership and Programs branches, should develop an adequate regime for monitoring currency seizures and regularly reporting the results to regional and Headquarters management.

Management Action Plan	Completion Date
The Agency agrees with this recommendation.	
3.1 The Operations Branch, in consultation with the Programs and Comptrollership branches will review module 2.2 of the Process Monitoring Framework to ensure that existing activities being monitored are relevant.	October 31, 2011
3.2 The Operations Branch will update the Process Monitoring Framework as required to reflect or add further clarity related to the activities noted as deficient in the audit, and incorporate the observations of this and future audits into Tier Three Process Monitoring Framework reviews.	March 31, 2012
3.3 The Programs and Operations branches will jointly institute a regular operational and program monitoring regime by alternating the following measures on a quarterly basis: 1) an analysis of random samplings of currency seizures (this will be done from Headquarters – no site visit required); and 2) a joint field visit to selected location(s) to conduct an on-site analysis of currency seizure processing. The results will be reported to regional and Headquarters management on a quarterly basis. This monitoring will review such things as timeliness of seizure reviews, accounting of currency process, quality of narrative reports, and responsibilities set out in the <i>CBSA Enforcement Manual</i> .	Commencing in December 2011, and then ongoing.

3.4 The Programs Branch will:	
3.4.1 Review and update the reporting requirements for the Cross-Border Currency Reporting Teams (the Teams).	March 31, 2012
3.4.2 Create a new reporting tool for the Teams to report to Headquarters on a monthly basis. This tool will demonstrate their relevance as well as their performance in terms of effectiveness, efficiency and economy.	March 31, 2012
3.4.3 Introduce the new reporting guidelines and tool to the Teams by means of an Enforcement Bulletin.	April 30, 2012
3.4.4 Institute a regular reporting regime incorporating input from internal stakeholders to demonstrate the Cross-Border Currency Reporting Program's performance on a quarterly basis.	September 30, 2012
3.4.5 Monitor the statistics to ensure that the program area is receiving greater than 95% of all expected reports (as outlined in 4.2) as well as ensuring that quarterly reports are being sent out to all parties involved.	September 30, 2012

3.4 RISK MANAGEMENT

Audit Criterion: *The Agency should use a risk-based approach to managing its resources and activities relating to seizing monies that are suspected to be illicit.*

Overall, this criterion was met. However, there were areas for improvement.

The Agency has been using a number of approaches to manage risk related to the cross-border movement of illicit monies and to ensure that the seizure program is being delivered consistently. These approaches include:

- Encouraging inbound travellers to report currency and monetary instruments they are carrying through routine questioning of travellers either verbally or on their declaration card (E311⁹).
- Deploying specialized teams at major airports to interdict outbound illicit monies. These teams are deployed on a daily basis by selecting flights based on the team's knowledge of local currency smuggling trends, such as flights which have yielded prior enforcement, destination to drug source countries or to transit airports. There is no pre-advance selection of flights except when specific intelligence information is available.
- Placing currency-detector dogs at the highest-risk locations as a deterrent and to detect currency.
- Gathering intelligence and issuing border lookouts for suspected currency smugglers.

⁹ The E311 is the declaration card filled out by inbound travellers in the air, rail and marine modes. It contains a specific question on the value of currency and monetary instruments.

- Targeting inbound passengers for suspected non-compliance, using the ICES to keep electronic records of seizures and to communicate border lookouts and targets to front-line officers.
- Participation in a number of joint initiatives with key partners. For example the government-wide Integrated Proceeds of Crime initiative, joint operations with Canadian police agencies, and national and international currency blitzes.

In October 2008 the Financial Action Task Force evaluated Canada’s efforts in relation to *Anti-Money Laundering and Combating the Financing of Terrorism*. This Evaluation rated Canada as fully compliant with Special Recommendation IX (SRIX). The intent of SRIX is to ensure that countries have cross-border measures to detect and confiscate illicit monies, both inbound and outbound, including the authority to make inquiries on a random, targeted or intelligence basis.

Only three countries (including Canada) out of 34 are rated as fully compliant with SRIX. The evaluation further comments that “Canada has a comprehensive system to protect the physical cross-border transportation of currency and monetary instruments.”

The current risk-based approach to managing the Cross-Border Currency Reporting Program was sufficient; however, there were areas for improvement.

Decrease in the number of seizures

Between 2009–2010 and 2010–2011, the overall number of seizures carried out under the Act decreased nationally by one third. As shown in Table 1, level four seizures decreased by half.

Table 1

2008–2009		2009–2010		2010–2011		Total	
# of seizures	\$ of seizures						
171	\$7,574,513	197	\$6,060,071	99	\$2,582,203	467	\$16,216,787

The audit could not find evidence that the Agency had done an analysis of these statistics to determine why this trend has occurred. Without this analysis, the Agency cannot know whether the decrease is the result of, for example, the “deterrence factor,” a more compliant travelling public or more-sophisticated approaches to currency smuggling.

The *2010–2011 Evaluation of the Integrated Proceeds of Crime Initiative* done by Public Safety Canada commented that “criminals have become more sophisticated and have learned to mitigate the impact of new laws”. Understanding the reasons for the decrease could help the Agency to better assess and report on the currency seizure program, and to allocate resources to the areas of greatest risk.

Targeting

The Agency has created outbound Cross-Border Currency Reporting Teams at the major international airports in Vancouver, Toronto and Montréal. These teams fulfill a dual role:

- 1) client outreach to encourage passengers to self-report any monies they are carrying, and
- 2) seizing monies where warranted and permitted by law.

The Agency intends to eventually institute a targeting approach for the outbound currency program as part of a reorganized national targeting program. However, at the time of the audit, information on the existing outbound program – such as enforcement results by flight – was not being collected and analyzed. Of note is that currency teams at only one of the three airports were reporting enforcement results upwards, and no teams were reporting these results by flight.

This information will be critical to identifying areas of greatest risk, which is central to building any future national outbound targeting program. Accordingly, until it is available, it will be difficult to develop a national targeting approach for outbound currency.

Recommendation 4:

The Vice-President of the Programs Branch should review the performance information for the currency seizure program to ensure relevant and accurate information and analysis is available for operational and future decision making.

Management Action Plan	Completion Date
The Agency agrees with this recommendation.	
<p>The Programs Branch will:</p> <p>4.1 Review and update the reporting requirements for the Cross-Border Currency Reporting Teams (the Teams).</p> <p>4.2 Create a new reporting tool for the Teams to report to Headquarters on a monthly basis. This tool will demonstrate their relevance as well as their performance in terms of effectiveness, efficiency and economy.</p> <p>4.3 Introduce the new reporting guidelines and tool to the Teams by means of an Enforcement Bulletin.</p> <p>4.4 Institute a regular reporting regime incorporating input from internal stakeholders to demonstrate the Cross-Border Currency Reporting Program’s performance on a quarterly basis.</p> <p>4.5 Monitor the statistics to ensure that the program area is receiving greater than 95% of all expected reports (as outlined in 4.2) as well as ensuring that our quarterly reports are being sent out to all parties involved.</p>	<p>March 31, 2012</p> <p>March 31, 2012</p> <p>April 30, 2012</p> <p>September 30, 2012</p> <p>September 30, 2012</p>

3.5 EFFICIENCY

Audit criterion: *The program should be operating efficiently.*

This audit could not conclude on efficiency because efficiency benchmarks had not been established. Some information is provided below on program costs and performance to further advance the discussion on efficiency.

The Agency receives funding of \$7.5 million each year for the Cross-Border Currency Reporting Program. It is divided between Agency Headquarters and the Regions in the amount of \$2.8 million and \$4.7 million, respectively. These monies fund a variety of activities, such as the collection and processing of voluntary currency reports, outbound currency teams, currency detector dogs and the increased intelligence gathering workload. The funding at Headquarters is spread among a number of branches.

While the allocations were clear, the actual expenditures were not. The annual expenditure amounts could not be confirmed during the audit by Headquarters and regional offices because staff do not specifically track time spent on this activity. In some cases, such as the inbound process, tracking would be difficult because officers carry out a number of enforcement and facilitation activities concurrently.

Border services officers play a major enforcement role in detecting undeclared monies resulting in a currency seizure activity. For the fiscal years 2009–2010 and 2010–2011, officer referrals led to approximately 90% of the penalty seizures and about 80% of the level four seizures. Other referrals such as targeting or intelligence were negligible for currency seizures.

At the time of the audit, the Agency had eight currency detector dog teams at major airports and border crossings across Canada. There was a team in each region except Atlantic, and two teams in the Greater Toronto Area. Each team costs \$130,000 per year, and the teams are mobile and available to work within various ports within the region.

For the fiscal years 2009–2010 and 2010–2011, canine referrals led to approximately 4% of the penalty seizures and about 8% of the level four seizures. The number of canine referral seizures varied significantly across Regions, with Pacific and Greater Toronto Area combining to have over 90%. Detector dog teams act as a deterrent, and contribute to educating travellers with respect to currency reporting requirements.

Cross-Border Currency Reporting Teams at the three highest risk and busiest airports have been established. The purpose of the teams is to facilitate and enforce the Act on the export of monies. According to the seizure statistics reported in the ICES, the number of outbound penalty seizures at the three airports was comparable. Level four seizures at one airport were low in comparison to the results at the other two airports for fiscal years 2009–2010 and 2010–2011. We noted that the airport with lower results for level four seizures had been provided funding for a dedicated outbound currency team; however, the funds were allocated to an enforcement team with a wider mandate.

Of note is that while the Pacific and Greater Toronto Area Regions received approximately 50% of the regional funding for the program, in the fiscal years 2009–2010 and 2011–2012 they made about 70% of the penalty seizures (levels one, two and three) and 75% of the level four seizures.

Appendix A – Key stakeholders and their involvement

Key stakeholders	Principle involvement
Operations Branch – Regions – Ports of entry	<ul style="list-style-type: none"> • Receipt of voluntary currency reports, and forwarding reports to Headquarters. • Retention/detention of reported monies. • Seizure of non-reported monies. • Safe-keeping and deposit of forfeited monies. • Forwarding by courier of monetary instruments (which cannot be deposited) to PWGSC.
Operations Branch – Regions – Intelligence	<ul style="list-style-type: none"> • Intelligence and operational support to the ports of entry. • Intelligence officers working within Integrated Proceeds of Crime Units (comprised of Agency intelligence officers and police) are responsible for facilitating the exchange of information and intelligence between the Agency and other enforcement partners.
Police	<ul style="list-style-type: none"> • Further investigation and prosecution.
Operations Branch – Headquarters	<ul style="list-style-type: none"> • Operational support to the Regions and ports of entry.
Programs Branch	<ul style="list-style-type: none"> • Program development and support. • Keying of currency reports – for the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC).
Recourse Directorate	<ul style="list-style-type: none"> • Adjudication of seizure appeals.
Comptrollership Branch	<ul style="list-style-type: none"> • Interdepartmental settlement of deposited monies to PWGSC.
Public Works and Government Services Canada – Seized Property Management Directorate	<ul style="list-style-type: none"> • Holding and management of forfeited monies pending the appeal period and/or appeal.

Appendix B – Audit criteria

Lines of enquiry	Audit criteria
1. Stewardship	1.1 Transactions should be recorded accurately, in a timely manner, and in compliance with legislation.
	1.2 Assets (forfeited seized monies and penalties collected) should be protected from loss.
2. Policy and program	2.1 All managers should be responsible for monitoring the Cross-Border Currency Reporting Program on a continuous basis. Monitoring should be planned, structured and documented, and the results should be reported upwards.
	2.2 Proceeds of crime or terrorist financing monies should be seized. Penalty seizures of large amounts of non-declared monies should be sufficiently supported in officers' reports.
3. Risk management	3.1 Management should use a risk-based approach to targeting cross-border currency movements, and communicate the results.
	3.2 The currency seizure program should be managed consistently and efficiently across Canada.

Appendix C – Seizure levels under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*

The following seizure levels are applied on a case-by-case basis¹⁰:

Level one seizures	<p>\$250 penalty in the case of a person or entity who ...</p> <ul style="list-style-type: none"> • has not concealed the currency or monetary instruments; • has made a full disclosure of the facts concerning the currency or monetary instruments on their discovery; and • has no previous seizure under the Act.
Level two seizures	<p>\$2,500 penalty in the case of a person or entity who ...</p> <ul style="list-style-type: none"> • has concealed the currency or monetary instruments, other than by means of using a false compartment in a conveyance; or • has made a false statement with respect to the currency or monetary instruments; or • has a previous seizure under the Act, other than in respect of any type of concealment or for making false statements with respect to the currency or monetary instruments.
Level three seizures	<p>\$5,000 penalty in the case of a person or entity who ...</p> <ul style="list-style-type: none"> • has concealed the currency or monetary instruments by using a false compartment in a conveyance; or • has a previous seizure under the Act for any type of concealment or for making a false statement with respect to the currency or monetary instruments.
Level four seizures	<p>Forfeit ...</p> <ul style="list-style-type: none"> • officers who suspect on reasonable grounds that non-reported currency or monetary instruments are proceeds of crime or terrorist finances may seize currency or monetary instruments with no terms of release.

¹⁰ CBSA Enforcement Manual, Part 2, Enforcement Priorities, Chapter 2, “Currency and Monetary Instruments”.

Appendix D – Forms

E311	– CBSA Declaration Card
E677	– <i>Cross-Border Currency or Monetary Instruments Report – Individual</i>
E667	– <i>Cross-Border Currency or Monetary Instruments Report – General</i>
E668	– <i>Cross-Border Currency or Monetary Instruments Report made by Person in Charge of Conveyance</i>
K19C	– <i>Seizure Receipt Currency and Monetary Instruments</i>
K19C-1	– <i>Currency Inventory Sheet</i>
K24	– <i>Non-Monetary General Receipt</i>

Appendix E – Acronyms

Agency	– Canada Border Services Agency
OAG	– Office of the Auditor General of Canada
PWGSC	– Public Works and Government Services Canada
HQ	– Agency Headquarters
Regions	– Regions of the Canada Border Services Agency
Teams	– Cross-Border Currency Reporting Teams
FINTRAC	– Financial Transactions and Reports Analysis Centre of Canada
Act	– <i>Proceeds of Crime (Money Laundering) and Terrorist Financing Act</i>
Officer	– Border services officer
CAD	– Canadian dollar
CCS	– Customs Commercial System
ICES	– Integrated Customs Enforcement System
PMF	– Process Monitoring Framework
SRIX	– Special Recommendation IX, issued by the Financial Action Task Force