



**TOURISM ATTRACTION BOARD (TAB)  
GOVERNANCE AUDIT**

**Audit Report**

October 2014

**INTERNAL AUDIT UNIT  
CAYMAN ISLANDS GOVERNMENT**

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REF: 1314-02

## I. EXECUTIVE SUMMARY

Under the Public Management and Finance Law, the Internal Audit Unit (IAU) is required to review the management systems of all ministries, portfolios, statutory authorities and government companies.

In accordance with the 2013-2014 Audit Plan, we recently concluded a governance audit at the Tourism Attraction Board (TAB).

### Summary of Major Findings

During the audit, a number of control weaknesses were identified which impact negatively on the governance of the Tourism Attraction Board. We have summarized below the major findings of control weaknesses along with our recommendations and management responses for corrective action geared towards improvement.

Finding	Recommendation	Management Response & Action
Absence of documented comprehensive Financial Management Policies and Procedures.	The Board should ensure that documented policies and procedures are in place and are easily accessible to all staff.	An accounting policies and procedures manual is currently being developed with a target completion date of December 31, 2014.
Lack of regulation on Board proceedings.	The Chairman of the TAB and its members should establish regulations governing its function and for conducting its proceedings.	Management agrees with the recommendation and undertakes to implement by July 1, 2015.
No performance management system in place for staff.	The Chief Executive Officer of the TAB should develop and implement a suitable performance management system.	Management agrees with the recommendation and has committed to implement by July 1, 2015.

### Conclusion

Based on our audit of the governance systems, the Internal Audit Unit concludes that some key areas of improvements are necessary in order to ensure the TAB's objectives will be achieved. Regulation to govern the operations of the Board of Directors and its relationship with the TAB as well as the implementation of performance management system for all staff is vital to assure effective operations. Management has committed to the implementation of our audit recommendations as planned which should result in improvement to the governance system.

  

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Deloris E. Gordon  
Director, Internal Audit

October 30, 2014



## II. INTRODUCTION

Under the Public Management and Finance Law, the Internal Audit Unit (IAU) is required to review the management systems of all ministries, portfolios, statutory authorities and government companies.

In accordance with the 2013-2014 Audit Plan, we recently concluded a governance audit at the Tourism Attraction Board (TAB).

### **Background**

The TAB was established on November 1, 1996 under the Tourism Attraction Board Law. The TAB Board was created to develop and manage the Pedro St. James Castle National Historic Site. In 1997, the Board's mandate was expanded to include the Queen Elizabeth II Botanic Park. Other entities, including the Pirates Week Festival, were subsequently added to the Board's responsibility.

Currently, the TAB oversees the management of the following entities:

- Queen Elizabeth II Botanic Park
- Pedro St. James Castle National Historic Site
- Cayman Craft Market
- Hell Attraction Site
- Pirates Week National Festival

The principal activities of the TAB are the operational management and custody of the historic and tourist attraction sites; operation of gift shops; promotion of sites for rent on special events; organisation and scheduling of activities for the national festival and; solicitation of sponsorship and donations.

### Governance

TAB operates under and is monitored by the Ministry of District Administration, Tourism and Transport, but has its own Board Members.

At present, the daily overall business operations are managed by the Chief Executive Officer (CEO) while the Financial Controller handles the company's financial matters. The day-to-day operations of each of the entities, with the exception of the Hell Attraction Site, are managed by an onsite Manager/Director. The Hell Attraction Site is being managed by the Personal Assistant to the CEO. The Financial Controller also monitors and supervises the accounting needs of the Hell Site from the TAB Administrative Office.

### Budget

To manage the daily operations of the attraction sites for FY 2012/13, the Board incurred expenses totaling approximately \$2.7 million.



### **Prior Audits**

This is the first of a two-part internal audit conducted at the Tourism Attraction Board. The second part of the audit focused on the financial management systems.

### **Audit Objectives and Scope**

During this audit, we examined and assessed the governance systems of the Tourist Attraction Board. The specific objectives of the audit were to determine whether:

- The governance system of the TAB was in accordance with best practice and facilitates the achievement of objectives; and
- Established management systems were in compliance with laws, regulations, documented policies and procedures.

The audit covered transactions processed between July 2012 and November 2013.

### **Audit Methodology**

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

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

### **Audit Criteria**

The management systems and internal controls in place were measured against the following:

- The Tourism Attraction Board Law, 1996;
- Staff Handbook and Office Policies Manual;
- Financial Regulations and,
- Generally accepted business practices.

In addition to evaluating the internal control activities, other fundamentals of an effective internal control framework were also assessed as defined by the COSO Model which identifies other elements of good internal controls as:



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- The **control environment**, which is the foundation for the effectiveness of all the other internal control components and reflects management's commitment and attitude towards the control structure;
- Ongoing **risk assessment**, which should be performed by management and involves identifying and analyzing the significance and likelihood of potential risks that may adversely affect the entity's ability to meet its objectives;
- **Information and communication** systems ensure that pertinent information is identified, captured and communicated in a form and within a timeframe that enable the achievement of objectives; and,
- Ongoing **monitoring and review** of activities and processes is necessary in order to assess their performance over time and against pre-determined requirements.



### III. AUDIT REPORT

#### 1. Absence of Policies and Procedures

Documented policies and procedures provide continuity, standards of acceptable performance, and the means of coordinating individual and interdepartmental tasks within an entity. They also serve to guide performance and support the maintenance of operational consistency.

The TAB uses a Staff Handbook and Office Policies Manual in their daily operations. This manual addresses human resources, some financial management and general operational policies. However, we noted that policies and procedures were not documented to guide staff in connection with the appropriate procedures for the following financial management duties:

- Consolidation and balancing of total daily collections;
- Review procedures prior to depositing collections;
- Verification procedures to ensure accuracy of transactions posted in Quickbooks;
- Monitoring of outstanding receivables and write-off procedures;
- Establishing sales prices;
- Verifying tourist head counts;
- Recycling of inventory codes for sales items;
- Vendor accreditation at the Cayman Craft Market (including approval requirements);
- Employee discounts on gift shop items;
- Inventory;
- Credit cards; and,
- Petty cash.

Lack of documented policies and procedures can lead to disruption in operations if key employees should leave the entity and also makes it difficult to provide appropriate guidance and training to employees regarding the performance of their duties. This can also hinder management's ability to hold employees accountable for actions that do not meet the expected standards and which would normally be stipulated via such documentation.

Prior to the conclusion of the audit, management advised that a consultant had been commissioned to prepare an Accounting and Financial Procedures Manual.

#### **Recommendation**

The Board should ensure that suitable policies and procedures are documented and made available in an easily accessible manner to all relevant staff.



### **Management's Response**

*Recommendation accepted. An accounting policies and financial procedures manual is currently being developed and is awaiting the completion of this Internal Audit.*

**Implementation Date:** *December 31, 2014*

## **2. The TAB's Management of the Craft Market Not in the Law**

Section 7 (1) (a) of the 1996 Tourism Attraction Board Law states that the functions of the Board include "the general and financial management of Pedro St. James Castle as a building of historic interest and a heritage center for visitors, and such other land and buildings as may be vested in it or placed under its management, in accordance with the general policies of the Government; and (c) such other functions as may be conferred upon it by any other Law or the Governor in Council by Order." In September of 1999 and August 2000, a Cabinet/EXCO paper was issued to include the management of the Botanic Park, Pirates Week Committee and the Hell facility.

We were not provided with the documentation duly approved by the Legislative Assembly or the Governor in Council of the Board's responsibilities to manage the Cayman Craft Market.

We were informed that the Board was advised of the need to initiate amendments to the Law that would provide for the management of all attractions concerned, but no action has yet been taken.

As such, and in regards to its management of the Cayman Craft Market, the Board is functioning beyond the provisions of the existing Law.

### **Recommendation**

The Board should initiate the amendment of the 1996 Tourism Attraction Board Law to include the responsibilities of managing the Cayman Craft Market.

### **Management's Response**

*Recommendation accepted. We acknowledge the need to initiate the amendment of the Law, however, it should be noted that, with the exception of the Cayman Craft Market, the TAB is currently operating within the Law and the directives of Cabinet.*

**Implementation Date:** *December 31, 2014*





### **3. Absence of Regulation on Board Proceedings**

Section 3 (11) of the 1996 Tourism Attraction Board Law states that "subject to this Law the Board shall have power to regulate its own proceedings."

In our attempt to validate that the Board meetings were conducted in accordance with its Regulation, we reviewed the Tourism Attractions Board Law and requested a copy of the Board's Regulations or Terms of Reference. However, we were advised that the Board did not have formal documentation for regulating its proceedings.

We were informed that the CEO addressed this deficiency with the Board on numerous occasions but no action has yet been taken.

Without appropriate regulations, the proceedings of the Board cannot be evaluated for effectiveness.

#### **Recommendation**

The Chairman of the TAB and its members should establish regulations to govern its operations, including the conduct of its meetings, and at a minimum address the following:

- Functions of the Chairman of the Board
- Rights and duties of the members of the Board
- Duties of the Secretary of the Board
- Frequency of the meetings
- Definition of a quorum during meetings
- Requirements for the preparation and approval of meeting minutes
- Requirements for the resolutions of the Board and its approval
- Evaluation of the performance of the Board
- Relationship and communication with Heads of supervised entities
- Management of amendments of the regulation

#### **Management's Response**

*Recommendation accepted. The Board agrees to draft and implement a Governance Policy document.*

**Implementation Date:** *July 1, 2015*

### **4. Lack of Independent Review**

Conflicts of interest arise when a staff member (i.e. supervisor) is in a position to influence the decision-making of another person in a transaction which may lead to the former's personal gain. The effective



design of business controls should take organisational reporting lines into consideration to avoid such conflicts.

The Financial Controller is responsible for processing and monitoring the credit card usage of the CEO. During our review, payments for the CEO's credit card transactions from July 2012 to June 2013 (for a total sample of US\$4,532.24) were approved by the Financial Controller. This arrangement inherently lacks independence as a subordinate staff is being made to scrutinize and make decisions on the transactions of their superiors.

During our review, it was noted that section 4.7, "Staff Expenses", of the Policy Manual contains a brief statement pertaining to corporate credit cards. However, the statement is considered insufficient to address and properly govern all aspects of credit card usage and monitoring.

It was concluded that the current review process as a control is inherently compromised and therefore increases the risk of misuse of the credit cards.

#### **Recommendation**

The CEO of the TAB should develop policies and procedures for the Board's approval. Such policies should include procedures for authorizing credit card charges prior to payment.

#### **Management's Response**

*Recommendation accepted. The Accounting and Financial Procedures Manual will address this finding. A draft is being supplied by the Board to aid with this process.*

**Implementation Date:** *October 31, 2014*

### **5. Lack of Performance Management Arrangement for Staff**

Good business practice requires the establishment of an effective performance management system. This would include the preparation of performance agreements and a formal performance assessment process for all employees across the entity on an annual basis. Further, an effective performance management process enables managers to evaluate and measure individual performance and optimize productivity by:

- Aligning individual employee activities with strategic business objectives;
- Clarifying performance expectations; and,
- Documenting individual performance to support compensation, career planning and HR decisions.



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We were informed that efforts were made to establish a performance management system for all staff over the past several years, and proposals presented to the Board, but nothing has been finalized as yet.

Without a performance management system in place, it is very difficult to evaluate staff performance that would aid in maximizing efficiency.

**Recommendation**

The CEO of TAB should develop and implement a suitable performance management system.

**Management's Response**

*Recommendation accepted. Management has contacted the previous HR professional that assisted with the preliminary development of this program and it is anticipated that work will resume shortly.*

*Person with responsibility for development and implementation: The CEO*

**Implementation Date:** *July 1, 2015*

