



## **CORE GOVERNMENT ENTITIES FY 2013/14 YEAR-END EXPENDITURES AUDIT**

### **Audit Report**

April 2015

**INTERNAL AUDIT UNIT  
CAYMAN ISLANDS GOVERNMENT**

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## 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 the year-end expenditures audit of all core government entities.

### Summary of Major Findings

We have summarized the major audit findings along with recommendations and management responses for corrective actions geared towards improvement.

FINDING	RECOMMENDATION	MANAGEMENT RESPONSE & ACTION
Due to the lack of accrual accounting transactions intended for the previous financial year were charged to the 2013/14 financial year.	Ensure that adequate commitments are raised in the IRIS System, whether via a purchase order or via direct journal entry to record the commitment.	The Ministry of PLAHI accepts the findings noted and advised that steps have already been taken to improve their month-end cut-off processes, as well as to make necessary adjustments to the 2013/14 accounts.  Adjustments will be reflected in the accounts for 2013/14.
In our review of entity expense transactions, we noted payments totaling \$92,602.27 that were not supported by signed agreements for provision of services.	Ensure that contracts for services are accurately prepared, signed by all parties, and reviewed and renewed (if applicable) in the appropriate intervals.	The Management of the concerned entities agree with the recommendation and will ensure that contracts are established.
During the audit, we did not see any evidence of tendering or value for money analysis for contracts/procurements associated with 18 payments totalling \$1,457,487.68.	Entities should carry out procurements in compliance with the Financial Regulations, including the use of public tendering where relevant.	The Management of the concerned entities agree with the recommendation and will ensure that the proper tendering process is complied with.
Our audit has identified that entities are still incurring late fees on credit card charges. For sampled transactions for FY2013/14, the Government paid an accumulated amount of US\$571.75.	Ensure that credit card charges are paid on or before the payment due dates in order to avoid late fees/interest charges.	The Management of the concerned entities agree with the recommendation and have committed to taking steps to prevent this from occurring in the future.
During our audit, we did not see any evidence of goods receipt for 3 payments totalling \$9,348.24.	Ensure that receipting documents are signed and dated by the receiver and that such documented evidence is appropriately retained for management or audit purposes.	The Management of the concerned entities agree with the recommendation and procedures have been put in place to address this.



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## Conclusion

Based on our audit of the 2013/14 expenditures, we can provide reasonable assurance that transactions are generally being processed in compliance with the Public Management and Finance Law, and the Financial Regulations and that payments made were related to goods or services of the 2013/14 financial year.

However, there were some transactions that did not fully satisfy all the requirements as expected. These transactions are detailed in our findings. The Management of the concerned entities have recognized these deficiencies and have started implementing some of the recommendations.

Internal Audit will continue to monitor and report on the progress being made towards implementation of the agreed action plans stated in this report.



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**Deloris E. Gordon**  
Director, Internal Audit Unit

**April 27, 2015**



## II. INTRODUCTION

### Background

Schedule 6 of the Public Management and Finance Law (PM&FL) - Cayman Islands Government: Framework for Fiscal Responsibility – sets out 4 principles for fiscal responsibility; one of these is 'Delivering Value for Money'. This principle states "The Cayman Islands Government recognises that achieving value for money is central to the appropriate use of public funds. Central government and other public sector bodies will therefore ensure that effective processes are in place to provide confidence and ensure suitability, effectiveness, prudence, quality, good value and avoidance of error and other waste."

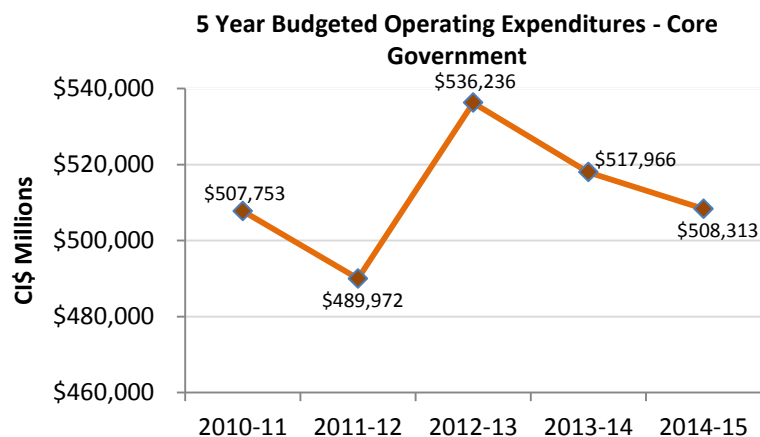
To regulate entities' financial management practices, including the establishment of effective management systems and processes, the Financial Regulations in Section 29, requires Chief Officers to "ensure that an appropriate system of internal controls operates within the entity and that that system is adequate to safeguard the entity or executive resources for which the prescribed entity is responsible".

Under this de-centralised financial management system, entities are responsible for entering and authorising expenditure transactions in the IRIS system, whilst the Treasury Department is responsible for processing and disbursing the funds as requested by the entities.

### Operating Expenses

For the 2013/14 financial year, core government's total expenditure was approximately \$536 million (unaudited). This figure consists of operating and financing expenses and indicates an approximate \$13 million savings when compared to the budgeted total expenses of \$549 million that was presented in the 2013/14 AP&E.

The below chart shows the budgeted operating expenses (total expenses less financing expenses) for core government over the last five financial years (as reported in the AP&Es):



### Prior Audits

An assessment of core government expenditures was last reported on during the 2012-13 financial year.



## **Audit Objectives and Scope**

During this audit, we examined and assessed the internal controls surrounding the expenditure process, including authorization of payments and posting of transactions in the accounting records.

The specific objectives of the audit were to determine whether:

- Payments and purchases were for legitimate expenses of the 2013/14 financial year;
- Goods and services that were ordered and paid for were received during the financial year;
- Relevant contracts/agreements were in place for prepayments;
- Financial transactions were valid and authorised; and,
- There was compliance with Laws, Regulations, and policies and procedures.

The audit scope included expenditure transactions that were incurred between the period July 1, 2013 and June 20, 2014. As these are not expenditure for the procurement of goods and/or services, output payments from Cabinet to core government entities were not included in this audit. In addition, our audit did not assess whether expenditures incurred were within entities' budgetary allocations.

## **Audit Methodology**

The audit methodology involved developing an audit program to determine whether the internal controls surrounding the expenditure process were operating as intended and in a manner that facilitated compliance with applicable Laws, Regulations and best practices.

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,
- Public Service Management Law and Personnel Regulations, and;
- 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 Accrual Accounting

The Public Management and Finance Law, Section 4 states that “All financial information required by this Law shall be prepared on an accrual accounting basis and in accordance with generally accepted accounting practice.”

We noted during the audit that a few expenditure transactions, intended for the previous financial year, were charged as expenses in the 2013/14 financial year.

In discussions with the relevant entity, we were informed that this was due to oversight on the part of the relevant Department, resulting in the transactions not being included in the 2012/13 year-end accruals.

We were further advised that Management had previously identified some of these entries and intends to make the necessary adjustments before the completion of the 2013/14 financial statement audit.

Based on this finding, we concluded that the Ministry deviated from generally accepted accounting principles resulting in noncompliance with the Public Management and Finance Law. This practice is also not in keeping with good financial management as it prevents the Government from successfully planning for and controlling its expenditures.

#### **Recommendation**

The Chief Officer in the Ministry of PLAHI should ensure that adequate commitments are raised in IRIS, whether via a purchase order or an accrual, to ascertain that the expenditure will be charged in the appropriate financial year. In the case of invoices for ongoing contracts, interim invoices should be obtained from service providers/vendors at the end of the year for the purpose of raising accruals. Where interim invoices cannot be produced, reasonable estimates based on past invoice amounts can be used to establish an accrual amount.

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

##### Ministry of PLAHI

*The Ministry accepts the findings noted and has already taken steps to ensure proper and stringent month-end cut-off by revising its month-end processes.*

**Implementation Date:** *As indicated above, the adjustments for the entries identified will be reflected in the final accounts for 13/14.*





## 2. Lack of Valid Contracts with Service Providers

Best practices in procurement require that a definition of service agreement is established with service providers acknowledging both parties' understanding and responsibility to comply with the terms and conditions of the engagement. Such agreements should stipulate fees, delivery timelines, service standards and the role of both parties.

During our review of entity expenditure transactions we noted that there were payments totaling \$92,602.27, that were made relating to ongoing service delivery, but which were not supported by signed agreements. The types of services provided in relation to these payments were varied and the individual transactions ranged in value from CI\$580.00 to CI\$42,315.84.

In their response to the finding, one entity explained that there is a standing arrangement in place with the supplier since they moved to the present office location, even though there was no formal agreement in place. Further they advised that no subsequent requests for quotes were made, nor attempts made to conduct periodic value-for-money assessments on this contract arrangement.

We are concerned that without signed agreements in place, detailing the agreed terms and conditions of an engagement, it is difficult to enforce accountability between the two parties.

### **Recommendation**

The Heads of Agencies should ensure that contracts for services are accurately prepared, signed by all parties, and reviewed and renewed (if applicable) in the appropriate intervals.

### **Management's Response**

#### Office of the Auditor General

*We are in agreement with the recommendation and plan to obtain quotes and put a contract in place for the 2015-16 fiscal year.*

**Implementation Date:** *Plan to have an agreement in place for 1 July 2015.*

#### Office of the Complaints Commissioner

*Management is in agreement with this recommendation and going forward we will ensure that we have signed service agreements, detailing the terms and conditions for such expense transactions.*

*We aim to have a new service contract in place in regards to janitorial services for our new shared office space shortly. We are presently obtaining quotes from three janitorial companies in regards to services we require.*

**Implementation Date:** *January 2015*



*Office of Public Prosecutions*

*Management agrees with the recommendation.*

*Parking Rental Contract – On 30<sup>th</sup> September 2014 a draft contract was prepared and submitted for agreement with this entity advising them that this is now required. We await their response.*

*Professional services obtained – We concur that the retainer agreements can be made more broadly inclusive.*

**Implementation Date:** *November 2014*

### **3. Transactions Lack Value for Money Consideration**

Part IX of the Financial Regulations requires government entities to ensure value for money for all procurement transactions.

Section 37 (1) of the Financial Regulations (2013 Revision) states that “a prescribed entity, statutory authority or government company is required to offer for public tender (a) any contract for the purchase of supplies, services and assets over fifty thousand dollars”. Further, 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).”

Moreover, Financial Circular 1 of 2006 from the Financial Secretary dated June 6, 2006 states, “Criteria for proper purchasing internal control systems include obtaining three quotes for purchases of goods and services within a prescribed dollar amount. This common business practice ensures proper requisition, adequate approval, competitive pricing, good vendor performance and high quality. Exceptions to the rule would be for extreme emergency situations or where goods and services can only be supplied by a particular supplier and no reasonable alternative or substitute exists. To ensure compliance with the Financial Regulations, it is therefore 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.”

For 18 payments totalling \$1,457,487.68 that were examined, we did not see any evidence of tendering or value for money analysis for the associated contracts/procurements. The 18 payments were processed on behalf of various entities, and ranged in individual value from CI\$580.00 to CI\$440,345.00.

Based on these findings, we determined that in those instances, entities did not comply with the Financial Regulations as it pertains to Government’s procurement policy.



## Recommendation

Chief Officers should undertake procurements in compliance with the Financial Regulations, including the use of public tendering where relevant. In addition, for purchases over \$20K involving a sole supplier, Section 41 of the Financial Regulations should be complied with. Additionally, quotations for purchases below \$50K should be obtained from other vendors and the same properly evaluated.

## Management's Response

### Office of the Complaints Commissioner

*Management agrees with this recommendation and will ensure that quotations for purchases below \$50k are obtained from other vendors, and are properly evaluated.*

**Implementation Date:** *January 2015*

### Judicial Administration

*The three items were all out of the ordinary situations. Whilst there was some documentation supporting the process and reasoning, clearer documentation will in future be kept alongside the authorisations for purchase.*

**Implementation Date:** *January 2015*

### Ministry of District Administration, Tourism & Transport

*The Department of Tourism's efforts to comply with the procurement guidelines for 4 of the 8 transactions listed in this report are estimated to be completed by June 2015.*

**Implementation Date:** *December 2014 – general compliance with policy; and, June 2015 – in the case of ongoing contracts*

## 4. Documentation Unavailable For Audit Review

Section 44 (1) of the Financial Regulations 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."

During our audit, the Protocol Office was unable to provide the relevant documentation to assist us in evaluating the hourly rate paid to contracted drivers. The wage rate pertained to payments totaling \$8,187.82 and related to the provision of dignitary transportation services, provided by off-duty police officers and firemen.

When queried, the Protocol Officer advised us that the pay structure was instituted by the previous Chief of Protocol, in consultation with the Portfolio of the Civil Service, approximately eight years ago.



She further confirmed that the initial rate was \$23.13 and that a recent review exercise resulted in the rate being revised downward to the existing rate of \$20.13.

However, the Protocol Coordinator could not provide the Auditor with any documentation surrounding the formulation of the initial or revised hourly rate.

As a result of the above finding, we concluded that the Protocol Office was not in compliance with Section 44 (1) of the Financial Regulations, which requires entities to maintain and be able to readily produce records to support financial transactions.

### Recommendation

The Protocol Office should operate within the requirements of Section 44 (1) of the Financial Regulations and retain adequate documentation to support transactions.

### Management's Response

[Protocol Office](#)  
*Management is in agreement with the recommendation.*

**Implementation Date:** *January 2015*

## 5. Accumulation of Late Payment and Monthly Interest Charges

Effective controls within financial management systems include timely payment of invoices to avoid the incurrence of late payment fees and interest charges.

For sampled transactions for FY2013/14, we noted late payment charges totalling US\$571.75. This issue was previously raised in our 2009/10 audit of credit cards (ref: 0910/01) and consequently the Treasury Department arranged for online access so that entities could monitor and access their credit card statements on a timely basis. However, our audit has identified that entities are still incurring late fees.

Name of Agency	Amount (US\$)
Cabinet Office	\$ 342.16
Portfolio of Legal Affairs	177.00
Office of the Complaints Commissioner	52.59
<b>TOTAL</b>	<b>\$ 571.75</b>

We were advised that credit card statements are received by the Treasury Department, and these are then forwarded to the relevant agencies. However, entities have advised that there were delays in this forwarding process. In some instances the statements were received after the payment due dates, which impacted the ability of the entities to timely process payments. We were also advised that, even



though online access is available to entities, there are some instances where payments were only processed upon receipt of the actual bank statements, as opposed to the statements extracted online.

As a result of late fees and interest charges, the government is incurring unnecessary, avoidable expenditures.

### **Recommendation**

Chief Officers should ensure that credit card charges are paid on or before the payment due dates in order to avoid late fees/interest charges.

### **Management's Response**

#### Cabinet Office

*Management agrees with the recommendation. The incoming CFO has reviewed the matter and has taken steps to avoid this happening in the future. We are aware of the billing cycle and due dates for each card. Although we receive hard copies, if they are not provided in a timely manner, we will print the online statement in order to process payments before the due date.*

**Implementation Date:** *January 2015*

#### Portfolio of Legal Affairs

*The recommendation is accepted. In order to expedite the payment process, credit card payments are made by direct debit by The Treasury Department as opposed to normal AP processing (which usually takes about 3 days for a cheque request and final delivery to the Bank). All efforts will be made to ensure that credit card charges are paid on or before the payment due dates to avoid late fees/interest charges.*

**Implementation Date:** *December 2014*

#### Office of the Complaints Commissioner

*Management agrees with this recommendation and going forward we will ensure that credit card charges are paid on or before the payment due date in order to avoid late fees/interest charges.*

**Implementation Date:** *January 2015*

## **6. No Evidence of Goods Receipt**

In order to establish accountability, effective internal controls over procurement require that evidence of the receipt of goods or services is documented by signing and dating the receiving documents.

During our audit, we did not see any evidence of goods receipt (i.e. there were no signatures or receipt stamps affixed to the appropriate section of the POs or vendor's invoices signifying receipt by a Government employee) for 3 payments totalling \$9,348.24. The concerned transactions ranged in



value from CI\$2,171.73 to CI\$3,992.00 and related to enforcement safety equipment and computer purchases.

In their response to this finding, the Ministry of Community Affairs commented that goods are occasionally received in different sections of the Department and the signed purchase orders are not always returned to finance personnel for processing.

Without evidence of goods receipt, accountability becomes difficult to establish in the event of discrepancies. Moreover, payments may be made for goods or services that were not received/provided.

### **Recommendation**

The Heads of Agencies should ensure that receipting documents are signed and dated by the receiver and that such documented evidence is appropriately retained for management or audit purposes.

### **Management's Response**

*Ministry of Financial Services, Commerce & Environment – Department of Environment*  
*Procedures have been put into place for all delivery documents to be brought immediately to Finance Administration upon receipt of the goods.*

**Implementation Date:** *December 2014*

*Ministry of Community Affairs – Department of Counselling Services*  
*The Director of DoCS is in agreement with this recommendation. Procedures will therefore be put in place to ensure that purchase orders with signatures (indicating receipt of goods) will be returned to the accounts personnel from the various sections of the Department.*

**Implementation Date:** *November 2014*