Audit of Accounts Receivable

Internal Audit Report

July 2011

Canada Border Services Agency
Agence des services frontaliers du Canada

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EXECUTIVE SUMMARY

BACKGROUND

In 2009–2010, the Canada Border Services Agency (CBSA) collected more than $21 billion in tax revenues, with taxes receivable (i.e. accounts receivable) totalling more than $1 billion at March 31, 2010. The Comptrollership Branch carries out many of the activities related to accounts receivable. However, the ports of entry are responsible for other key accounts receivable activities, such as preparing invoices and cash receipt documents, and transferring this information to Canada Revenue Agency (CRA) Collections, where it is recorded in the accounting system as accounts receivable.

A Memorandum of Understanding (MOU) exists between the CBSA and CRA that requires CRA to record accounts receivable information in the Temporary Accounts Receivable System (TARS), pursue collections from Canadian importers, and recommend debt write-offs to the CBSA Debt Write-Off Committee.

The Agency's existing accounts receivable ledger system is the Temporary Accounts Receivable System (TARS), which comprises five, stand-alone, unrelated units located across Canada. It is not integrated, and it is predominantly manual. The non-integrated nature of TARS, and the fact that it is predominately manual, gives rise to notable control framework concerns. A new, automated accounts receivable system, the Accounts Receivable Ledger (ARL), is currently under development and is scheduled to replace TARS in April 2013. The goal of the ARL project is to strengthen the CBSA's financial controls and reporting framework for accounts receivable, as well as improve the service the CBSA provides to Canadian businesses.

The audit committee approved an audit of accounts receivable as part of the Three-Year Risk-Based Audit Plan for 2009–2010 to 2011–2012.

SIGNIFICANCE OF THIS AUDIT

The Agency collects billions of dollars in tax revenues each year. In 2009–2010, approximately $320 million in duties and taxes were sent to the Agency's service provider, CRA, for processing. The current processes and systems in place are manually intensive and non-integrative and as a result, present significant control framework concerns for the CBSA. The Agency has recognized the need to strengthen financial controls and the reporting framework in place, as they relate to accounts receivable, and is currently developing the ARL to address these concerns. Accordingly, this audit is of importance as it provides assurance on the extent to which the new ARL project will address current weaknesses in the accounts receivable process. It also identifies risks in the interim period to which the CBSA remains exposed.

AUDIT OBJECTIVES AND SCOPE

The audit included two objectives:

1. To assess the current accounts receivable processes and controls in place at the Agency, including:
    a. the preparation and processing of cash receipts and invoices;
    b. the controls relating to the security of TARS data;
    c. the procedures for monitoring accounts receivable balances and for writing off bad debts; and
    d. the processes for calculating interest on overdue accounts.
2. To assess the extent to which the new ARL system will address significant deficiencies that may exist in the current accounts receivable system.

The audit did not include a review of the assessment process, which determines the amount of duties and taxes owed to the Agency. The Office of the Auditor General (OAG) examined this process as part of its fall 2010 Report to the Auditor General of Canada.

AUDIT OPINION

With respect to current accounts receivable processes and controls, the audit found a number of issues of a non-financial nature in the preparation and processing of cash receipts and invoices which are considered low risk but create inefficiencies and negatively impact service provided to Canadian businesses. The audit found controls related to the security of TARS data and procedures for writing off bad debts to be adequate and makes recommendations related to accounts receivable monitoring activities and the calculation of interest on overdue accounts.

In addition, the audit concludes that the deficiencies noted in the accounts receivable process should be addressed by the new ARL system.

KEY FINDINGS

Some weaknesses occurred at the port of entry level. The most significant related to inaccuracies of a non-financial nature in preparing invoices and cash receipt documents by the ports of entry. We also noted deficiencies related to the completeness and timeliness of accounts receivable information that the ports of entry sent to the CRA office. These deficiencies resulted in increased workloads for CRA staff in following up and correcting them and resulted in delays in collecting monies owed. While the audit did not find that these errors had resulted in a loss of revenue, they do negatively affect the service which the Agency provides to Canadian importers.

Audit testing concluded that there were adequate safeguards to protect against unauthorized access to TARS.

We found that the Agency appropriately reviews the list of debt write-offs that are recommended by the CRA. Regarding monitoring of accounts receivable, the Agency has recently implemented some monitoring procedures; however, more rigor is required. The new ARL project should also provide comprehensive information to management to permit more active monitoring of AR.

The roles and responsibilities of the various parties involved in calculating and collecting interest, and the policy and procedures for determining when interest begins to accrue on overdue accounts were unclear. As a result, policies and procedures are applied inconsistently at the ports of entry offices. This represents a risk that the Agency could either under-charge or over-charge interest to importers. It also has negative implications for the service the Agency provides to Canadian importers.

When the new ARL system becomes operational in 2013, it is expected to address the weaknesses in TARS that the audit identified, including those listed above.

RECOMMENDATIONS

The audit has made recommendations on:

1. improving the accuracy and timeliness of cash receipt and invoice documents sent to CRA;
2. enhancing the rigor of the accounts receivable monitoring process; and
3. clarifying and implementing the policy related to the calculation of interest on overdue accounts to ensure it is appropriately developed within the ARL.

STATEMENT OF ASSURANCE

The audit engagement was planned and conducted in accordance with the *Internal Auditing Standards for the Government of Canada.*

MANAGEMENT RESPONSE

The observations, comments and recommendations contained in the audit report are reasonable and fair. Prior to the implementation of the ARL, the proposed Management Action Plan will focus on interim solutions that will address issues and risks identified in the audit report. Furthermore, active monitoring of the ARL Project will ensure that gaps and weaknesses are addressed. The recommendations and the proposed Management Action Plans are detailed within the audit report.

1.0 INTRODUCTION

1.1 BACKGROUND

The Canada Border Services Agency (CBSA) became an independent entity in December 2003. The Agency's mandate includes, but is not limited to, assessing and collecting duties and taxes on goods imported into Canada. In 2009–2010, the Agency collected more than $21 billion in tax revenues, with taxes receivable (i.e. accounts receivable) totalling over $1 billion at March 31, 2010.

The CBSA's current Temporary Accounts Receivable System (TARS) is not integrated — i.e. the system has five stand-alone units located across Canada — and it is predominantly manual. For example, significant components of the CBSA's invoicing, cash collections, and various ledger reconciliation processes are manually performed.

The non-integrated nature of TARS, and the fact that it involves many manual processes, represents notable control framework concerns. A new, automated accounts receivable system, the Accounts Receivable Ledger (ARL), is currently under development and is scheduled to replace TARS in April 2013. The ARL project is expected to address existing accounts receivable (AR) and revenue-processing difficulties and improve internal controls by integrating and standardizing program functions (i.e. all receipt and invoice forms will be automated), maintaining information by client accounts, and controlling accounts receivable information. The goal of the ARL project is to provide the CBSA with a fully integrated client-based accounting system.

When it becomes operational, the ARL will improve service to Canadian importers by, for example, introducing electronic payment remittances and providing a more efficient and accurate process for maintaining and managing current accounts receivable by client. At the same time, it will strengthen the CBSA's financial controls and reporting framework.

Although the CBSA is the owner of the Temporary Accounts Receivable System legacy system, Canada Revenue Agency (CRA) operates it. An MOU between the CBSA and Canada Revenue Agency (CRA) requires CRA to record accounts receivable information in TARS, pursue collections from Canadian importers, and recommend debt write-offs to the CBSA Debt Write-Off Committee.

The CBSA is responsible for preparing invoices and cash receipt documents at the Port offices, and for sending these invoices and cash receipt forms to CRA Collections to be recorded in TARS. However, it is the CBSA Revenue Accounting and Reporting Division (RARD) that is responsible for substantiating the accounts-receivable balance and for determining the appropriate accrual entries. Due to the non-integrative nature of the five TARS units, the system does not gather and integrate data from the separate units and therefore a great deal of manual processing is needed by RARD.

The audit committee approved an audit of accounts receivable as part of the Three-Year Risk-Based Audit Plan for 2009–2010 to 2011–2012.

1.2 RISK ASSESSMENT

The following key risks were identified during the planning phase of the audit:

Preparation and Processing of Cash Receipts and Invoices

- The preparation of cash receipts and invoice documentation at the ports of entry is predominately manual, which creates a risk that errors could be made. The preparation of these documents is also a key early stage in the AR process. Additionally, all documents prepared may not be transmitted in a timely manner from the ports of entry to CRA, or at all. These weaknesses pose the risk of lost revenue, poor customer service being provided to Canadian importers and inefficiencies in the collections processes.

Stewardship

- If effective controls for safeguarding access to TARS and protecting TARS data are not in place, then records and data in TARS could be compromised or lost.
- There is a risk that the absence of effective controls and procedures relating to the management of accounts receivable and the write-off of bad debts could result in lost revenue (i.e. accounts receivable written off that could still be collected) or misstatements in financial reporting (i.e. overstatement of the value of accounts receivable).
- If appropriate controls and procedures are not in place for calculating and collecting interest on overdue accounts, there is a risk of lost revenue and the perception of poor customer service.

Temporary Accounts Receivable System (TARS)

- The most significant risk is that management may not have identified all critical issues and important deficiencies in the existing accounts receivable system, and as a result, the new ARL system may not address them and therefore may not produce the expected benefits.

The new ARL system, currently under development, is expected to address the risks identified above which were noted during the planning phase of this audit. However, the Agency remains exposed to these risks in the interim period.

1.3 AUDIT OBJECTIVES AND SCOPE

The audit included two objectives:

1. To assess the current accounts receivable processes and controls in place at the Agency, including:
    a. the preparation and processing of cash receipts and invoices;
    b. the controls relating to the security of TARS data;
    c. the procedures for monitoring accounts receivable balances and for writing off bad debts; and
    d. the processes for calculating interest on overdue accounts.
2. To assess the extent to which the new ARL system will address significant deficiencies that may exist in the current accounts receivable system.

The scope of the audit included all key aspects related to accounts receivable processes and internal controls for which the CBSA is responsible. It included a review of all material accounts receivable balances, reconciliations, the aging and management of accounts receivable, debt-write off processes and the preparation and processing of invoices and cash receipt documents transmitted to CRA. The audit did not include a review of the assessment process, which determines the amount of duties and taxes owed to the Agency. The Office of the Auditor General (OAG) examined this process as part of its fall 2010 Report to the Auditor General of Canada. Further, the audit did not verify the financial amounts on cash receipts and invoices as this aspect was completed as part of the Audit of the Payment Process for K84 Account Statements approved in July 2010.

1.4 APPROACH AND METHODOLOGY

The audit used the following approach to gather evidence:

- Interviewing management from the Comptrollership Branch — specifically the Revenue Accounting and Reporting Division (RARD).
- Reviewing relevant documents including the CBSA Financial Control Framework, Treasury Board Secretariat (TBS)/CBSA Policies and Procedures relating to accounts receivable, CBSA's Assessment and Revenue Management Feasibility Study (CARM), Accounts Receivable Ledger (ARL) Project Plan and Project Charter and MOUs between CRA and the CBSA.
- Reviewing a random sample of cash receipts and invoices prepared by the ports of entry offices sent to CRA to verify the accuracy of the documents prepared and to determine compliance with procedures (i.e. whether cash receipts and invoices are sent to CRA in a timely manner).
- Reviewing the accuracy and completeness of the reconciliations between TARS and the revenue ledger completed by RARD, including the procedures for calculating the allowance for doubtful accounts.
- Reviewing a random sample of debts written off by the CBSA Debt Write-off Committee to verify compliance with the applicable Regulations.

While this is an audit of the CBSA, we also interviewed CRA management responsible for the collections process and observed the receipt and processing of cash receipts and invoices by conducting a walkthrough of a CRA collection facility. The purpose of these activities was to gain an understanding of the implications of the CBSA's predominately manual processes on the transfer of information (i.e. cash receipts and invoices) to CRA, and how this affects the reliability of the information in the CBSA's accounts receivable systems, the service the Agency provides to its clients, and the effect of the CBSA's deficiencies on CRA. The support and co-operation received from CRA is greatly appreciated. The completion of this audit was supported by Audit Services Canada.

1.5 AUDIT CRITERIA

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

1.6 STATEMENT OF ASSURANCE

The audit engagement was planned and conducted in accordance with the *Internal Auditing Standards for the Government of Canada.*

2.0 AUDIT OPINION

With respect to current accounts receivable processes and controls, the audit found a number of issues of a non-financial nature in the preparation and processing of cash receipts and invoices which are considered low risk but create inefficiencies and negatively impact service provided to Canadian businesses. The audit found controls related to the security of TARS data and procedures for writing off bad debts to be adequate and makes recommendations related to accounts receivable monitoring activities and the calculation of interest on overdue accounts.

In addition, the audit concludes that the deficiencies noted in the AR process should be addressed by the new ARL system.

3.0 FINDINGS, RECOMMENDATIONS AND ACTION PLANS

3.1 TEMPORARY ACCOUNTS RECEIVABLE SYSTEM (TARS)

The ARL system is being designed to address the shortcomings of TARS. It is expected that CBSA management has identified all TARS deficiencies and ensures that the ARL addresses them. The audit found that the Agency has met this criterion.

The TARS is a predominately manual, non-integrated system. As noted earlier, the ARL system is planned to replace TARS in April 2013. The ARL is expected to eliminate existing deficiencies in processing and accounting for revenues and receivables, and improve internal controls. The success of the new system will largely depend on the extent to which the Agency has identified all critical issues and deficiencies in the current accounts receivable system. Identifying these issues is central to ensuring that ARL will meet the CBSA's business requirements, and that it will produce the planned benefits with respect to strengthening the accounts receivable function.

The audit reviewed TARS to identify significant gaps and deficiencies and compared identified weaknesses to the ARL Project Plan and Charter. Some of the weaknesses identified in the current system include:

- a manually intensive payment processes for the Agency and the client;
- manual creation of cash receipts and invoices as well as manual system inputs are required;
- consolidated client-based data are not available for decision-making purposes;
- there is inefficient communication between port offices and CRA;
- the calculation of interest is not fully automated; and
- time-consuming reconciliations between amounts in various systems must be prepared.

The audit confirmed that the new system is expected to address the control gaps and deficiencies that the audit had identified.

Appendix B provides a more detailed list of the TARS process deficiencies and the solutions to be provided by the ARL project.

In addition, the September 2006 report by the OAG (referred to as “Observations of the Auditor General on the Financial Statements of the Government of Canada”) stated that, for the CBSA, “unexplained differences remain between the amounts receivable in the general ledger and the various reports taken from the tax program systems to support these amounts”. The OAG concluded that the CBSA’s summary financial statements included in the Public Accounts of Canada were “free of material misstatement”. However, the Management Letter issued to the Agency reiterated concerns regarding the numerous manual adjustments required for financial reporting purposes due to the Agency’s inadequate systems. Management is aware of these issues and has indicated that ARL will address them. We note, however, that the “unexplained differences” to which the Auditor General referred, will affect the accuracy of the financial information being input to the new ARL when it becomes operational. At the time of the audit, Management had not yet decided upon a course of action to address these unexplained differences.

It is important to note that the audit was restricted to reviewing only the ARL Project Plan and Charter. An audit of the ARL would be required after it has been implemented to provide assurance that the system has delivered its stated benefits, including eliminating the control gaps noted in this audit.

3.2 PREPARATION AND PROCESSING OF CASH RECEIPTS AND INVOICES

The current accounts receivable process requires the port of entry offices to prepare and process all invoices and cash receipts accurately, and send them promptly to CRA. The audit found that the Agency partially met this criterion.

Critical steps in collecting and accounting for accounts receivable occur at the ports of entry. Ports of entry must accurately prepare and process all invoice and cash receipt documents so that CRA receives them promptly and can accurately record amounts in TARS as accounts receivable. The audit did not verify the financial amounts on cash receipts and invoices. This verification was completed as part of the Audit of the Payment Process for K84 Account Statements approved in July 2010.

The current audit examined the preparation of invoices and cash receipts to assess the accuracy of non-financial information recorded on them — such as dates, the legal business names, and business numbers. It also included tests to determine whether or not the invoices and cash receipts prepared at the ports of entry had been transferred to CRA within the prescribed timeline. The audit found a high incidence of error in the non-financial information included on cash receipts and invoices. Most notably, 54% of the cash receipts sampled had no business number, which CRA uses to identify the importer in TARS. It was also noted that 30% of cash receipts had errors with respect to the date or legal business name. For example, one cash receipt that had been prepared and sent to CRA had recorded payments from six different importers. This resulted in an inefficient process where CRA had to go back to the port of entry to determine which importers the payments were from so that these payments could be applied to the appropriate accounts in TARS.

With respect to invoices, the audit found that ports of entry had confirmation that CRA had received the invoices; however, 10% of the invoices had non-financial errors, such as incorrect legal business names. Furthermore, only 30% of invoices were sent to CRA within the required six-day time frame. This impacted the interest applied to overdue accounts.

These issues, which are non-financial in nature, are considered low risk, and the audit acknowledges that the ARL system is expected to address them. However, in the interim period until the ARL is implemented, the high incidence of issues noted warrant management's attention in order to improve processes, limit the inefficiencies, and mitigate the negative impact on service provided to Canadian importers.

RECOMMENDATION 1:

In the interim period until the ARL is implemented, the Vice-President of the Comptrollership Branch, in collaboration with the Vice-President of the Operations Branch, should improve the accuracy and timeliness of cash receipt and invoice documents sent to CRA for collection purposes.

Management Action Plan	Completion Date
The Comptrollership Branch recognizes that preparation of invoice documentation and cash receipts and their timely transmission to CRA represent key early stages in the accounts receivable process. In order to address the issues raised and mitigate the risks associated with these stages, the Comptrollership Branch will:	
1. Inform Regional Finance staff of the audit and its results through the monthly Revenue Management conference calls. The Comptrollership Branch, in collaboration with the Operations Branch, will develop and distribute a memo to all ports of entry re-iterating the importance of accurate non-financial information (i.e. business number, legal name, doing business as name, address, etc.) entered on K21 and K23 invoices sent to CRA. The memo will request their diligence and verification of non-financial information prior to providing the documents to CRA for collections purposes.	June 2011
2. The Comptrollership Branch will include the revised procedures for preparation and processing of invoice documents and cash receipts as a review item in the Cash Management Review (CMR) checklist.	October 2011
3. The Comptrollership Branch will review and clarify policy and procedures with respect to the manual preparation and processing of invoice documents and cash receipts sent to	October 2011

CRA by ports of entry and CBSA offices. 4. Hands-on training to staff in the ports of entry poses several logistical challenges. Accordingly, a training approach based on risk and materiality will be adopted. The training package will be completed by December 2011 and the training will be provided in ports with high risks or materiality in the following months.	May 2012

3.3 STEWARDSHIP

Security-related controls

The criterion relating to this area requires that controls are effective in preventing unauthorized access to data in TARS, and that they protect the data from internal and external threats. The audit found that the Agency had met this criterion.

Access to data was properly controlled, and physical security was adequate. Roles and responsibilities for security had been clearly defined and communicated to users, and TARS data are continuously backed up.

Monitoring accounts receivable balances and writing off bad debts

This criterion examined the Agency's process for monitoring accounts receivable and procedures for debt write-offs, including whether or not the Agency was in compliance with the *Debt Write-off Regulations*. The audit found that this criterion was partially met.

The Agency is required to comply with the Government of Canada's *Debt Write-off Regulations* when writing off uncollectible debts. Table 1 provides the debt write-off activity for fiscal years 2007 through 2010.

Table 1

Fiscal Year	Number of Debt Write-offs	Amount of Debt Write-offs
2007	446	$108,872,000
2008	315	$42,393,000
2009	390	$14,823,000
2010	696	$39,830,000

Source: Approved Debt Write-offs data provided by RARD, Comptrollership Branch

When the CBSA writes off a debt as "uncollectible", it does so on the recommendation of CRA. We found that the Agency considers these recommendations appropriately, according to the Regulations, and that debt write-offs had been properly authorized.

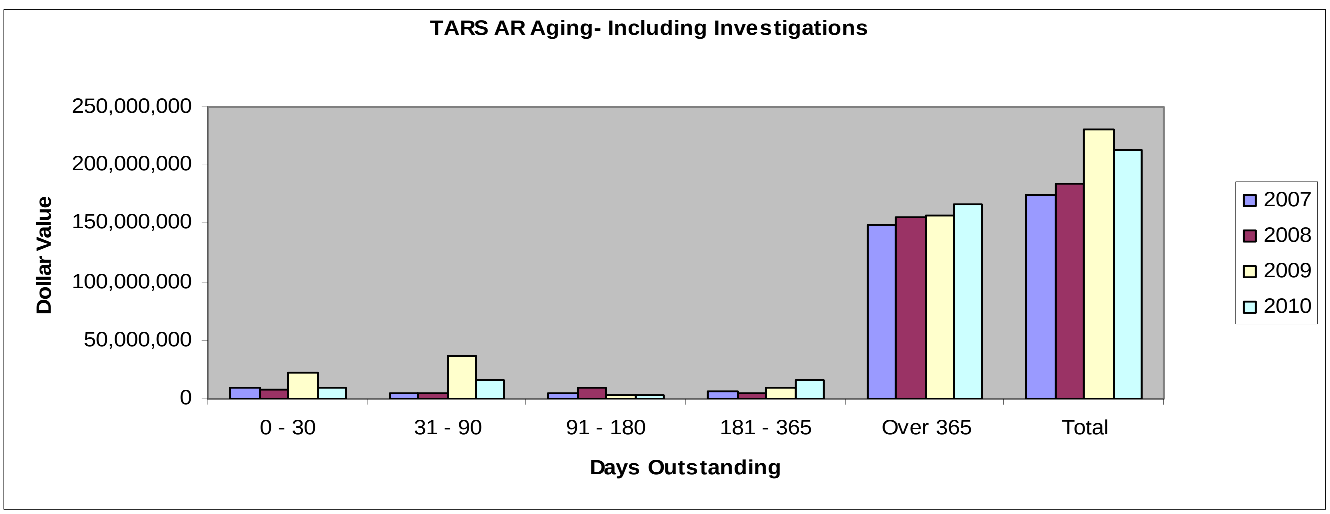
We reviewed the aging of the CBSA's year-end accounts receivable balances in TARS for fiscal years 2007 through to 2010. Tables 2 and 3 below show the trends. Table 2 includes all accounts receivable, including amounts that are under investigation[1] for which collection activities have been suspended pending resolution. Table 3 excludes these amounts. Both tables show a general upward trend in year-end accounts receivable balances. This trend is more clearly illustrated in the 'Totals' column of Table 3, which shows that year-end AR balances, excluding investigations amounts, have risen approximately 70% from 2007 to 2010 ($56M in 2007 to $96M in 2010).

Table 4 shows the relationship between the year-end AR balances (Tables 2 and 3) with the Agency's tax revenues. For the four fiscal years from 2007 to 2010, annual tax revenues have fallen each year, from $26B in 2007 to $21B in 2010, a decrease of approximately 20%.

Management has indicated that they have recently implemented procedures to monitor AR, and that significant variances are being analyzed and followed-up with CRA. However, no benchmarks have been established by management as to what level of accounts receivable is acceptable. It also is important to note that the current system does not facilitate monitoring activities as it does not provide the CBSA with detailed client-based information. The new ARL will address this shortcoming by permitting more active and effective monitoring practices (i.e. analysis, trends, ratios, benchmarking).

Taking into consideration the significant increases in year-end TARS accounts receivable balances during years of decreasing tax revenues, more rigor should be considered in the Agency's accounts receivable monitoring practices. This would provide a higher level of assurance as to the appropriateness of the valuation of accounts receivable balances. An additional benefit of more comprehensive monitoring is the potential identification and elimination of additional uncollectible accounts, which will likely improve the integrity of accounts receivable balances being transferred to the new ARL system.

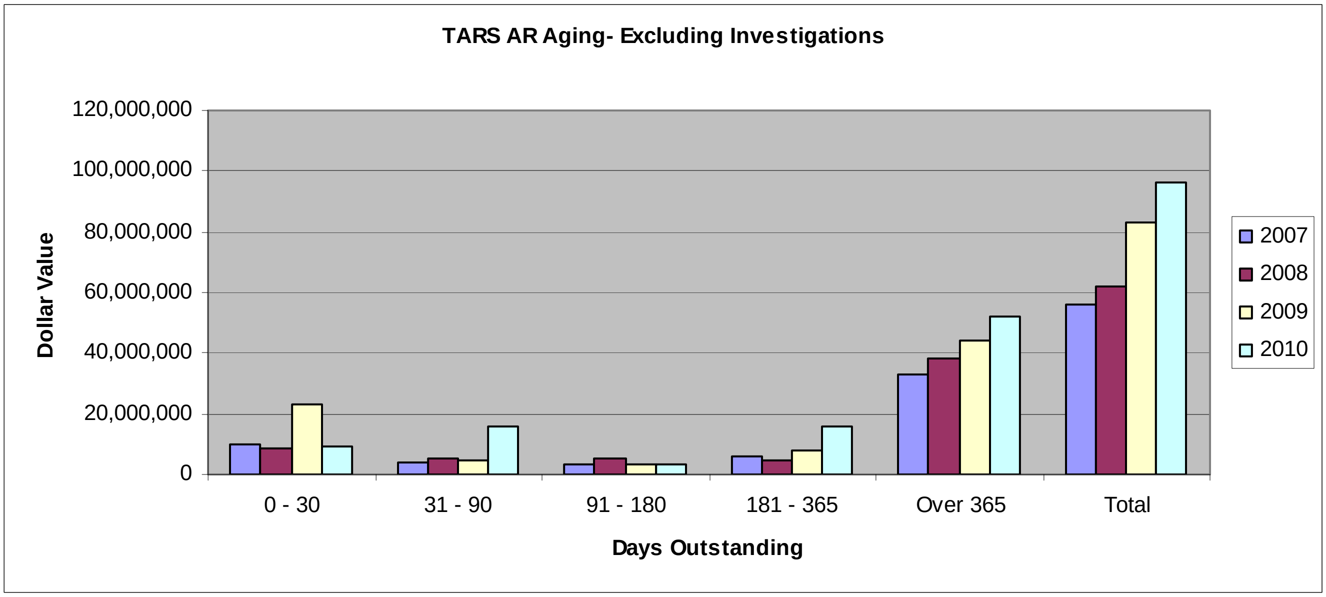
Table 2



Source: TARS Accounts Receivable National Roll-Up report provided by RARD, Comptrollership Branch

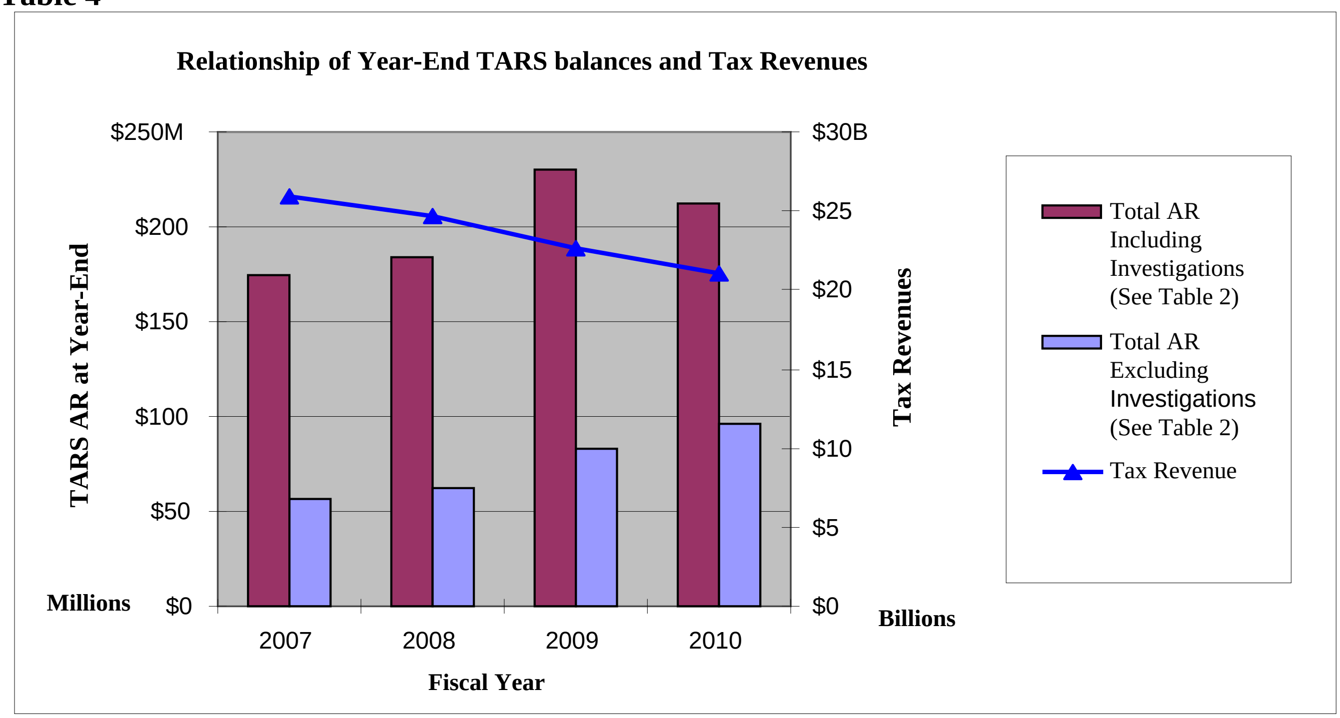
[1] Amounts under investigations include K9s and K29s. These are Notices of Ascertained Forfeitures which are used to demand payment pursuant to section 124 of the *Customs Act*, in respect of contraventions of the *Act* when goods or conveyances are not found or when seizure would be impractical.

Table 3



Source: TARS Accounts Receivable National Roll-Up report provided by RARD, Comptrollership Branch

Table 4



Source: TARS Accounts Receivable National Roll-Up report provided by RARD, Comptrollership Branch and CBSA Annual Financial Statements

RECOMMENDATION 2:

The Vice-President of the Comptrollership Branch should implement more rigorous accounts receivable monitoring and reporting practices incorporating established benchmarks and ratio analyses.

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Management Action Plan	Completion Date
1. The Comptrollership Branch will initiate a basic level Accounts Receivable Monitoring Process immediately.	July 2011
2. The Comptrollership Branch will design a proposal for an enhanced level accounts receivable monitoring process and present options for its implementation to the Comptrollership Standing Committee (CSC).	October 2011
3. Benchmarks and Ratio Analysis will be reported to the CSC quarterly.	September 2011

Calculating interest on overdue accounts

The Agency is required to calculate and collect interest on overdue accounts in accordance with the CBSA policy. The audit found this criterion was partially met.

It was noted that although interest is being charged to overdue accounts, there are inconsistencies between ports of entry offices related to the application of policy and procedures in charging interest to overdue accounts.

The audit noted specific gaps in policy guidance associated with the application of interest as well as the roles and responsibilities related to interest calculations and collections at the ports of entry. For example, it is unclear whether interest should begin to accrue on overdue accounts from the first day after a payment is due until it is paid, or whether it should begin to accrue from the date which CRA receives an invoice from the ports of entry until it is paid.

Although not quantified, the inconsistencies noted by the audit team indicated that the Agency could calculate interest inaccurately, thus charging importers either too little or too much. These inconsistencies also give rise to the risk of lost revenue and the perception, on the part of importers, of customer service that varies from port to port.

The new ARL system will automate the processes involved in calculating interest on overdue accounts. However, if the policy relating to this matter is vague, there is a risk that programmers will not have the information they need to understand the requirements for the ARL system, and that the roles and responsibilities related to collecting interest on overdue accounts will remain unclear.

RECOMMENDATION 3:

The Vice-President of the Comptrollership Branch should clarify and implement the policy related to calculating interest on overdue accounts and ensure that this policy is appropriately developed within ARL.

Management Action Plan	Completion Date
1. The Comptrollership Branch and Programs Branch will update the policy relating to the calculation of interest. The revised policy will be developed and distributed to all the regions by October 31, 2011. In the meantime, the Programs Branch will provide advice on the application of the current policy in the regions.	October 31, 2011
2. Issues surrounding interest calculation will be addressed through automation with implementation of the ARL in April 2013.	April 2013

Appendix A: Audit Criteria

The audit criteria used for the Engagement Phase were:

Line of Enquiry	Audit Criteria	Met / Partially Met / Not Met
Temporary Accounts Receivable System (TARS)	**1.1** The new ARL system should address the significant deficiencies, as identified, in the current accounts receivable system.	• Met
Preparation and Processing of Cash Receipts and Invoices	**2.1** Form K23 (*Invoices*) and K21 (*Cash Receipts*) should be accurate and sent to CRA in a timely manner.	• Partially Met
Stewardship	**3.1** CBSA management should have effective controls in place to prevent unauthorized access to TARS and to protect TARS data from external and internal threats. **3.2** Monitoring of accounts receivable balances should be performed and procedures for writing off debts should comply with the *Debt Write-off Regulations*. **3.3** CBSA management should ensure that interest relating to overdue accounts is calculated in accordance with CBSA policy.	• Met • Partially Met • Partially Met

Appendix B: TARS Process Weaknesses and ARL Solutions

Temporary Accounts Receivable System (TARS)	Accounts Receivable Ledger (ARL)
Process Weaknesses	
1. Manually intensive payment process *Description*: Account security holders are not able to pay amounts owing online (electronically).	1. Electronic payment process *Description*: Account security holders will have the capability to make electronic payments (e-payments) online. As well, the ARL will generate the K21 payment receipt.
2. Design of the Customs Commercial System (CCS) *Description*: CCS was originally designed as an assessment system, not an accounting system. It uses batch accounting, does not track receivables by account security holder, and does not maintain history beyond the current month.	2. Design of the Accounts Receivable Ledger (ARL) *Description*: The ARL is a supporting ledger with a listing of detailed accounts devoted to each commercial client, which shows how much each client owes and has paid the Government of Canada. Each transaction that generated a receivable is listed under that client and a balance for that client is determined. The ARL will bring together data from different systems (CCS, BARKS, and AMPS).
3. Non-Integrated TARS *Description*: TARS are non-integrated systems, do not produce live data, and each location cannot be updated with each other systems' information. National information is not available at any location.	3. Integrated, national ARL system *Description*: The ARL will be deployed to approximately 155 commercial sites that have access to the CBSA LAN. Client balances will be updated in the ARL and can be viewed by all users.
4. Ineffective communication between ports of entry *Description*: The K21s are supposed to be faxed to the central payment site of the broker/importer if the K23 is paid at another port. In some situations, the K21s are not being faxed or they are not reaching the destination when faxed.	4. Improved communication between ports of entry *Description*: The ARL will provide a user interface that can be accessed by all CBSA staff for accepting payments at border sites and Headquarters financial operations. Client balances will be updated in the ARL and can be viewed by all users.
5. Manual recording and creation process for invoices (K23) and receipts (K21) *Description*: A manual recording process is in place at the ports of entry for recording K23s and K21s. The K23s and K21s are manually generated by the port staff and processes are inconsistent between ports. Also, the current system does not track changes made to the invoices (e.g. time of revision, individual that made the change, etc.).	5. Partially automated recording and creation process for K23 invoices and K21 receipts *Description*: CBSA cashiers will receive a commercial client's payment and will enter the payment information into ARL. ARL will generate a K21 payment receipt with a unique identifier for payments received at the pre-determined commercial port of entry. For partial payments, an automated K23 invoice will be produced.

6. Manual inputs into TARS *Description*: Information prepared at the ports of entry is manually entered into TARS presenting a risk of data entry errors.	6. Automated inputs into ARL *Description*: The ARL will replace the current TARS system in its entirety, with one that is or can be integrated with the Client Account and Revenue Ledger functions. The ARL will consolidate data from various systems (CCS, BARKS, and AMPS). This will reduce the risk of data entry errors and will help prevent improper or incorrect amounts from being recorded.
7. Forms (K21s and K23s) are inconsistent and non-sequential. *Description*: Individual forms and sequencing methods are inconsistent among the ports of entry.	7. Forms are consistent and sequential. *Description*: CBSA cashiers will receive a commercial client's payment and will enter the payment information into ARL. ARL will generate a K21 payment receipt with a unique identifier for payments received at the pre-determined commercial port of entry. K23s will also be assigned a unique identifier.
8. High volume of paperwork *Description*: Process is manually intensive which results in high volumes of paperwork. Implications of this weakness include security and access issues, manual files are difficult to recover or retrieve, and it is costly to store and print such high volumes of manual files.	8. Reduced paperwork *Description:* The ARL will automatically generate invoices, and have the ability to generate a consolidated statement of accounts. The data will be retained on-line and available for up to 7 years. The security of the data will continue to be at the protected B level. The ability to generate a consolidated account will reduce the amount of paper that is generated by the daily and monthly K84 statements at each port of entry.
9. Recording of interest *Description*: Ports of entry are not clear on how to assess interest on overdue accounts and are inconsistent in their assessment of interest from when a liability is due to when the K23 invoice is sent to collections (e.g. one port assesses 6 days interest and sends a corresponding K23 to collections, another port does not).	9. Recording of interest *Description*: The ARL application will calculate interest owing on outstanding balances. It will also calculate debit (arrears) and credit (refunds).

Reporting Weaknesses	
10. Information supporting reporting requirements *Description*: TARS does not provide an effective reporting framework for management. Management does not have access to timely, effective, and reliable information for decision-making purposes.	10. Information supporting reporting requirements *Description*: The implementation of the ARL will provide the CBSA with a modernized revenue management and reporting process that conforms to conventional accounting practices, including client-based accounting, providing increased sustainability for financial statements audits, and thus addressing issues raised by the OAG.
Inefficiencies	
11. Reconciliation process *Description*: Significant time is required by Agency staff to prepare reconciliations between systems at month-end.	11. Reconciliation process *Description*: The current T6 (Tax revenues) and T11 (Non Tax revenues) cash books will be automated. The current daily deposit report broken down by line object code (revenue code) will be automated. On a monthly basis, the total amount owing of all transactions will be consolidated (credits and debits) and a final assessment notice will be issued to the commercial client. Given that the SAP application contains inherent controls which ensure that every posting to a client account (AR Sub-Ledger) automatically updates the Master AR in the RL, the CBSA can be assured of perfect alignment and balancing between both modules.
12. Incorrect recording of business numbers (BNs) or legal name of entity *Description*: The CRA tracks account security holders by business number (BN) while the CBSA uses other identifiers.	12. Proper recording of BN or legal name of entity *Description*: The ARL will have an SAP client identifier that will link existing CBSA identifiers: Business Number (BN), Carrier Code, Account Security Number and Warehouse Operator Number. Client master data and tombstone data will be populated in SAP using client information stored in CCS.

Appendix C: List of Acronyms

Acronym	Description
AMPS	Administrative Monetary Penalties System
AR	Accounts Receivable
ARL	Accounts Receivable Ledger project
CARM	CBSA's Assessment and Revenue Management Feasibility Study
CBSA	Canada Border Services Agency
CCS	Customs Commercial System
CRA	Canada Revenue Agency
K9s and K29s	These are Notices of Ascertained Forfeitures which are used to demand payment pursuant to section 124 of the *Customs Act*, in respect of contraventions of the *Act* when goods or conveyances are not found or when seizure would be impractical.
K21 Cash Receipt	Form K21 is a general receipt to account for other revenue collected at the port of entry office, such as lump sum payments for an account.
K23 Invoice	Form K23 is used by border services officers located throughout Canada to charge any fee or other amount owing to Revenue Canada. These invoices are manually recorded into the Temporary Accounts Receivable System (TARS) for follow-up of collections action. They include K84s not paid.
K84 Daily/Monthly Account Statements	K84 is the importer's or broker's account statement that is issued by the CBSA to periodic payment clients to convey accounting information and financial liability. K84s are issued daily and monthly.
MOU	Memorandum of Understanding
OAG	Office of the Auditor General
TARS	Temporary Accounts Receivable System
TBS	Treasury Board Secretariat
RARD	Revenue Accounting and Reporting Division