



REUBLIC OF THE MARSHALL ISLANDS
OFFICE OF THE AUDITOR – GENERAL

**Audit of the Customs Division
Fiscal Years 2017 to 2019**



REPORT NO: 05/16-6120

September 16, 2021
Date

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September 16, 2021

Mr. Patrick Langrine
Secretary of Finance
Government of the Republic of the Marshall Islands
Majuro, MH 96960

Subject: Audit of the Customs Division

Dear Mr. Secretary:

We completed our audit of the Customs Division within the Ministry of Finance, Banking and Postal Services. The objectives of our audit were to determine (1) Whether the internal controls are adequate to govern the importation of goods into the RMI; and (2) Whether the Customs Division complied with the Import Duties Act 1989 and the approved Manual of Standards Operating Procedures (Operating procedures).

Based on our audit, we found that the Customs Division was not effective and efficient in the discharge of its functions. Both internal control and compliance issues were noted throughout our audit. For each exception noted in this report, we provide recommendations to improve the internal controls and compliance with laws and policies. Our review of the *internal controls* revealed the followings:

- Customs management has not adopted the globally-recognized legal framework and good practices for effective Customs administration.
- Current inspection and release procedures for incoming goods are not adequate and imported goods are not being inspected thoroughly for import tax duty purposes and the possibility of loss of revenues to the government.
- A code of ethics and conduct policy to set the minimum standards of ethical behaviors for Customs officers to follow has not been instituted and not all Customs officers were aware of the government's rules of conduct as stipulated in Public Service Regulations and Ethics Act. We observed that the conduct of certain Customs officers were not consistent with public service conduct and values and in a manner that

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enhances the reputation and confidence in the integrity of Customs administration. Our observations included also feedback from certain business importers who interact regularly with Customs officers:

- ✓ Certain Customs officers were habitually absent from their work stations and it was not known whether the officers were away on official functions.
- ✓ Certain Customs officers were habitually on internet surfing and watching YouTube, NBA games, boxing matches, and calls with family members residing off island using Facebook messengers during prescribed working hours for government employees.
- ✓ Certain Customs officers were accepting gifts of minimal value from business importer after inspection.
- ✓ A Customs officer received food from an importer or consignee while clearing the consignee's document.
- ✓ Close relationships exist between Customs officers and certain business importers. Certain business importers or consignees were served at the service counter while others were served beside the desk of the Customs officers. Additionally, we observed that one consignee had the ability to enter the Customs Office through the restricted door designated solely for Customs officers while others were entering through the front door.
- ✓ According to one business importer not all business importers receive the same service and treatments by Customs officers. This importer specifically indicated that business importers are served beside the Customs officers' desks while other businesses are served at the service counter.
- ✓ Another business importer indicated to us that services provided by Customs officers are not on "first-come first-serve" basis because some importers wait in line to be served while others have the ability to walk into the Customs Office and clear their paper works at the Customs officers' desk.
- ✓ Another business importer shared with us one experience when the business tried to get its container out from the container yard at the main Dock because there were certain goods inside the container that were really needed. A series of calls to Customs Office between 1 and 2pm received busy signals. Finally at around 3pm the phone was answered and the importer then asked if a Customs officer could come and clear its container. The response from the Customs officer was

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“are you ready to pay overtime”. According to this importer, because the business needed certain goods from the container it agreed to pay overtime. The Customs Officer showed up at the container yard for about 9 minutes and then left without inspecting the container. Later, the Customs officer contacted the importer and demanded the overtime pay for the inspection that was not conducted. According to the importer the business paid for the Customs officer’s overtime and did not report the Customs officer’s conduct out of fear that the business may receive more hard time from this Customs officer in the future. Additionally, the importer indicated to us that the business had reported Customs officers’ unethical conducts previously but found out that no action taken and decided to stop reporting because it only creates frictions with Customs officers, a position you do not want to be in if you are a business importer.

- Current inspection and release procedures of imported goods by Customs officers at the point of entries are not transparent. The absence of the right checks and balances and accountability mechanisms increase the likelihood that corrupt and unethical practices can occur. Customs officers have discretionary power over inspection and release of imported goods and this put them in a strong position to extract bribes from the business importers to facilitate their release. There is a risk to the government that when its Customs officers are not acting in good faith in discharging their duties there is the possibility of loss of tax revenues when Customs officers exempt goods from inspection and import duty tax purposes.
- Customs officers’ decisions whether or not to subject certain imported goods for inspection or grant full release without inspections are not documented which diminishes accountability over the Customs officers’ actions and Customs administration in general.
- Current management of overtime claims by Customs officers who are called to work extra hours beyond the prescribed working hours is vulnerable to malpractices and abuse and should be better regulated and monitored.

Our audit also found several *noncompliance matters* as described below:

- Review of selected Customs Form 725 (*Entry Certificate / Import Tax Assessment – Payment Receipt*) revealed that established inspection and clearance procedures and controls were not followed consistently by Customs officers. This represents a

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deviation or noncompliance with a duly approved Operating procedures and controls by the highest level in the Ministry of Finance. In addition, many Customs Form 725s within our sample were missing and not available for our examination.

- Customs officers did not produce and maintain on files the required inspection reports for all three fiscal years we examined. In the absence of the inspection reports we could not determine whether discrepancies were discovered by Customs officers during inspection or how those discrepancies were dealt with.
- Required inspection procedures and controls for clearing goods at the Airport and Post Office were not followed. The current practice where Customs officers override inspection procedures and controls not only represents a deviation from the approved policy; it also creates risks that imported goods may not be thoroughly inspected for import tax duty purposes. In addition, we observed that Customs inspections could be more efficient with the use of scanning machine to check mail packages and detecting narcotics, and other prohibited or illegal goods.
- Finally, Customs files and records were not maintained properly. In Majuro office, files are kept inside boxes and placed in the hallway and not arranged by Customers or business importers instead they were arranged by fiscal years. In Ebeye, Customs files and records are stored inside boxes and mixed with documents from different fiscal years. The filing systems made it difficult to locate certain files we selected for our examination and in many cases files were missing and could not be located.

We conclude in this report that Customs administration can be more effective and efficient by initiating institutional reforms and adopting appropriate legislations and good practices that are universally-recommended for Customs administrations. Some of the good practices include: simplifying customs controls and procedures to increase effectiveness through use of automated systems for document processing, use of scanners to accelerate goods clearance, employment of a post-clearance audit scheme, risk-based approach to customs inspection, increasing accountability in customs procedures, and promoting integrity in customs administration through a whistleblower scheme and internal audit. Given the facts gathered in this audit, however, we believe that instilling a culture of integrity within the Customs administration should be a priority.

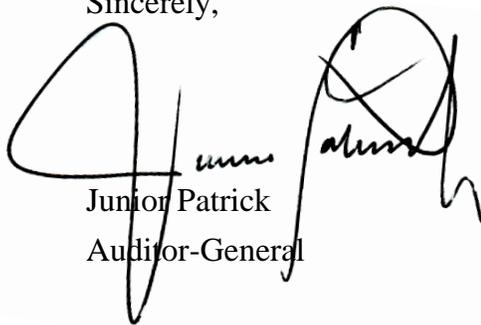
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Pursuant to the Auditor-General Act of 1986, we provided a copy of our findings and recommendations and requested your responses in writing. We also discussed our draft findings and recommendations during our exit conference on August 24, 2021. We appreciate the Ministry's response which we have included as Appendix I. All responses and additional information were incorporated in this final report as appropriate.

The most important outcome of an audit is the correction of past deficiencies and improvement in the internal controls and operations. We believe that the implementation of our recommendations is a step in that direction. This office maintains a 'Follow-Up System' and in order for this report to be closed, we require the actions detailed in Appendix III to be implemented.

We wish to express our sincere appreciation to you and your staffs for the cooperation we received during the course of our audit.

Sincerely,



Junior Patrick
Auditor-General

Cc: President
Minister of Finance, Banking and Postal Services
Assistant Secretary for Ebeye Finance Office
Assistant Secretary of Customs, Treasury, Revenue and Taxation
Chief of Customs
OAG File

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Introduction

The audit was conducted due to concerns regarding Customs administration and Customs officers' conduct in the enforcement of Customs laws and regulations. We looked at whether an appropriate legal framework and administrative policies have been instituted to govern Customs management and administration and the extent in which Customs Division has complied with those laws and any existing policies or procedures.

Background

Legal Framework

In 1989, the Nitijela (Legislature) of the Marshall Islands enacted Public Law 1989-49 (Import Duties Act) to provide for the imposition of import duties on goods imported to the Republic of the Marshall Islands, authority and responsibility to enforce Customs laws and administration. The legislation was amended several times since it was enacted into law in 1989. The legislation also gives the Minister of Finance authority to prescribe additional regulations and procedures that are necessary or convenient to ensure effective Customs administration. In 2015, the Minister of Finance instituted a Manual of Standard Operating Procedures (or Operating procedures) which contains the “key controls” and “operating procedures” for each Division within the Ministry of Finance to follow. Section 12.1 of the Operating procedures is dedicated to the Customs Division which contains a step-by-step controls and procedures which Customs officers are to follow when processing Customs papers, inspecting incoming goods at point of entries, among others.

Customs Administration & Management

Day-to-day management and direction of Customs activities are a responsibility of the Customs Division, a division within the Ministry of Finance, Banking and Postal Services (Ministry of Finance), which is headed by a Chief of Custom and has 11 Customs officers. The Division is overseen by the Assistant Secretary of Customs, Revenues & Taxation. A Customs sub-division was also established on Ebeye, Kwajalein Atoll, which is headed by a Chief of Customs and has 3 Customs officers and overseen by the Assistant Secretary of Finance for Ebeye Finance operation. Both Assistant Secretaries report directly to Secretary of Finance.

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Powers and Duties of Customs Division

The Customs Division is the Government of the Republic of the Marshall Islands (GRMI)'s principal tax agency in charge of enforcing Customs laws and regulations. Import Duties Act confers the following general powers and imposes duties and responsibilities on Customs officers:

- Must obey all lawful directions with respect to the execution of his or her office which he or she may receive from superiors from time to time.
- Shall have the power to examine all goods entering or leaving the Republic including, but not limited to, postal goods;
- Shall enforce all laws and regulations of the Republic and collect such evidence as is proper for investigation;
- Shall have the power and duty to seize and impound such goods as is necessary to perform the duties of office;
- Shall have the power and duty to prevent, detect and apprehend all persons who are attempting to commit or is committing a violation of any law or regulation, whether any enforcement or investigating authority is appointed under such law or not; and
- Shall be deemed to be on duty at all times and may from time to time be detailed for duty in any part of the Republic.

Import Tax – The second Largest Tax Revenue to the RMI General Fund

Import duty is the second largest tax component and contribution to the General Fund after Income tax. The total aggregate revenue generated from taxes during the period audited was \$95,236,471. Of this amount, Import tax account for \$24,471,670 (or 26%) of the total tax revenues to the General Fund during the period.

RMI General Fund Tax Revenues

Tax Revenues	FY2017	FY2018	FY2019	Total	%
Income taxes	\$ 14,781,817	\$ 15,064,738	\$ 16,257,737	\$ 46,104,292	48.4%
Import taxes	\$ 7,853,055	\$ 7,781,520	\$ 8,837,095	\$ 24,471,670	25.7%
- GRT	\$ 5,689,946	\$ 7,202,228	\$ 7,696,026	\$ 20,588,200	21.6%
- Immovable Property	\$ 682,292	\$ 709,100	\$ 702,622	\$ 2,094,014	2.2%
- Fuel taxes	\$ 612,702	\$ 609,200	\$ 523,561	\$ 1,745,463	1.8%
- Penalties & Interest	\$ 77,815	\$ 81,054	\$ 73,963	\$ 232,832	0.2%
	\$ 29,697,627	\$31,447,840	\$34,091,004	\$ 95,236,471	100%

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Customs Division's Operational Budget

Table below describes the total appropriations to the Customs Division during the periods.

Annual Operational Budget

Year	Budget Allocations to the Ministry of Finance	Budget Allocations to the Customs Division
FY2017	3,826,370	289,817 (8%)
FY2018	3,246,927	336,639 (11%)
FY2019	3,370,574	316,359 (10%)

Source: Appropriation Acts & MOF Financial Budget Reports (DILOG 240-P)

Objective, Scope & Methodology

The objectives of this audit were to determine:

1. Whether the internal controls are adequate to govern the importation of goods into the RMI?
2. Whether the Customs Division has complied with the Import Duties Act 1989 and the approved Manual of Standard Operating Procedures (Operating procedures)?

The audit scope covered the periods from October 1, 2016 through September 30, 2019 or FY2017 thru FY2019.

To determine whether the Customs Division has adequate internal controls governing management and handling importation of goods into the RMI we performed the following:

- ✓ Analyzed and compared the Import Duties Act of 1989 against the internationally-recognized legal framework for customs administration as stipulated by the World Customs Organizations (WCO) and the Kyoto Convention and identified the extent in which Customs Division has implemented those practices;
- ✓ Analyze and compared the Operating procedures adopted for use by the Customs Division to determine the extent in which those are in line with the internationally recognized practices on Customs controls and other aspects of Customs administration.
- ✓ Interviewed the Customs management to determine if the appropriate controls are present and institutionalized to mitigate risks affiliated with Custom officers performing in good faith and if duties are thoroughly performed;

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- ✓ Interviewed other border management authorities to determine the extent in which they are involved or whether they support a more transparent Customs inspections and releasing of goods;
- ✓ Performed observations during Customs inspection of containers being released at a business's compound to determine if inspection was thoroughly conducted and transparent; and
- ✓ Interviewed certain business importers to obtain feedback on Customs services.

To determine whether Customs Division has complied with the provisions of the Import Duties Act 1989 and Operating procedures, we performed the following:

- ✓ Reviewed and verified the Customs Form 725 (*Entry Certificate / Import Tax Assessment – Payment Receipt*) and related supporting documentation for Seaport and Airport covering FY 2017 to 2019 to determine whether established procedures were followed by Custom Officers;
- ✓ Reviewed and verified invoices accompanying the Customs Form 725 to determine if import duty tax were accurately calculated and paid;
- ✓ Performed observations at the Seaport, Airport, Post offices on Majuro and Ebeye, and business premises to determine if the step-by-step inspection and release procedures as stipulated in the Operating procedures were being followed by Customs officers; and
- ✓ Interviewed Customs management to obtain feedback as to why certain inspection and release procedures were not always followed consistently.

We conducted this audit in accordance with the standards for performance audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Prior Audit Report

This is the first Performance audit of the Customs Division conducted by the Office of the Auditor-General.

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Limitations of our Audit

We faced challenges in collecting data and information for our audit. Data we requested from the Customs Division took longer than anticipated to receive because of lack of proper records keeping and file maintenance and Customs Form 725 that we selected for examination were hard to locate. Other Customs Form 725 were missing and not available for our examination: Customs Form 725 for seaport operation in Ebeye in 2018 and Customs Form 725 for Majuro Airport operation were missing.

In addition, our review of the Customs Form 725 to verify goods declared against what was listed on the accompanying invoice was difficult to compare and understand. This is because goods indicated on the Customs Form 725 were grouped and declared without a clear reference to individual items indicated on the accompanying invoice. For example, a commercial invoice may include varying list of drinks such as water, soda, and juice drinks of various names, however, those drinks are broadly categorized on the Customs Form 725 as either under carbonated or non-carbonated drinks. This makes comparison and verification very difficult.

Conclusion

We conclude in this report that Customs administration can be more effective and efficient by initiating institutional reforms and adopting appropriate legislations and good practices that are universally-recommended for Customs administrations. Some of the good practices include: simplifying customs controls and procedures to increase effectiveness through use of automated systems for document processing, use of scanners to accelerate goods clearance, employment of a post-clearance audit scheme, risk-based approach to Customs inspection, increasing accountability in Customs procedures, and promoting integrity in customs administration through a whistleblower scheme and internal audit. Given the facts gathered in this audit, however, we believe that instilling a culture of integrity within the Customs administration should be a priority.

Our findings and recommendations, based on our audit, along with our recommendations are discussed in the accompanying pages.

Audit Results

Finding No. 1 Opportunities Are Present to Improve the Customs Division's Internal Controls and Operations:

1.1 RMI Customs Administration Can Be More Effective by Adopting the Internationally-Recognized Framework and Practices for Customs administration

Internationally-recognized best practices for Customs administration include but not limited to the following:

Legal Authority, Enforcement and Controls

1. Adequate legal powers should be conferred to Customs officers for purposes of controls and enforcement of Customs:

- ✓ power to examine goods.
 - ✓ right of access to premises, vehicles, vessels or aircraft or persons or companies involved in international trade transaction and their business records.
 - ✓ power to take representative samples of goods at importation, post-importation and or at export.
 - ✓ power to detain goods imported or intended for export to establish their compliance with Customs laws and regulations.
 - ✓ power to conduct post-clearance audit and obtain business records, including bank records and computer system, of any person or company involved in an international trade transaction.
 - ✓ power to exchange and share information on international movements with other Customs administrations for Customs control purposes.
 - ✓ power to ascertain the admissibility of movements in advance of their arrival or departure (e.g. pre-classification, pre-valuation or advance passenger information, and any exception from the general obligation to produce the goods to Customs).
 - ✓ power to authorize person or third parties to assist Customs in performing certain Customs control functions.
2. Customs administration should institute basic types of Customs controls
- ✓ Movement control – measures applicable to goods and means of transport before or upon arrival, departure or during a Customs procedures, until they are released
 - Documentary examination
 - Documents prior to the submission of goods declaration
 - Checking the goods declaration and accompanying documentation

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- Physical examination/Search
 - Use of Non-Intrusive Inspection – use of modern technical equipment such as scanners or other special detection devices (X-Ray, Gamma-Ray).
 - Identification of goods – to allow goods to subject to certain Customs procedures such as transit, transshipment, temporary admission, etc.
3. Adopt Customs automated systems for documents processing and use of scanners to accelerate goods clearance to improve operational efficiency and provide full audit trails and mechanisms.
 4. Employment of a Risk-based approach to Customs inspection. That is, Customs to identify and focus on high-risk areas and ensure more effective use of available resources in enforcing Customs laws and regulations.
 5. Implementing a Post Clearance Audit approach that can increase the efficiency of Customs control, can help protect revenue, improve traders' compliance, and detect and prevent fraud in Customs operation.
 6. Adoption of International Harmonized Coding where all goods are identified by a six digit code system to achieve uniform classification, descriptions, and coding of goods crossing international borders. In addition, this also standardizes trade documentation and transmission of data and information.

Integrity in Customs administration

7. Customs administration should adopt a code of ethical conduct to set the minimum standards of behavior required of all Customs officers.
8. Customs administration should design and implement appropriate controls mechanisms for detecting and preventing unethical behavior by Customs offices.
 - ✓ Internal control – investigation of incidents of suspicious and suspicions of illegality and professional misconduct related to officer corruption (e.g. establishment of internal affairs or internal investigations division to be independent and report directly to the Head of the Ministry in charge of Customs administration).
 - ✓ External control - national law of a country should provide other government agencies oversight authority to investigate and prosecute corruption by Customs officers.

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The RMI’s framework for Customs administration is stipulated in the Import Duties Act 1989. The legislation was enacted in 1989 and amended several times over the years. In addition, Customs internal operating procedures and step by step controls are stipulated in Section 12.1 of the Ministry’s Operating procedures which was adopted in 2015.

We performed an analysis to determine the extent that the RMI has instituted and adopted the internationally-recognized best practices for Customs administration. We presented the result of our analyses in Table 1 below:

Table 1: Analyses of RMI’s Current Framework and Practice against the Internationally-Recognized Settings for Customs Administration

Internationally-recognized Framework and Good Practices in Customs administration	RMI Current Framework and Practices in Customs administration
<p>Legal Authority, Enforcement and Controls</p> <p>1. Adequate legal powers should be conferred to Customs officers for purposes of controls and enforcement of Customs.</p> <ul style="list-style-type: none"> ✓ power to examine goods ✓ right of access to premises, vehicles, vessels or aircraft or persons or companies involved international trade transaction and their business records ✓ power to take representative samples of goods at importation, post-importation and or at export ✓ power to detain goods imported or intended for export ✓ power to conduct post-clearance audit and obtain business records, including bank records ✓ power to exchange and share information on international movements with other Customs administrations for Customs control purposes ✓ power to ascertain the admissibility of movements in advance of their arrival or departure (e.g. pre-classification, pre-valuation or advance passenger information, and any exception from the general obligation to produce the goods to Customs ✓ power to authorize person or third parties to assist Customs in performing certain Customs control functions 	<p>Met/implemented – this is addressed in the Import Duties Act of 1989. Act provides a broad range of powers for Customs officers</p> <p>Exception – Customs does not have the power to obtain business records including bank records for purpose of post clearance-audit</p>
<p>2. Customs administration should institute basic types of Customs controls.</p> <ul style="list-style-type: none"> ✓ Movement control – measures applicable to goods and means of transport before or upon arrival, departure or during a Customs procedures, until they are released <ul style="list-style-type: none"> ○ Documentary examination <ul style="list-style-type: none"> ▪ Documents prior to the submission of goods declaration ▪ Checking the goods declaration and 	<p>With the exception of use of Non-Intrusive inspection majority of all other controls are specified in the Import Duties Act of 1989 and Operating procedures.</p> <p>In addition, Inspection procedures at ports of entry should be reviewed for improvement.</p>

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<p style="text-align: center;">accompanying documentations</p> <ul style="list-style-type: none"> ○ Physical examination/Search ○ Use of Non-Intrusive Inspection – use of modern technical equipment such as scanners or other special detection devices (X-Ray, Gamma-Ray). ○ Identification of goods – to allow goods to subject to certain Customs procedures such as transit, transshipment, temporary admission, etc. 	
<p>3. Adopt Customs automated systems for documents processing and use of scanners to accelerate goods clearance to improve operational efficiency and provide full audit trails and mechanisms.</p>	Not implemented
<p>4. Employment of a Risk-based approach to Customs inspection. That is, Customs to identify and focus on high-risk areas and ensure more effective use of available resources in enforcing Customs laws and regulations.</p>	<p>Customs management indicated to us it knows its customers and their risk profiles to subject importers for thorough inspection. We could not determine if Customs actually implemented a risk-based approach and follow it consistently in the absence of the requirement and documentation.</p>
<p>5. Implementing a Post Clearance Audit approach that can increase the efficiency of Customs control, can help protect revenue, improve traders’ compliance, and detect and prevent fraud in Customs operation.</p>	Not implemented
<p>6. Adoption of International Harmonized Coding where all goods are identified by a six digit code system to achieve uniform classification, descriptions, and coding of goods crossing international borders. In addition, this also standardizes trade documentation and transmission of data and information.</p>	Not implemented
<p>Integrity in Customs administration</p> <p>7. Customs administration should adopt a code of ethical conduct to set the minimum standards of behavior required of all Customs officers.</p>	<p>Not implemented. Though as officers of the RMI public service, Customs officers are obligated to follow the RMI ethical requirements and conduct as stipulated in the Public Service Regulations and Ethics in Government Act of 1993. During our audit, we found that not all Customs officers were aware of the RMI ethical conduct requirements</p>
<p>8. Customs administration should design and implement appropriate controls mechanisms for detecting and preventing unethical behavior by Customs officers.</p> <ul style="list-style-type: none"> ✓ Internal control – investigation of incidents of suspicious and suspicions of illegality and professional misconduct related to officer corruption (e.g. establishment of internal affairs or internal investigations division to be independent and report directly to the Head of the Ministry in charge of Customs administration ✓ External control - national law of a country should provide other government agencies oversight authority to investigate and prosecute corruption by Customs officers. 	<p style="text-align: center;">Internal control – Not implemented</p> <p>External control – RMI laws provides for other authorities such as the Police and Auditor-General to investigate corruption offences by public officials and government employees and Attorney-General has power to both investigate and prosecute corruption offences by government officials and employees.</p>

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Customs administration can benefit by establishing appropriate legislations, regulations and policies and procedures that are in line with the standards and best practices set for Customs administrations around the world. We noted during our review that the Customs Division has taken the initiative and drafted legislations and policies to improve Customs operation and address weaknesses noted in the current legal framework. However, these new policies have yet to be approved as working procedures for all Customs officers to follow.

Recommendation

We recommend that:

1. Customs management continues to work with the Secretary and the Minister of Finance to approve the proposed legislation and Operating procedures to be aligned with the internationally recognized best practices framework to improve Customs administration.

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1.2 Procedures for Inspection and Clearance of Goods at Seaport, Business Compounds, and Post Office Can Be Improved

Inspection and verification procedures prior to release of goods at Seaport and Business compounds should be defined clearly and transparent. Inspection procedures at the Office, Airport, Airfreight, Dock, and Post office are documented in the Customs Office's Operating procedures¹.

We performed observations on current inspection and release procedures at the Dock, Business premises, and Post office (Majuro) and noted certain weaknesses in the current inspection and clearance procedures for incoming goods:

Observations at Dock (Delap)

The process of customs clearance of incoming goods via ocean freight begins with consignees or receivers of the goods presenting Customs Office a copy of the bill of lading (and the commercial invoice indicating full descriptions of goods) arriving on the vessel for the consignee. Inspection of incoming goods via ocean freight is performed after the Customs Office issued an inspection stamp to a bill of lading. We noted that an incoming container of goods could have more than one consignee or bill of lading. In one particular case, a container had three consignees; one was inspected while the other two were granted full release and were not inspected. Discussion with the Customs officer on duty indicated to us that full release is granted based on a importer's business profile (i.e has good records of respecting and following all regulations on imports, points of loading of goods, and other factors). We noted that during inspection of the selected consignee, the Customs officer did not have the Customs' copy of the bill of lading and relevant documents on hand and relied on the consignee's copy for the inspection. We determined that the current practice allows consignee an opportunity to alter the invoice which the Customs officers rely on to calculate and assess the duties and tax due. Additionally, we observed that the Customs Officers did not thoroughly inspect the goods against the bill of lading and the accompanying invoice.

Furthermore, we also observed that the container was already opened before the Customs Officers arrived to inspect it.

¹ Customs Office Operating procedures are part of the Ministry of Finance's Standard Operating Procedures (Key Financial Controls and Internal Operating Procedures) adopted in 2015.

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Observations at a Business compound

Our observation of a container being inspected at a business's compound noted certain weaknesses in the inspection procedures that could be improved. We found that although the container seal was not opened until the Customs officers arrived to inspect it, there were weaknesses in the clearance process. First, we observed that the inspection of the container was not properly conducted. The counting of the goods inside the container was performed by an employee of the business while the Customs officers stood below the stack of boxes without physically inspecting the goods or verify the counting by the business employee. Accordingly, there was no way for the Customs officers to know whether the total quantity indicated by the business's staff was accurate or what was actually inside the boxes. In addition, we noted that Customs officers' count noted discrepancies with the invoice which upset the owner who then requested a recount. During the recount, we observed that the Customs officers stood beside the container while the owner and his workers recounted the goods. After the recount, owner showed the Customs officers the results and the Customs officers agreed indicating that the quantity declared on the invoice were satisfied.

Finally, we also observed that when we went for our lunch break, the container was secured by the business's own lock. Accordingly, this gave the business the opportunity to remove goods while the Customs officers were away.

Observations at Post Office

Our observation noted that a Customs officer was on duty to inspect and release mails to customers at the Majuro Post office. By contrast, in Ebeye we observed one Customs officer and a representative of the Kwajalein Atoll Local Government were present during inspection and releasing of mails to the customers which provides a more check and balance and transparent operation.

We determined that the cause of the above conditions is a result of lack of adequate policy and procedures in place to ensure "checks and balances" in the inspection and release for imported goods. When the appropriate controls are not in place, this creates a risk that corrupt practices can occur. That is, when importers do not want to pay tax, they will explore

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every opportunity to reduce their tax burden, including, and if necessary, bribing Customs officers. Importers also want to obtain their goods as quickly as possible. There is big risk to the government because when its Customs officials are not acting in good faith there is the possibility of loss of revenues to the government.

Recommendation

We recommend that:

2. Customs administration requires all Customs officers to properly inspect all incoming imported goods that are selected for inspection including considering investing in a screening machine that help examine incoming goods and packages more effectively and efficiently.
3. Customs administration reviews its current inspection and release of imported goods at the Seaport and business compound for Customs officers to follow and ensure goods are inspected properly.

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1.3 Establishment of Certain Standards to Maintain Ethical Behavior and Moral Values Can Improve Productivity and Operation

Public Law 1993-63 (Ethics in Government Act) says public service is a public trust and to ensure that citizens have complete confidence in the integrity of the Government, each public official and Government employee shall respect and adhere to the fundamental principles of ethical conduct. Section 1704 sets out 12 Principles of ethical conduct: (1) states that a public official or Government employee shall not solicit or accept any gift or other item of monetary value from any person or entity seeking official action from, doing official business with; (4) Public officials and Government employees shall put forth honest effort in the performance of their duties; and (5) Public officials and Government employees shall not use public office for private gain.

Further, Public Service Commission Regulations states that no employee shall leave his place of employment during the prescribed hours of attendance, except on official business or with the permission of this controlling officer and require all public service employees to, at all times, adhere to the provisions of the Ethics in Government Act. In addition, World Customs Organization's code of conduct states that the public is entitled to have complete confidence, trust, and respect in the integrity of Customs administration and to expect Customs employees to be honest, impartial and professional in the manner in which they employ their skills, knowledge, experience and official authorities.

During our audit fieldwork, we observed certain employee behaviors at Majuro and Ebeye Customs Offices:

- Certain Customs officers were habitually absent from their work stations and it was not known whether the officers were absent due to related official functions.
- Certain Customs officers were habitually on internet surfing and watching YouTube, NBA games, boxing matches, and calls with family members residing off island using Facebook messengers during prescribed working hours for Government employees.

We determined that the officers' conducts were not consistent with the government's rules of conduct and the expectations of Customs officers which could degrade the public's faith that their government employees will faithfully execute the laws of the Republic. In addition, the fact that the officers accept salaries for works they actually have not done is unethical as

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well. We discussed the officers' conduct with their supervisors and were told that officers understand well the workplace requirements and expected conduct. Furthermore, the supervisors also indicated that the officers are adults and should not be reminded from time to time ("babysit") of what to do and what not to do at the workplace and plus the supervisors are too busy with their own works. Furthermore, it was indicated to us that the responsibility to control and monitor the use of social media at the Customs Office is a responsibility of the Secretary and IT Department.

Recommendation

We recommend that:

4. Customs Office management monitor officers conduct to ensure they are consistent with the government's rules of conduct and that of Customs organizations.
5. Customs Office institutes a code of conduct that is consistent with government's rules of conduct and that of Customs officer (ie WCO's code of conduct). In addition, Customs officers are to sign and declare that they understand the expectations of them and commit to uphold those high ethical conducts at all times.
6. Conduct or coordinate ethics training for Customs officers.

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1.4 Inspection and Clearance of Imported Goods Should Be Transparent to Promote Confidence and Integrity in Customs Administration

Inspections of goods should require at least two regulatory entities to ensure checks and balances in Customs clearance process. In addition, the Import Duties Act of 1989 states that the Minister may prescribe supplement regulations necessary for carrying out the provisions of the Act including securing assistance from other governmental agencies² and may enter into interagency agreement with other governmental agencies for the effective implementation of provision of the Act.

Generally, incoming goods via ocean freight are loaded into containers and inspected and released at either the point of entry (Seaports or Docks) or at the business premises. Businesses with warehouse containers are inspected at the businesses' yard while containers for businesses without warehouses remain at the containers' yard at the Dock where they will be inspected and released.

Our audit discovered that inspections were not performed in a transparent manner. We found that inspections at point of entry of goods at a Dock and business premises were performed solely by the Customs officers. It was indicated to us that, in the past the Majuro Atoll Local Government (MALGOV) used to participate during inspections and release of incoming goods at Dock and a business premises. The Customs officer on duty did not know why MALGOV was not involved in their inspection anymore. Discussion with MALGOV revealed to us that MALGOV would be present during inspection after it receives a notification from the Customs Office about an upcoming inspection. Additionally, MALGOV did not have the Customs inspection schedule. We determined also that MALGOV supports its presence during Customs inspection to provide additional checks and balances to ensure a fair and transparent application of Customs laws and regulations administered and enforced by Customs officials.

In addition, we noted that the only other party that participates in the process of releasing of goods at the Dock is the Majuro Stevedore & Terminal Company (MSTC), a private company that offloads and handles movement of goods on the Dock. However, we noted that

² Governmental agencies are Public Safety, Local Government bodies, Marshall Islands Marine Resources Authority, Environmental Protection Authority, Sea Patrol, Undercover Investigations Divisions, Immigration, Postal Service Authority, and Quarantine, and others

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MSTC participates when multiple consignees are involved in a container and ensures that bill of lading is stamped by the shipping agent, Customs, MALGOV, and Ports Authority. Additionally, MSTC's role is not to inspect incoming goods but to ensure that the goods are released to the right consignees.

We determined that the absence of the right checks and balances and accountability increase the likelihood that corrupt practices can occur. Customs officers have discretionary power over inspection and release of imported goods and this put them in a strong position to extract bribes in order to facilitate their release. There is a big risk to the government because when its Customs officials are not acting in good faith there is the possibility of loss of significant revenues to the government and reputational risks.

Recommendation

We recommend that:

7. The Minister of Finance and Secretary of Finance prescribe supplement regulations and enter into agreements with other governmental agencies to participate in the Customs inspections and clearance process of imported goods into the Republic. This will provide additional checks and balances in the inspection and release process for incoming goods and enhances confidence and integrity in Customs administration.

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1.5 Maintaining High Ethical Conduct can Enhance Integrity & Confidence in Customs Administration

International best practices for Customs administration states that Customs officials must: (1) perform duties with honesty, care, diligence, professionalism and integrity; (2) strive for the highest ethical standards; (3) behave at all times in a manner that enhances the reputation of the Customs Division; (4) behave in a manner consistent with the Code of Ethics and Conduct; (5) support and encourage others to comply with the Code of Ethics and Conduct; and (6) report any behavior that is inconsistent with the Code of Ethics and Conduct.

We observed that the Customs officers' behaviors are not diligent and in a manner that enhances the reputation of the RMI Customs:

- Certain Customs officers were accepting gifts of minimal value from business owners after inspection.
- A Customs officer received food from an importer or consignee while clearing the consignee's document.
- Close relationships exist between Customs officers and certain business importers. Certain consignees were served at the counter while others were served beside the desk of the same officer noted above. Additionally, we observed one consignee entered the Customs Office through the restricted door designated solely for official use while others were entering through the front door.

In addition to our own observations, certain local businesses registered some of their concerns and experiences in dealing with the Customs officers. We summarized these concerns below:

- Not all business importers receive the same service and treatments by Customs officers. It was specifically indicated that business importers are served beside the Customs officers' desks while other businesses are served at the service counter;
- Services provided by Customs officers are not on "first-come first-serve" basis because some importers wait in line to be served while others have the ability to walk into the Customs Office and clear their paper works at the Customs officer's desk. These businesses further explained that timing for a business is very important and critical for the business's operations. Additionally, if Customs officers give a hard

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time for certain businesses while allowing others smooth clearance, unsavory businesses become victimized;

- Another importer shared with us one experience when it tried to get its container out from the container yard at the main Dock because there were certain goods inside the container that were really needed. A series of calls to Customs Office between 1 and 2pm received busy signals. Finally at around 3pm the phone was answered the importer then asked if a Customs officer could come and clear its container. The response from the Customs officer was “are you ready to pay overtime”. According to this importer, because the business needed certain goods from the container it agreed to pay overtime. The Customs officer showed up at the container yard for about 9 minutes and then left without inspecting the container. Later, the Customs officer contacted the importer and demanded the overtime claim for the inspection that was not conducted. According to the importer the business paid for the Customs officer’s overtime and did not report the officer’s conduct out fear that the business may receive more hard time from this Customs officer in the future. Additionally, the importer indicated to us that the business had reported Customs officers’ unethical conducts previously but found out that no action taken and decided to stop reporting because it only creates frictions with Customs officers, a position you do not want to be in if you are an importer.

We did not find any rules that govern Customs officers’ conduct both in the office and/or during inspections which we reported also in Finding 1.3 above and noted that not all Customs officers were familiar with the RMI’s own policy on ethical conduct in public service. The absence of a set of rules to govern conduct of its officials will encourage corrupt practices to occur which may results in loss of revenues and diminishes integrity and confidence in Customs administration.

Recommendation:

We recommend that:

8. Customs management institute a code of conduct that prescribes the ethical conduct requirements that governs the conduct of its employees. Importantly, all employees must accept personal responsibility to comply with the code of conduct (e.g. sign a ethics declaration form).

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9. Conduct training on the code of ethics including RMI Ethics in Government Act
10. Institute a reporting mechanism to report breach of code by Customs officer that also allows informants to report without the fear of retaliation.

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1.6 Proper Documentation of Decisions to Inspect or Not Inspect Imported Goods Should be Maintained to Improve Accountability

Customs decisions whether to inspect or grant full release of imported goods without inspections of incoming goods should be documented to promote accountability and integrity in Customs administration.

Imported goods are retained at the place of unloading³ until permission has been granted by the Customs Division for their release. The authority to decide whether to inspect certain imported goods or release without inspection is vested with the Chief of Customs pursuant to the Import Duties Act. All importers are required to fill out a Customs Form 725.

Our audit noted that the basis and rationale behind Customs officials' decisions to select or release of certain imported goods without inspection were not documented. We also found that there were no written procedures in place to guide the selection or exemption of imported goods from Customs inspection. Customs management indicated to us that they knows their customers and their risk profiles. Specifically, it was indicated to us that the selection or exemption of imported from goods are based on the following factors:

1. The country of origin of the goods;
2. Types of goods import;
3. Shipper/exporter's profile and records;
4. Consignee or importer's profile and records;
5. Intel source (partner countries and stakeholders); and
6. Level of compliance by the shipper and importer.

We commend the Customs Division for employing a risk-based approach to select or exempt imported goods from inspection which seems to be in line with the internationally accepted practices for customs administration. However, we determined that those practices have not been formally adopted as Operating procedures and whether Customs officers follow them consistently. Additionally, we could not determine whether the risk profiles of customers were reviewed regularly to ensure they are always up to date. Furthermore, we could not

³ Incoming goods (in containers) for importers with warehouse are inspected and release at the importers' yards while containers for importers without warehouses remain at the container's yard at the Dock where they will be inspected and released.

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determine the number of importers that were inspected or grant full release because the 725 Form maintained by Customs Division did not contain respective stamps on them.

The lack of a requirement to document all important decisions of Customs officials diminishes accountability over Customs officers' actions and customs administration in general. As we reported in Finding No. 1.4 above, Customs officers have discretionary power over inspection and release of imported goods. Accordingly, there is a risk that when Custom officers are not acting in good faith and favor certain importers and not subject them for inspection there is the possibility of loss of revenues to the government.

Recommendation

We recommend that:

11. The Secretary of Finance requires all decisions and rationale behind Customs officers' inspection or exemption of imported goods from inspection be documented for accountability purposes.
12. Customs Division formally adopts in its working procedures a formal risk assessment of its customers to serve as basis for selection and exemption of imported goods from Customs inspection. In addition, the customer risk profiles should be reviewed regularly to ensure it is up to date.

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1.7 Management of Overtime Claims by Customs Officers can be Improved with Adequate Policies and Regulations

Overtime claims by Customs officers who work extra hours beyond the prescribed working hours should be properly regulated and managed. In addition, overtime claims should be accompanied with related report of the specific works performed prior to approval of payment of such claims.

We noted the following during our audit:

- Customs officers who are called to perform inspection at ports of entry beyond government working hours, weekends and/or designated public holidays, are automatically paid two hours irrespective of actual amount of time the officers spent clearing a vessel, airplane or container.
- During an observation of Customs operation at the Majuro Airport to clear imported goods via air freight, we observed that the Customs officer on duty that evening showed up at the cargo area for approximately ten (10) minutes and left before the plane even landed. Accordingly, the Customs officer did not perform the required inspection he was called to perform.
- Boarding reports containing detail of how, when, where or what was inspected which support overtime claims by Customs officers were not filled out completely. In addition, the boarding reports were not signed by the airline or shipping agent acknowledging the works performed by the Customs officers.

We questioned the appropriateness and legitimacy of any overtime claims by Customs officers in the conditions described above for works they did not performed. As we reported in Finding 1.5 above, a business importer came forward to also register its concerns over appropriateness of payment of overtime for a 9- minute inspection work by a Customs officer.

Furthermore, while overtime claims are approved by the Chief of Customs, Secretary of Finance, and the Public Service Commission (PSC) which is controlled to a certain extent, however, we noted what is presented for approval is merely a summary of overtime hours while other relevant supporting documents such as Boarding reports and service statement by Customs officers are retained with Customs Office. Accordingly, we determined that the current overtime management practice is vulnerable to malpractices and abuse. It would be

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easy for Customs officers to falsify boarding reports and overtime claims request for payment. In addition, the current practice of approving overtime will not detect collusion among Customs officers or favoritism in allocation of overtime hours.

The cause of the above conditions is a result of lack of adequate policy to govern overtime claims by Customs officers.

Recommendation:

We recommend that:

13. Chief of Customs review all overtime claims submitted by the Customs officers to ensure they are proper.
14. Customs management and Secretary of Finance, in collaboration with the Public Service Commission, adopt a sound and appropriate policy governing overtime claims by Customs officers.

Finding No. 2 Noncompliance Issues

2.1 Customs Officials Did Not Follow Established Inspection Procedures and Controls Consistently

Operating procedures adopted for Customs officers to follow include a step-by-step-check and inspection procedures from paper works to physical inspection of imported goods at the five (5) ports of entry in the country. These 5 locations are Customs office, Seaports, Airports, Post office, and Business premises. The Operating procedures instituted in 2015 and signed by the Minister of Finance for all employees to follow to satisfy their fiduciary responsibilities.

We reviewed 360 samples selected of Customs Form 725⁴ to determine whether the approved inspection procedures and controls during clearance of imported goods were followed. Our audit noted discrepancies in the application of the approved procedures and that those procedures were not followed consistently by Customs officers. A summary of the discrepancies noted is presented in Table 2 below. In addition, we could not complete our review because a significant number of Customs Form 725s were missing and unavailable for our review. In addition, as we reported in Finding 2.4 there is a lack of proper maintenance of government records and files which impeded our review.

Table 2: Results of Compliance Testing with the SOP -Majuro & Ebeye Customs Offices

No	Controls	Majuro Seaport					Ebeye Seaport					
		Yes	No	N/A	Missing	Exempted	Total	Yes	No	N/A	Missing	Total
1	Is 725 Form filled out fully and legibly?	80	30	0	70		180	4	15	4	37	60
2	Are taxpayer assisted in filling out the 725 form?	0	0	110	70		180	0	0	9	51	60
3	Are pre-generated serial number clearly printed on 725 forms?	110	0	0	70		180	2	3	4	51	60
4	Are taxpayer and importer names recorded on the serial number worksheet?	108	2	0	70		180	3	0	6	51	60
5	Were total quantities and Values of goods confirmed and matched with the bill of lading?	98	12	0	70		180	0	1	8	51	60
6	Were inspection performed at the dock or at the business premises?	0	0	110	70		180	0	0	9	51	60
7	Were invoice match:											
	(1) bill of lading; and	105	1	4	70		180	0	1	8	51	60
	(2) actual physical goods?	0	0	110	70		180	0	0	9	51	60
8	Were discrepancies detailed in an Inspection Report?	0	0	110	70		180	0	0	9	51	60
9	Was the 725 form:											

⁴ Customs Form 725 (Entry Certificate / Import Tax Assessment – Payment Receipt)

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(1) signed;	109	1	0	70	180	2	3	4	51	60	
(2) stamp with customs seal; and	110	0	0	70	180	3	2	4	51	60	
(3) attached with a copy of payment?	17	90	0	70	3	180	0	5	4	51	60
Airport						Airport					
1 Were Inspection performed for quantities and confirm goods as declared?	0	97	0	23	120	Audit procedures not performed due to Covid-19 restriction					
2 Bill of Lading companied by the stamp of Customs, MALGOV, Port Authority and shipping agent?	0	97	0	23	120						

Source: Seaports & Airport Declaration Forms for Fiscal Years 2017 to 2019

The cause of the above discrepancies is the lack of will on the part of Customs officers to follow approved Operating procedures and proper supervision to follow all rules and Operating procedures. The effect of the above conditions is that the Customs officers are violating a duly approved Operating procedures by the highest level in the Ministry of Finance.

Recommendations

We recommend that:

15. Customs management ensure strict compliance with established procedures for clearing imported goods at all time and implement a supervisory review of all 725 forms.
16. Customs management institute a policy on proper maintenance and records keeping of all Customs work documents and files

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2.2 Required Inspection Reports Were Not Produced and Maintained on Files

Reports on inspections performed by Customs officers at the Seaports, Airport, Post office, and Business premises should be documented and maintained at all time. This sound practice is further elaborated in Section 12.1 of the Operating procedures approved for all Customs officers to follow which states that inspection of imported goods via ocean freight is carried out at either the dock or at the business premises and any discrepancies are detailed in an inspection report.

We found that required inspection reports were not produced and maintained on files for the three fiscal years we examined. We inquired with Customs management why the required reports were not prepared and maintained on files and were told that indeed Customs officers used to prepare inspection reports in the past but did not understand why they stopped. Further, management indicated that the current Operating procedures and the legislation are not very clear concerning such matter that could lead to different interpretation and inconsistencies. However, we take contrary view as the requirement is to produce inspection reports after each inspection is explicitly clear in the current Operating procedures.

Overriding Customs inspection procedures and controls represents a deviation from the approved policy and creates risk that imported goods may not be thoroughly inspected for import tax duty purposes. In addition, in the absence of the inspections reports we could not determine whether discrepancies were noted by Custom officers during inspection or how those discrepancies were dealt with.

Recommendation

We recommend that:

17. Customs management requires Customs officers to prepare inspection report after each inspection as dictated by the approved Operating procedures.

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2.3 Required Inspection Procedures and Controls for Clearing Goods at the Airport and Post Office Were Not Followed

Operating procedures adopted for Customs officers to follow include a step-by-step-check and inspection procedures from paper works to physical inspection of imported goods at the five (5) ports of entry in the country. These 5 locations are Customs Office, Seaports, Airports, Post office, and business premises. In particular, the inspection procedures at the Airport and Post office as are listed below:

Airport Inspection Procedures (Airfreight)

1. Conduct a routine inspection for quantities and to confirm the goods are as declared on the entry form or as directed by the Chief on pre-targeted goods.

Post Office Inspection Procedures

1. Open all non-document parcels and inspect for prohibited and controlled substances or dutiable goods.
2. For narcotics and other prohibited items, contact Department of public Safety. (any Weighing/Document procedures). The actual weighing will be done by Customs and later confirmed by the Police before the narcotics are documented and put in safe storage at the Police Station.
3. For dutiable items, examine the *Entry Certificate/Import Tax Assessment – Payment Receipt* (Form 725-MJ) as well as supporting documents such as purchase invoices and shipping documents brought in to file by the taxpayer.
4. Confirm the total quantities and values of goods on the Entry Certificate match with the purchase invoice.
5. Re-calculate the duty payable to verify the computations on the Entry Certificate and confirm payment amount is accurate.
6. Sign and stamp customs seal on all copies of the *Entry Certificate* and return the original copy for the taxpayer's records.
7. Upon return to the Customs Section, deposit the payments to the Treasury Division along with copies of the Entry Certificate.
8. Post the information from the paid Entry Certificate into the customs information system and ensure the taxpayer's electronic records are updated.

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Our audit noted the following activities that were not consistent with the established inspection procedures:

Customs inspection procedures for clearing imported goods via airfreight were not followed

During an observation of Customs operation at the Majuro Airport to clear imported goods via air freight, we observed that the Customs officer on duty that evening showed up at the cargo area for approximately ten (10) minutes and left before the plane even landed⁵. Accordingly, the Customs officer did not perform the required inspection to ensure that the incoming goods match the airway bill or cargo manifest as declared to the Customs Office. Discussion with a supervisor revealed that the Customs officer on duty should have been there to physically inspect the imported goods to ensure they match the airway bill. In addition, we noted that the Customs Division does not have a screening machine to examine the incoming goods more efficiently.

Customs inspection procedures for releasing mails were not followed

Our observation at the Post offices on both Majuro and Ebeye noted that mails were not properly screened before they were released.

Majuro Post office

Our observation noted that a Customs officer was on duty to inspect and release mails to customers. We observed that duty officer did not physically inspect the mails that were being released to the customers that came to claim their mail packages. During this observation one mail package was opened and inspected, however, it appeared that the officer purposely opened the mail package after he discovered that we were from the Audit office and was conducting observations.

Ebeye Post office

Our observation noted that one Customs officer and a representative of the Kwajalein Atoll Local Government were present during inspection and releasing of mails to Post office customers. One customer came to collect mail during our observation on March 11, 2021 which was released to the customer unopened and without inspection.

⁵ We reported the same matter in Finding 1.7 to question the appropriateness of any overtime claims by the Customs officer on duty for works that was not performed

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The current practice of overriding inspection procedures and controls not only represents a deviation from the approved policy; it also creates risk that imported goods may not be thoroughly inspected for import tax duty purposes. In addition, we observed that Customs inspections could be more efficient with the use of scanning machine to check mail packages and detecting narcotics, and other prohibited or illegal goods effectively.

Recommendation

We recommend that:

18. Customs management require Customs officers to follow established inspection procedures for mail packages and ensure they thoroughly inspected before release.

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2.4 Security of Record Keeping and Maintenance Can Be Improved

Customs files should be stored in a secured place at all times. In addition, Section 1 of Operating procedures states, tax forms file in the taxpayers' folder in the filing cabinet.

Our audit found that Customs Division does not have proper record keeping and file maintenance system. We observed that the Customs files in Majuro Customs Office were kept inside boxes and placed in the hall way and not inside the Customs Office as shown in Figure 2 below. In addition, we found that the files were not organized by individual businesses, but instead by the corresponding year. Furthermore, we noted that files in Ebeye Customs Office were stored inside boxes and mixed with documents with different fiscal years as also shown in Figure 2 below.

Of the 300 725 forms we requested to Customs Division in Majuro for our review, 207 were available and 93 were not in both Seaport and Airport because management could not locate due to poor record keeping and file maintenance. The 725 forms for FY 2019 for Airport were unavailable; therefore we could not perform our audit procedures. In addition, of 60 declaration forms we requested to Customs Division in Ebeye concerning Seaport operation, 8 were available and 52 were not. In addition, all 725 forms concerning FY 2018 for Seaport for Ebeye were unavailable and we could not perform any testing. Details of missing files are shown in Exhibit 1.1 thru Exhibit 2.2 attached to this report.

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Figure 2: Record Keeping and Maintenance of Files

Majuro Customs' Files



Ebeye Customs' Files



Source: Pictures were taken by the Auditors during the fieldworks at Ebeye and Majuro Customs Division.

The cause of the above condition is a deviation from the records keeping policy and lack of supervision to ensure the records maintenance policy is complied with. Furthermore, the management indicated that Customs Division lacks office space and attention to its needs. Specifically, it was indicated to us that procurement requests for filing cabinets to store important Customs records never received favorable consideration and approval.

Recommendation

We recommend that:

19. Customs management should comply with the established procedures regarding record keeping and maintenance and consider digitizing all Customs records.
20. Management should take necessary action to secure the Customs files located in the Office hallway.

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Exhibits

Exhibit 1.1: Selected Sample of Customs Forms 725 by Seaport Majuro for Fiscal Year 2017

No	725 Form serial number	Is 725 Form filled out fully and legibly?	Are taxpayer assisted in filling out the 725 form?	Are pre-generated serial number clearly printed on 725 forms?	Are taxpayer and importer names recorded on the serial number worksheet?	Were total quantities and Values of goods confirmed and matched with the bill of lading?	Were inspection performed at the dock or at the business premises? (f)	(f) Were invoice match:		Were discrepancies detailed in an Inspection Report? (f)	Was the 725 form:		
								(1) bill of lading	(2) actual physical goods?		(1) signed	(2) stamp with customs seal	(3) attached with a copy of payment?
1	170034	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
2	170131	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
3	170277	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
4	170356	{a}											
5	170394	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
6	170540	Yes	N/A	Yes	yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
7	170562	Yes	N/A	Yes	yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
8	170698	{a}											
9	170677	{a}											
10	170732	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
11	170766	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
12	170818	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
13	170894	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
14	171158	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
15	171286	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
16	171316	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
17	171343	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
18	171379	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}

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19	171445	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
20	171475	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
21	171713	Yes	N/A	Yes	Yes	No{d}	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
22	171884	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
23	171909	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
24	171983	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
25	172031	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
26	172130	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
27	172193	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
28	11668	{a}											
29	172322	Yes	N/A	Yes	Yes	No{c}	N/A	N/A	N/A	N/A	Yes	Yes	No{e}
30	172378	{a}											
31	172436	Yes	N/A	Yes	Yes	No{d}	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
32	172496	Yes	N/A	Yes	Yes	No{c}	N/A	N/A	N/A	N/A	Yes	Yes	No{e}
33	172618	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
34	172624	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
35	172706	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
36	172740	{a}											
37	172757	Yes	N/A	Yes	Yes	No{c}	N/A	N/A	N/A	N/A	Yes	Yes	No{e}
38	172795	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
39	172836	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
40	172871	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
41	172932	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
42	172961	No{b}	N/A	Yes	Yes	No{d}	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
43	172997	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
44	172992	{a}											
45	173294	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
46	173285	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
47	173326	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}

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48	173421	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
49	173477	Yes	N/A	Yes	Yes	yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
50	173506	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
51	173644	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
52	173636	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
53	173661	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
54	173668	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
55	173715	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
56	173763	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
57	173767	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
58	173928	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
59	113947	{a}											
60	173965	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}
	Yes	40	0	52	52	46	0	49	0	0	52	52	7
Total	No	12	0	0	0	6	0	0	0	0	0	0	45
	N/A	0	52	0	0	0	52	3	52	52	0	0	0
	Missing {a}	8	8	8	8	8	8	8	8	8	8	8	8

Source: Customs Form 725 of Imported goods via Seaport for Fiscal Year 2017

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Exhibit 1.2: Selected Sample of Customs Forms 725 by Seaport Majuro for Fiscal Year 2018

No	725 Form serial number	Is 725 Form filled out fully and legibly?	Are taxpayer assisted in filling out the 725 form?	Are pre-generated serial number clearly printed on 725 forms?	Are taxpayer and importer names recorded on the serial number worksheet?	Were total quantities and Values of goods confirmed and matched with the bill of lading?	Were inspection performed at the dock or at the business premises?	Were invoice match:			Was the 725 form:		
								(1) bill of lading	(2) actual physical goods?	Were discrepancies detailed in an Inspection Report?	(1) signed	(2) stamp with customs seal	(3) attached with a copy of payment?
1	180013	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
2	180055	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
3	180071	Yes	N/A	Yes	Yes	No(g)	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
4	180118	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
5	180185	No(b)	N/A	Yes	Yes	No(d)	N/A	Yes	N/A	N/A	No	Yes	No(e)
6	180169	No(b)	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
7	180224	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
8	172881	{a}											
9	180348	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
10	180517	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
11	180571	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
12	180620	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
13	180633	{a}											
14	180663	{a}											
15	180693	{a}											
16	180776	No(b)	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
17	180916	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
18	180938	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
19	160776	{a}											
20	180982	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
21	181117	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)

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22	181146	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
23	181265	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
24	181330	{a}											
25	181354	{a}											
26	181430	{a}											
27	181445	{a}											
28	181494	{a}											
29	181537	{a}											
30	181623	{a}											
31	181876	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
32	181879	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
33	181873	Yes	N/A	Yes	Yes	No	N/A	N/A {c}	N/A	N/A	Yes	Yes	No(e)
34	181888	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes
35	182008	{a}											
36	182006	Yes	N/A	Yes	Yes	No{d}	N/A	Yes	N/A	N/A	Yes	Yes	No{d}
37	182161	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No
38	182174	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
39	182353	Yes	N/A	Yes	No	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
40	182486	{a}											
41	182536	{a}											
42	182770	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)
43		{a}											
44		{a}											
45		{a}											
46		{a}											
47		{a}											
48		{a}											
49		{a}											
50		{a}											

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51	{a}												
52	{a}												
53	{a}												
54	{a}												
55	{a}												
56	{a}												
57	{a}												
58	{a}												
59	{a}												
60	{a}												
	Yes	24	0	27	26	23	0	26	0	0	26	27	5
Total	No	3	0	0	1	4	0	0	0	0	1	0	22
	N/A	0	27	0	0	0	27	1	27	27	0	0	0
	Missing {a}	33	33	33	33	33	33	33	33	33	33	33	33

Source: Customs Form 725 of Imported goods via Seaport for Fiscal Year 2018

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Exhibit 1.3: Selected Sample of Customs Forms 725 by Seaport Majuro for Fiscal Year 2019

No	725 Form serial number	Is 725 Form filled out fully and legibly?	Are taxpayer assisted in filling out the 725 form?	Are pre-generated serial number clearly printed on 725 forms?	Are taxpayer and importer names recorded on the serial number worksheet?	Were total quantities and Values of goods confirmed and matched with the bill of lading?	Were inspection performed at the dock or at the business premises? (f)	(f) Were invoice match		Were discrepancies detailed in an Inspection Report? (f)	Was the 725 form:			
								(1) bill of lading	(2) actual physical goods?		(1) signed	(2) stamp with customs seal	(3) attached with a copy of payment?	
1	{a}													
2	190203	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
3	{a}													
4	{a}													
5	193913	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
6	{a}													
7	190645	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
8	{a}													
9	{a}													
10	190731	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Exempted	
11	{a}													
12	190855	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
13	190844	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
14	{a}													
15	190977	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
16	191087	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
17	{a}													
18	{a}													
19	{a}													
20	191050	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
21	191212	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	

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22	{a}													
23	191496	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
24	191431	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
25	191620	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
26	192160	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
27	{a}													
28	{a}													
29	{a}													
30	{a}													
31	192356	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
32	192383	No	N/A	Yes	No	No{c}	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
33	192651	No	N/A	Yes	Yes	No	N/A	No	N/A	N/A	Yes	Yes	No{e}	
34	192727	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes	
35	192578	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
36	{a}													
37	192839	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes	
38	{a}													
39	{a}													
40	192732	No{b}	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
41	{a}													
42	192863	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes	
43	{a}													
44	193170	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
45	{a}													
46	193913	No	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
47	{a}													
48	193382	No	N/A	Yes	Yes	Yes {d}	N/A	Yes	N/A	N/A	Yes	Yes	No{e}	
49	{a}													
50	193538	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	No{b}	Yes	No{e}	

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51	{a}													
52	{a}													
53	193859	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Exempted	
54	{a}													
55	{a}													
56	194127	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	No(e)	
57	{a}													
58	194298	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Yes	
59	194297	Yes	N/A	Yes	Yes	Yes	N/A	Yes	N/A	N/A	Yes	Yes	Exempted	
60	194453	Yes	N/A	Yes	Yes	Yes (d)	N/A	Yes	N/A	N/A	Yes	Yes	Yes	
	Yes	16	0	31	30	29	0	30	0	0	30	31	5	
Total	No	15	0	0	1	2	0	1	0	0	0	0	23	
	N/A	0	31	0	0	0	31	0	31	31	0	0	0	
	Exempted	0	0	0	0	0	0		0	0	0	0	3	
	Missing (a)	29	29	29	29	29	29	29	29	29	29	29	29	

Source: Customs Form 725 of Imported goods via Seaport for Fiscal Year 2019

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Exhibit 1.4: Selected Sample of Customs Forms 725 by Seaport Ebeve for Fiscal Year 2017

No	725 Form serial number	Is 725 Form filled out fully and legibly?	Are taxpayer assisted in filling out the 725 form?	Are pre-generated serial number clearly printed on 725 forms?	Are taxpayer and importer names recorded on the serial number worksheet?	Were total quantities and Values of goods confirmed and matched with the bill of lading?	Were inspection performed at the dock or at the business premises? {f}	{f} Were invoice match		Were discrepancies detailed in an Inspection Report? {f}	(1) signed	Was the 725 form:		
								(1) bill of lading	(2) actual physical goods?			(2) stamp with customs seal	(3) attached with a copy of payment?	
1	E09130	{a}												
2	E09123	{a}												
3	E09135	{a}												
4	E09140	{a}												
5	E09154	Yes	N/A	No	Yes	N/A	N/A	N/A	N/A	N/A	Yes	Yes	No	
6	E09171	{a}												
7	E09172	Yes	N/A	No	Yes	N/A	N/A	N/A	N/A	N/A	No	Yes	No	
8	E09189	Yes	N/A	No	Yes	N/A	N/A	N/A	N/A	N/A	Yes	Yes	No	
9	E09198	{a}												
10	E09209	{a}												
11	E09225	{a}												
12	E09238	{a}												
13	E09246	{a}												
14	E09283	{a}												
15	E09297	{a}												
16	E09298	{a}												
17	E09315	{a}												
18	E09319	{a}												
19	E09352	{a}												
20	E09360	{a}												
21	E09374	{a}												
22	E09380	{a}												
23	E09387	{a}												

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24	E09388	{a}												
25	E09389	{a}												
26	E09407	{a}												
27	E09409	{a}												
28	E09440	{a}												
29	E09442	{a}												
30	E09445	{a}												
	Yes	3	0	0	3	0	0	0	0	0	2	3	0	
Total	No	0	0	3	0	0	0	0	0	0	1	0	3	
	N/A	0	3	0	0	3	3	3	3	3	0	0	0	
	Missing{a}	27	27	27	27	27	27	27	27	27	27	27	27	

Source: Ebye Customs Form 725 of Imported goods via Seaport for Fiscal Year 2017

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Exhibit 1.5: Selected Sample of Customs Forms 725 by Seaport Ebeve for Fiscal Year 2019

No	725 Form serial No.	Is 725 Form filled out fully and legibly?	Are taxpayer assisted in filling out the 725 form?	Are pre-generated serial number clearly printed on 725 forms?	Are taxpayer and importer names recorded on the serial number worksheet?	Were total quantities and Values of goods confirmed and matched with the bill of lading?	Were inspection performed at the dock or at the business premises? {f}	{f} Were invoice match			Was the 725 form:			
								(1) bill of lading	(2) actual physical goods?	Were discrepancies detailed in an Inspection Report? {f}	(1) signed	(2) stamp with customs seal	(3) attached with a copy of payment?	
1	936	No	N/A	Yes	N/A	No	N/A	No	N/A	N/A	No	No	No	{d}
2	956	{a}												
3	976	{a}												
4	977	{a}												
5	979	{a}												
6	988	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	{c}{j}{i}
7	1010	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	{j}{i}
8	1016	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	{c}{j}{i}
9	1031	Yes	N/A	Yes	N/A	N/A	N/A	N/A	N/A	N/A	No	No	No	{c}{j}{i}
10	1041	{a}												
11	1044	{a}												
12	1045	{a}												
13	1054	{a}												
14	1059	{a}												
15	1064	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	{c}{j}{i}
16	1067	{a}												
17	1071	{a}												
18	1092	{a}												
19	1154	{a}												
20	1155	{a}												
21	1186	{a}												

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22	1192	{a}												
23	1196	{a}												
24	1197	{a}												
25	1201	{a}												
26	1204	{a}												
27	1213	{a}												
28	1221	{a}												
29	1243	{a}												
30	1252	{a}												
	Yes	1	0	2	0	0	0	0	0	0	0	0	0	0
Total	No	15	0	0	0	1	0	1	0	0	2	2	2	
	N/A	4	6	4	6	5	6	5	6	6	4	4	4	
	Missing {a}	10	24	24	24	24	24	24	24	24	24	24	24	24

Source: Ebye Customs Form 725 of Imported goods via Seaport for Fiscal Year 2019

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Exhibit 2.1: Selected Sample of Customs Declaration Forms 725 by Airport Fiscal Year 2017

No	Importer	Airway Bill	Entry Number	Were inspection performed for quantities and confirm goods as declared?	Bill of lading companied by the stamp of Customs, MALGov, Port Authority and shipping agent?
1	99999	73588992	172092	No	No
2	12162	01673992763	171737	No	No
3	12162	01619960264	171326	No	No
4	11822	5262037642	170438	No	No
5	04847	016GUM17385955	171301	No	No
6	11387	01625776413	171420	No	No
7	04842	01673598755	172788	No	No
8	11387	01617399535	172650	No	No
9	99999	016PNI17371642	170026	No	No
10	12605	01673587990	171628	{a}	{a}
11	04847	016GUM26618248	173825	No	No
12	03140	3469112673	170080	No	No
13	12438	12321977760	171592	No	No
14	11313	6878784312	173833	No	No
15	12162	01604640134	170741	{a}	{a}
16	11387	01617339486	170243	No	No
17	12194	8229196201	172142	No	No
18	12162	3822703581	171582	No	No
19	10396	661650	173450	No	No
20	99999	0167349126	170951	No	No
21	10396	7564653381	172938	No	No
22	99999	7109229610	171723	No	No
23	11094	01619874982	173935	No	No
24	12162	4551688816	173785	No	No
25	10321	2246680052	171782	No	No
26	11094	01608989551	170270	No	No
27	11387	01617339475	170241	No	No
28	10396	4549996791	171314	{a}	{a}
29	10396	01619327090	170067	No	No
30	12194	9832104855	172143	{a}	{a}
31	99999	6926540490	172082	{a}	{a}
32	12322	0162661261	173658	No	No
33	13339	735779505	170281	No	No
34	12526	Hand Carried {h}	172999	No	No
35	11271	01619012055	172805	No	No
36	12450	01672580334	171032	No	No
37	04847	KSA01617383122	171999	No	No

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38	12120	016-7358 7463	171488	No	No
39	04842	6302828956	172410	No	No
40	03140	01625878543	172323	{a}	{a}
41	11314	8426631924	172748	{a}	{a}
42	00074	0167346975	172306	No	No
43	03140	01625879221	172419	{a}	{a}
44	00074	12053N346793850150	170194	No	No
45	04842	9100669874	172875	No	No
46	12322	01673510522	170802	{a}	{a}
47	12194	5483629297	171844	No	No
48	00562	3304632811	172253	No	No
49	10471	2261679696	170202	{a}	{a}
50	02005	4648520634	170204	No	No
51	03140	2246680424	171933	No	No
52	12438	12321977922	172048	{a}	{a}
53	99999	9106969605	171555	No	No
54	12322	01673487853	173504	No	No
55	11387	016GUM17398146	170721	No	No
56	04847	0162668410	173980	No	No
57	12162	5894037214	171990	No	No
58	03140	01625751806	170545	{a}	{a}
59	04847	01675776730	171607	No	No
60	11094	8007158574	172285	No	No

Source: Customs Form 725 of Imported goods via Airport for Fiscal Year 2017

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Exhibit 2.2: Selected Sample of Customs Declaration Forms 725 by Airport Fiscal Year 2018

No	Importer	Airway Bill	725 Form	Were inspection performed for quantities and confirm goods as declared?	Bill of lading companied by the stamp of Customs, MALGov, Port Authority and shipping agent?
1	13027	9860966356	180041	No	No
2	12194	4975804153	180014	{a}	{a}
3	04842	7202891684	180015	No	No
4	12605	74728102	180026	No	No
5	12322	66700	180025	No	No
6	10264	4904019831	180267	{a}	{a}
7	11186	1Z4138E10442467848	180054	No	No
8	13027	26624463	180051	No	No
9	99999	4560893794	180046	No	No
10	10507	4560789402	180079	No	No
11	10307	01626624625	180072	No	No
12	10555	9501726220	180068	No	No
13	04842	01618949070	180066	No	No
14	04842	3087493522	180103	No	No
15	09762	1232198326	180094	No	No
16	12160	767027706	180095	No	No
17	00074	5818488981	180092	No	No
18	11822	69501726150	180089	{a}	{a}
19	10503	016PNI26644335	180087	No	No
20	11387	01626618605	180084	No	No
21	12677	5576492622	180083	No	No
22	12194	1598355404	180109	{a}	{a}
23	10766	3465541990	180108	No	No
24	04847	016GUM26645975	180117	No	No
25	12200	1621080511	180113	No	No
26	12200	01619786535	180112	No	No
27	12200	01674687826	180111	No	No
28	12160	4561713696	180133	No	No
29	10766	3722717202	180130	No	No
30	13383	01625389173	180123	{a}	{a}
31	12322	01674687852	180120	No	No
32	11507	Hand Carried {h}	180119	No	No
33	11822	9501726323	180125	No	No
34	12790	01618394843	180144	No	No
35	10882	5722027463	180145	No	No

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36	02005	2272023843	180162	No	No
37	12438	12324004525	180166	No	No
38	12322	01674687922	180194	{a}	{a}
39	12498	01674728345	180191	No	No
40	11387	01626618616	180190	No	No
41	04847	01626624502	180172	No	No
42	10396	77038270505	180168	No	No
43	10396	1089064326	180167	No	No
44	11044	2942980725	180200	{a}	{a}
45	12526	01674728474	180196	No	No
46	11387	01626618620	180197	No	No
47	12740	6345192884	180208	No	No
48	10307	01626624835	180205	No	No
49	99999	4600004856047706	180204	No	No
50	12194	4052779242	180217	{a}	{a}
51	00562	1817658125	180222	No	No
52	11387	01626618542	180210	No	No
53	04842	01637203972	180250	No	No
54	04842	1553450640	180253	No	No
55	10766	01673503964	180239	No	No
56	10741	01643608821	180237	No	No
57	12194	12321992224	180265	{a}	{a}
58	12559	907986387	180262	No	No
59	03140	01630542072	180259	No	No
60	00053	12321990975	173204	{a}	{a}

Source: Customs Form 725 of Imported goods via Airport for Fiscal Year 2018

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Tick-Marks:

- a) Customs Form 725 that were not available at Customs Division for our review.
- b) Customs Form 725 not footed, or information not clearly written, or missing signature of either the consignee or assessor.
- c) No invoices, No bill of lading or both.
- d) Customs Form 725 were not diligently reviewed against invoices.
- e) Receipt # was hand written but physical receipt not attached with the Customs Form 725.
- f) Inspection reports were not documented and maintained. Additionally, control appeared not reasonable because it cannot perform inside the office.
- g) It is unknown whether amount reported on the Customs Form 725 is accurate because exchange rate was not indicated. Amount on Invoice is in New Zealand dollar.
- h) Customs Form 725 are not used for hand carried goods.
- i) No payment receipt attached with the Customs Form 725.
- j) No Customs Form 725 used. The form used is a quick calculus.
 - Yes - Bill of lading was complied with such requirement.
 - No - Bill of lading was not complied with such requirement.
 - N/A - could not be determine as there was no results or justification noted on file to indicate that such requirement was performed.

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Appendices: Agency Responses

Appendix I – Responses from the Ministry of Finance, Banking and Postal Services



Office of the Secretary
Ministry of Finance, Banking, & Postal Services
Government of the Republic of the Marshall Islands

September 10, 2021

Junior Patrick
Auditor-General
Office of the Auditor-General
Republic of the Marshall Islands

Dear Mr. Patrick,

We have reviewed the draft report presented during our exit meeting on August 23, 2021 and a provided hard copy by your office on August 26th, 2021. Attached are our responses to these findings.

We sincerely apologize for the rather late response and want to extend our gratitude for the audit. We acknowledge the importance of it as it will serve as a tool to better our duties within the Customs division.

Sincerely,


Patrick Langrine
Secretary of Finance

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6

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Finding 1.1 - RMI Customs administration can be more effective by adopting the internationally-recognized framework and practice for customs administration

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. A Customs' framework has been drafted, briefly introduced to Cabinet, and is currently with the Attorney General for final review since 2019. The Ministry admits that it has been passive in doing follow up on the result of the Attorney General's review on the Draft of the Custom's Framework.

The Ministry acknowledge that improving the Department of Customs should be one of the key priorities of the Ministry moving forward. Therefore, the Ministry has reach out to both World Bank and the Asian Development Bank for technical assistance in the form of Human Capital to serve as an on-site consultant for the Custom Department focusing on finalizing the draft framework and serve as an advisor/consultant for the Department.

Finding 1.2 - Procedures for inspection and clearance of goods at seaport, business compounds, and post office can be improved

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Although, due to Covid procedures, inbound/outbound general declaration forms are emailed prior to incoming flights for a customs officer to clear. Customs officers then stamp the document and send it back. As for Asia Pacific Airline, Customs' officers should be at the airport two hours prior to its arrival to stamp the documents for the fish that are to be exported. The officers can leave even though the flight is yet to arrive due to the Covid 19 restrictions. Based on the one observation made by the auditors as stated in the report.

Finding 1.3 - Establishment of certain standards to maintain ethical behavior and moral values can improve productivity and operation

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Although, customs officers are constantly in and out of office for outfield. Chief of Customs will enforce a monitoring mechanism for all Customs Officers during working hours.

The Ministry admits that it lacks a code of conduct for its employees. The MOF Employee's Code of Conduct which aligns with the Public Service Commission's is still in draft mode but it covers only the General Aspect of all the Ministry's employees as a whole. The Ministry feels that its draft Code of Conduct should address each areas including Customs Department.

In time of a missing Code of Conduct for the Ministry of Finance's Custom Division, the Ministry will move to adopt the World's Customs Organization Model Code of Ethics and Conduct while a specific Code of Conduct is in drafting stage.

One of the initiatives moving forward is to re-educate and conduct trainings on the Customs Act, PSC Code of Conduct, and Standard Operating Procedures of the Department.

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Finding 1.4 - Inspection and clearance of imported goods should be transparent to promote confidence and integrity in Customs administration

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. The Ministry strongly feel that revisiting the Standard Operating Procedures is highly needed.

Management will develop a system in which each Customs Officer are required to follow thru in their inspection. The form will be filled and signed by the Custom Officer after each inspection and submit to the Chief of Customs and further to the attention of the Minister and the Secretary of Finance.

Management also feels that training on the Standard Operating Procedure of the Customs Office should be given also to the Custom Officers.

Finding 1.5 - Maintaining high ethical conduct can enhance integrity & confidence in customs administration

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Customs management is working to establish a code of conduct within the division to ensure that all customs officers sign an ethics conduct form and have a swear in ceremony to be able to perform their duties. In addition, the Ministry's Internal Audit is in the works to create a complaint hotline and email to for public to report any suspicious activities or complaints.

Finding 1.6 - Proper documentation of decisions to inspect or not to inspect imported goods should be maintained to improve accountability

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Moving forward the Chief of Custom as recommended will draft a manual/guideline that will document the Chief of Customs decision making process in choosing which goods are subject for inspection and goods not to inspect. Furthermore, the manual/guideline is subject to the approval and consent of the Secretary and Minister of Finance.

Due date for the manual/guideline is set for 10/1/2021

Finding 1.7 - Management of overtime claims by customs officers can be improved with adequate policies and regulations

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Therefore, the Chief of Customs will implement better monitoring for Custom Staff in Office and in outfield duties.

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Finding 2.1 - Customs officials did not follow established inspection procedures and controls consistently

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Therefore, moving forward in addressing this finding, the Ministry require that part of the Compliance Officer's duties is to perform weekly audit of each Customs Forms to ensure that all forms are filled and filed accordingly.

The Ministry recently has implemented and use the Rack2Filer filing system. The system has been installed in all areas of Finance, and is currently used by all Department in the Ministry. Though, the system has just been installed and

The Ministry is still in working process of procuring a Customs Information System which will help monitor and record keeping of all inbound goods.

Finding 2.2 - Required inspection reports were not produced and maintained on file

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Therefore, the Ministry will address this issue as it will with Finding 2.1

Finding 2.3 - Required inspection procedures and controls for clearing of goods at the airport and post office were not followed

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. Management will develop a system in which each Customs Officer are required to follow thru in their inspection. The form will be filled and signed by the Custom Officer after each inspection and submit to the Chief of Customs and further to the attention of the Minister and the Secretary of Finance.

Finding 2.4 - Security of record keeping and maintenance can be improved

Ministry of Finance's Response: The Ministry acknowledge and accepts the finding. For recent years the Ministry has been facing the lack of filing space. Moving forward, Management has acquired and installed the Rack2filer filing system for the Ministry to use.

Proper filing both electronically and physically will be incorporated as part of the Compliance Officer inspection for all customs inspection forms.

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Appendix II: Auditors' Responses to the Comments from the Ministry of Finance, Banking and Postal Services

Finding 1.1 – RMI Customs Administration Can Be More Effective by Adopting the Internationally-Recognized Framework and Practices for Customs Administration

We acknowledge the comments from the Ministry of Finance. We commend the Ministry for the efforts and plans to initiate institutional reforms to improve Customs administration. We reiterate our recommendation that Customs administration can benefit by adopting the universally recognized legal framework and good practices for Customs administration.

Finding 1.2 – Procedures for Inspection and Clearance of Goods at Seaport, Business Compounds, and Post Office Can Be Improved

We acknowledge the comments from the Ministry of Finance which accepted our finding and recommendation in Finding 1.2. We note that part of the Ministry's response appears to be directed at a matter we reported in our Finding No. 2.3 in relation to our observation of Customs clearance at the Airport (airfreight).

The Ministry stated in its response that due to Covid safety procedures, Customs officers can process the declaration forms for inbound/outbound cargo and leave the Airport before a flight arrives. During our observation this night, we noted that after decontamination of the incoming cargo by a team of officials from the EPA, Health, Quarantine, the cargo and mails were then collected by the officials from the Post office. Therefore, we determined that if the Post office officials had the ability to collect the mails, the Customs officers should have had the ability to inspect them. Accordingly, we reiterate our recommendation that Customs officers properly inspect all incoming cargo via airfreight as stipulated in the approved inspection procedures.

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Appendix III: OAG Follow-Up System

Actions or documentation required to clear audit issues from OAG follow-up system

Finding No.	Recom. No.	Recommendations	Actions To Be Taken
1. Opportunities Are Present to Improve the Customs Division's Internal Controls and Operations:			
1.1	1	Customs management continues to work with the Secretary and the Minister of Finance to approve the proposed legislation and operating procedures to be align with the internationally recognized best practices framework to improve Customs administration	Provide a copy of the approved legislation and Operating procedures that align RMI Customs administration with the internationally recognized best practices framework.
1.2	2.	Customs administration requires all Customs officers to properly inspect all incoming imported goods that are selected for inspection including considering investing in a screening machine that help examine incoming goods and packages more effectively and efficiently.	Provide written assurance that actions have been take to implement our recommendation.
	3.	Customs administration reviews its current inspection and release of imported goods at the Seaport and business compound for Customs officers to follow and ensure goods are inspected properly.	Provide written confirmation that actions have been taken to implement our recommendation.
1.3	4	Customs Office management monitor officers conduct to ensure they are consistent with the government's rules of conduct and that of Customs organizations	Provide written confirmation that all Customs officers are required to adhere to government's rule of conduct.
	5	Customs Office institutes a code of conduct that is consistent with government's rules of conduct and that of Customs officer (ie WCO's code of conduct). In addition, Customs officers are to sign and declare that they understand the expectations of them and commit to uphold those high ethical conducts at all times.	Provide copy of the Code of Conduct for the Customs Administration including copy of the Customs officers' signed ethics conduct form.

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	6	Conduct or coordinate ethics training for Customs officers	Provide confirmation that ethics training was conducted and, including, provide copy of the training agenda, schedule of the training and registry of attendees.
1.4	7	The Minister of Finance and Secretary of Finance prescribes supplement regulations and enter into agreements with other governmental agencies to participate in the Customs inspections and clearance process of imported goods into the Republic. This will provide additional checks and balances in the inspection and release process for incoming goods and enhances confidence and integrity in Customs administration.	Provide copy of the agreement enter into with other governmental agencies to participate in the Customs inspections and clearance process of imported goods into the Republic.
1.5	8	Customs management institute a code of conduct that prescribes the ethical conduct requirements that governs the conduct of its employees. Importantly, all employees must accept personal responsibility to comply with the code of conduct (e.g. sign an ethics declaration form).	Provide copy of the Code of Conduct for Customs administration and including the Customs Officers' signed ethics conduct form.
	9	Conduct training on the code of ethics including RMI Ethics in Government Act.	Provide written confirmation that ethics training was conducted including copies of - the training agenda, schedule of the training and registry of attendees.
	10	Institute a reporting mechanism to report breach of code by Customs officer that also allows informants to report without the fear of retaliation.	Provide written confirmation that a system has been institute to report misconduct within Finance by Customs officers.
1.6	11	The Secretary of Finance requires all decisions and rationale behind Customs officer's inspection or exemption of imported goods from inspection be documented for accountability purposes.	Provide copy of new policy requiring that decision of Customs to inspect or not inspect of good to be documented.
	12	Customs Division formally adopts in its working procedures a formal risk assessment of its customers to serve as basis for selection and exemption of imported goods from Customs inspection.	Provide a copy of the new risk assessment/customers risk profile.

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		In addition, the customer risk profiles should be reviewed regularly to ensure it is up to date.	
1.7	13	Chief of Customs review all overtime claims submitted by the Customs officers to ensure they are proper.	Provide written confirmation that actions have been taken to implement our recommendation.
	14	Customs management and Secretary of Finance, in collaboration with the Public Service Commission, adopt a sound and appropriate policy governing overtime claims by Customs officers	Provide a copy of new policy governing overtime claims by Customs officers.
2. Noncompliance Issues			
2.1	15	Customs management ensure strict compliance with established procedures for clearing imported goods at all time and implement a supervisory review of all 725 forms.	Provide written confirmation that actions have been taken to implement our recommendation.
	16	Customs management institute a policy on proper maintenance and records keeping of all Customs work documents and files.	Provide a copy of the policy on proper maintenance and records keeping of all Customs files.
2.2	17	Customs management requires Customs officers to prepare inspection report after each inspection as dictated by the approved Operating procedures.	Provide written confirmation that Inspection report would be prepared.
2.3	18	Customs management require Customs officers to follow established inspection procedures for mail packages and ensure they thoroughly inspected before release.	Provide written assurance that Customs officers will follow approved inspection procedures.
2.4	19	Customs management should comply with the established Operating procedures regarding record keeping and maintenance and consider digitizing all Customs records.	Provide written assurance that Customs officers will safeguard all Customs records. In addition, provide confirmation that digital system has been established.
	20	Management should take necessary action to secure the Customs files located in the Office hallway.	Provide confirmation that Customs administration has secured the files located in the Office hallway.

Contact and Acknowledgement

OAG Contact

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Acknowledgement

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