



**MOSQUITO RESEARCH AND CONTROL UNIT
FINANCIAL MANAGEMENT AUDIT**

Audit Report

November 2014

**INTERNAL AUDIT UNIT
CAYMAN ISLANDS GOVERNMENT**

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The Internal Audit Unit, 2nd Floor, Government Administration Building, Elgin Ave., George Town, Grand Cayman, Cayman Islands
Telephone: (345) 949-6420



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REF: 1314-09

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 Financial Management Audit of the Mosquito Research and Control Unit (MRCU).

Summary of Major Findings

During the audit, a few areas of non-compliances were identified. 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
Revenue was being recognized on a cash basis instead of Accrual basis as required by the PM&FL	Ensure that accrual accounting is implemented as required by the PM&FL	Although Disinsection fees account for less than 1% of the entity's revenue invoices will be raised in IRIS to ensure revenue is recorded appropriately. Implementation date: January 2015
Lack of documentation to support vendor selection, including no evidence of vendor evaluation by a Tenders Committee	Ensure that procurement transactions deemed to fall under Section 37 (2) of the Financial Regulations are evaluated by the appropriate tenders committee so as to achieve compliance with the Financial Regulations. In addition, ensure that the basis for selection of vendors for purchases below \$50K are documented and kept on file.	Management accepts the recommendations. Implementation date: Documented Basis of Selection – January 2015 Departmental and Central Tenders Committee – January 2016

Conclusion

Except for the findings noted in this report, the Internal Audit Unit concludes that the financial management systems within the MRCU are adequate to support the achievement of its objectives. We have made recommendations for improvement in the areas of deficiencies MRCU's management have agreed with and committed to their implementation through the establishment of corrective action plans.

Deloris E. Gordon
Director, Internal Audit

November 5, 2014



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II. INTRODUCTION

Background

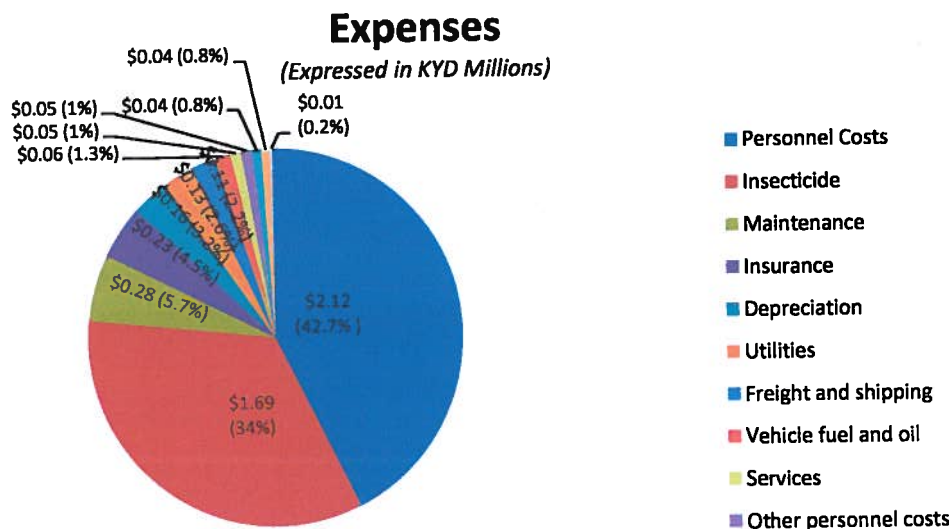
Effective July 1, 2013, the MRCU became the responsibility of the Ministry of Health, Sports, Youth & Culture. Prior to that date, the Unit fell under the Ministry of District Administration, Works, Land and Agriculture. The Unit's main office is in Grand Cayman however, there is also a station in Cayman Brac. Additionally, the Unit has a hangar located at the Owen Roberts International Airport where its two aircrafts are housed.

The Unit's principal activity is to carry out a range of mosquito control and research operations to suppress mosquito populations in an effort to minimise the introduction of disease-vector mosquitos and prevent outbreaks of mosquito-transmitted diseases in the Cayman Islands.

The Unit's activities are mainly financed by the Cayman Islands Government (CIG) however the entity also earns revenue from disinsection fees. For the financial year 2012/13, the MRCU's trial balance disclosed total revenue of \$4.98 million

Source	2012/13
Disinsection fees	\$ 13,361.66
Outputs sold to EXCO	4,968,635.06
Total	\$ 4,981,996.72

Total operating expenses for the financial year 2012/13 was \$4.97 million with personnel costs and insecticide purchases accounting for 76.7% (\$3.81 million) as outlined the chart below:





The MRCU Unit uses the IRIS System to record all financial management transactions.

Audit Objectives and Scope

In this audit, we examined the financial systems of the MRCU. The specific objectives of the audit were to determine whether:

- Financial management systems were in compliance with laws, regulations, documented policies and procedures and generally accepted accounting principles;
- The revenue systems in place accurately assessed, collected, safeguarded, deposited and recorded all revenue;
- Expenses incurred were for the purchase of goods and services for use in the normal course of business;
- There was adequate segregation of duties and monitoring over the operational processes; and,
- Effective measures for safeguarding assets were in place.

The audit examined transactions that were processed between July 2012 and April 2014. Our audit testing was confined to the Unit's Head Office in Grand Cayman.

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 have been 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:

- Public Management and Finance Law;
- Financial Regulations;
- Generally accepted accounting and 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. Lack of Documented 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 staff in the performance of their duties, measure performance and support the maintenance of operational consistency.

Although management has established standard practices for processing revenue, procurement, disbursement and inventory processes, which are generally being followed by staff, we noted that these procedures were not documented.

We were therefore concerned that the lack of documented policies and procedures may result in disruptions to MRCU's operations as well as inconsistencies in executing transactions if key employees leave the agency. This may also make it to hold staff accountable for non-compliances with procedures.

Recommendation

The Director should ensure that all business processes are documented.

Management's Response

Policies governing the MRCU's operations currently exist at the Ministry level. The MRCU will ensure that these policies are brought in-house and circulated to staff. Once in-house, the policies will be reviewed to identify any gaps and comprehensive policies will be written for any procedures (pertaining to financial management) that are not covered under the Ministry's policies. If necessary, management may go back to the Ministry for guidance and advice during this process.

Implementation Date: *January 2016*

2. Lack of Accrual Accounting

The Public Management and Finance Law (2013 Revision) Part I, Section 4 states, "all financial information required by this Law shall be prepared on an accrual accounting basis and in accordance with generally accepted accounting practice." Moreover, it is stated in Part IV Section 17 (1) of the Financial Regulations (2013 Revision) that "a transaction shall be recorded by a prescribed entity as soon as possible after the transaction has occurred, and in all cases no later than one week from the date of the transaction."

It was noted during our review that revenue was recognized on a cash basis. Revenue earned from the dissection of aircraft and ships on Cayman Brac, was being recognized upon receipt of



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reimbursement from the District Administration Office or payment from the vendor, rather than at the time the service was provided.

According to Management, this has always been the practice at MRCU.

The MRCU's use of cash accounting in the recording of its revenue is not in compliance with the Public Management and Finance Law.

Recommendation

The Director of MRCU should ensure that accrual accounting, as required by the PM&FL, is implemented in compliance with the Law. Where necessary to support this, the Cayman Brac office should submit the revenue vouchers to the Head Office as soon as possible but no later than one week from the date they are raised, so as to facilitate the timely recording of revenue and receivables.

Management's Response

Disinsection fees account for less than 1% of total revenue. However, the Accounts Officer 1 (AO1) will begin to raise invoices in IRIS to ensure that such revenue is recorded in accordance with accrual accounting standards. Additionally, the AO1 will contact the Cayman Brac office to arrange for revenue vouchers to be submitted to the GC office on a weekly basis (instead of monthly), which will further facilitate the timely raising of invoices.

Implementation Date: *January 2015*

3. Lack of Documentation to Support Vendor Selection

Section 37 (2) of the Financial Regulations (2013 Revision) states that "in the case of a contract for the purchase of supplies, services and assets over twenty thousand dollars where, in the opinion of the Chief Officer of a prescribed entity, statutory authority or government company, only one supplier can provide the supplies, services or assets, the Chief Officer is not required to offer for public tender such contract but (a) he shall comply with regulation 41 (evaluation by a tenders committee)."

Section 44 (1) of the Financial Regulations (2013 Revision) states that "A prescribed entity, statutory authority or government company is required to retain records pertaining to output reporting, entity financial transactions and executive financial transactions (including revenue, expenses, assets and liabilities) in such a manner that such records can be readily produced for operational and audit purposes." In addition, Financial Circular 1 of 2006 from the Financial Secretary, dated June 6, 2006, states that to ensure compliance with the Financial Regulations, it is recommended that Ministries/Portfolios continue to obtain at least three quotes for purchases and services less than \$20,000.00 (now revised to \$50,000.00) and that documentation for the basis of selecting the preferred quote is retained for audit purposes.

From our review of purchase transactions by the Unit from July 1, 2012 to March 31, 2014, we noted the following:



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- a. Multiple transactions in excess of \$20,000 made to five overseas companies without any evidence that the purchases were evaluated by a tenders committee as required by Section 37 (2) of the Financial Regulations. Total purchases from these companies for the period covered was \$4,612,408.14

We were advised that the Unit has longstanding business relationships with the five vendors. In addition, management stated that, in most cases, these vendors are the sole manufacturers or distributors of the specific insecticides and aircraft parts used by MRCU.

- b. A general absence of quotations or other relevant documentation to evidence the basis for selection for purchases made with a number of vendors other than those listed above. The procurement transactions from these vendors range from \$1,888.00 to \$16,578.66.

The MRCU management advised that where possible, the MRCU has been obtaining 2 to 3 quotes for general purchases and services. However, in a number of cases, such as the purchase of jet fuel, additional quotations are not available as these are the sole suppliers on the island.

As a result of these findings, we concluded that purchases transactions at the MRCU were not in compliance with the Financial Regulations.

Recommendation

The Director of MRCU should ensure that procurement transactions deemed to fall under Section 37 (2) of the Financial Regulations (sole supplier) are evaluated by the appropriate tenders committee (Departmental Tenders Committee for purchases up to \$250K and Central Tenders Committee for purchases over \$250K) so as to achieve compliance with the Financial Regulations.

In addition, the Director should ensure that the basis for selection of vendors for purchases below \$50K are documented and kept on file.

Management's Response

Apart from capital projects, the MRCU has never been requested to go before a Tenders Committee for recurrent expenditures. Additionally, external audit stated that, due to the sole source supply nature of much of MRCU's business, they did not find it necessary for MRCU to change their existing procedures.

The MRCU has an informal internal group comprised of the Director, the Assistant Director and the Research Manager who make insecticide and large purchase decisions. Upon this recommendation from audit, the MRCU will seek advice from the CFO regarding the process of formalizing the internal group into the official Departmental Tenders Committee. Additionally, on the matter of the Central Tenders Committee, the CFO's input and advice will be sought and the MRCU may request her assistance with the process if necessary.



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Effective January 2015, justification/basis of selection will be recorded on either the PO, the Purchasing Approval Form or the Justification for Vendor Selection Form (newly created), all of which are subject to either the Director's or the Assistant Director's signature. Such justification/basis for selection will be filed along with the vendor's invoice.

Implementation Date: *Documented Basis of Selection – January 2015*

Departmental and Central Tenders Committee – January 2016