



FIRE SERVICES DEPARTMENT EXPENSE MANAGEMENT AUDIT

Audit Report

April 2015

**INTERNAL AUDIT UNIT
CAYMAN ISLANDS GOVERNMENT**

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TABLE OF CONTENTS

I. EXECUTIVE SUMMARY	1
Summary of Findings.....	1
Conclusion.....	2
II. INTRODUCTION	3
Background.....	3
Audit Objectives and Scope.....	5
Audit Methodology.....	5
Audit Criteria.....	5
III. AUDIT REPORT	7
1. IRIS Monitoring of Payment Commitments Not Fully Utilised	7
2. Minimum Required Quotations Not Obtained.....	8
3. No Evidence of Goods Receipt.....	9
4. Non-compliance with Personnel Regulations.....	9
5. Discrepancies In Time-Off-in-Lieu Records	10



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 an Expense Management Audit of the Fire Services Department.

Summary of Findings

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

FINDING	RECOMMENDATION	MANAGEMENT RESPONSE & ACTION
Purchase orders were not being used appropriately, some were prepared subsequent to the purchase of goods/services, whilst in other instances none were issued.	Ensure that purchase orders for all procurement transactions are raised and approved prior to the receipt of service.	Management accepts the recommendation and has committed to immediate implementation.
There was a lack of documentation to support the value for money assessments that were conducted for a sample of procurement transactions.	Ensure compliance with the Financial Regulations and the Ministry of Home Affairs' Procurement Policies and Procedures.	Management accepts the recommendation and has committed to immediate implementation.
Records to evidence the receipt of goods and services were not maintained consistently.	Ensure that verification and receipt of goods or services is properly documented.	Management accepts the recommendation and has committed to immediate implementation.
Time-in-lieu benefit was being paid to ineligible shift-based employees, in violation of the Personnel Regulations	Comply with the remuneration requirements as per Schedule 1, Section 3 (2) (d) (iii) of the Personnel Regulations (2013 Revision).	Management agrees and advised that the overtime calculations and policy have been rectified since the Fire Department was transferred to the Ministry of Home Affairs.



INTERNAL AUDIT REPORT
EXPENSE MANAGEMENT AUDIT
FIRE SERVICES DEPARTMENT

REF: 1314-01

Conclusion

Based on our audit of expenditure management at the Fire Services Department, the Internal Audit Unit concludes that some improvements are necessary. Key areas include maintaining appropriate records to support purchasing transactions and conducting effective reviews to ensure employees' overtime hours are accurate. Management has however recognized these deficiencies and has committed to implementing the audit recommendations. The implementation of these agreed action plans should result in improvements in the management systems

Deloris E. Gordon
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April 24, 2015



INTERNAL AUDIT REPORT
EXPENSE MANAGEMENT AUDIT
FIRE SERVICES DEPARTMENT

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II. INTRODUCTION

Background

The Fire Services Department falls under the Ministry of Home Affairs since July 2013. The Central Station is located at Owens Roberts Drive, George Town, Grand Cayman and there are sub-stations in West Bay, Frank Sound, Cayman Brac and Little Cayman.

Its main activity is the provision of a rapid response to fires, aircraft accidents and any other emergencies. The Department is divided into four units namely the Aerodrome, Domestic, Administration and Cayman Brac. As per the Fire Services Human Resources records, the required staff complement for the Department is 168 but this has been reduced in the recent years due to budget constraints. As of June 30, 2013, there was a total of 128 employees broken down as follows.

Division	No. of Employees	No. of Vacancies	Full Staff Complement
Aerodrome	34	6	40
Domestic	50	12	62
Administration	16	15	31
Cayman Brac	28	7	35
Total	128	40	168

As outlined in the table below employee costs for the 2012/13 financial year, amounted to \$8,343,987.72. Total unaudited operating costs for the Department in the financial year 2012/13 amounted to \$9,408,967.38, so employee costs represent 89% of the Department's total operating costs.

Type of Expense	Amount	%
Personnel Costs	8,343,987.72	89%
Insurance (property, vehicles, liabilities)	381,323.67	4%
Utilities (electricity, water, telephone)	308,965.45	3%
Maintenance (building, boat, vehicles, equipment)	176,671.43	2%
Vehicle fuel and oil	100,006.02	1%
Other personnel costs (training, uniform, travel)	76,508.75	1%
Supplies (office, firefighting supplies)	15,886.84	0%
Miscellaneous (periodicals, bank charges, etc.)	5,617.50	0%
Total	9,408,967.38	100%

Further analysis of the personnel costs show that costs for overtime and time-in-lieu (comp. time) represent 8.3% of personnel costs as shown in the below table.

Type of Expense	Amount	%
Basic Salary	\$ 5,293,207.19	63.4%
Employee Health Care Costs	1,514,060.00	18.1
Pension Contribution	652,476.18	8.0
Overtime	430,541.87	5.2



INTERNAL AUDIT REPORT
EXPENSE MANAGEMENT AUDIT
FIRE SERVICES DEPARTMENT

Comp Time Expense (time-in-lieu)	266,009.47	3.1
Movement Annual Leave	120,372.61	1.4
Allowances	39,503.47	0.5
Severance Pay	27,816.93	0.3
TOTAL	\$ 8,343,987.72	100.0%

A review¹ conducted by the Portfolio of Civil Service (POCS) disclosed that, "The amount of overtime and time-in-lieu accrued by fire service staff is significant." As per the report, "Initial findings indicate that the main contributors to overtime are: (a) significant staff shortage; (b) cover for sickness and absence (Aerodrome and Domestic); (c) late/early flights & Air Ambulance (Aerodrome); (d) the extra eight hour shift per week to cover 24 hours (Domestic).

Shown below is the manning and shifts of the Aerodrome, Control Room and the Domestic fire stations in Grand Cayman at the time of the audit:

	No. of Staff Per Shift	No. of Shifts Per Week
Aerodrome	10	3 shifts per week, 16 hours per shift
Control Room (Central Station)	2	4 shifts per week, 8 hours & 16 hours for 24 hours coverage
Central Station	5	4 shifts per week, 8 hours & 16 hours for 24 hours coverage
West Bay Stations	3	4 shifts per week, 8 hours & 16 hours for 24 hours coverage
Frank Sound Station	3	4 shifts per week, 8 hours & 16 hours for 24 hours coverage

The Fire Department does not engage in any revenue generating activities. Funds to sustain its operations are provided by the Government. However, cuts in the Department's budget, in the recent years may have negatively impacted the Department as advised by Senior Management who identified staffing levels, training and equipment maintenance as areas that have been affected. In addition the POCS report stated that "the Domestic stations are operating at a level that is considered to be ineffective and dangerous if faced with a major fire or incident."

Operational System

The Department uses IRIS to process and record their procurement and disbursement transactions. The Executive Officer creates the purchase orders and enters the vendors' invoices in IRIS. These are then validated and approved by the Finance Manager and the Chief Fire Officer.

The hours worked by staff are recorded in the logbooks at the stations which are then initialed by their Officers-in-Charge. The hours in the logbook are entered by their Officers-in-Charge in the Time Recording System (TRS) and are validated by the Senior Division Officers. Overtime and time-in-lieu hours accrued by staff are authorized by the Officer-In-Charge and Senior Division Officers. The authorized overtime

¹ FSD HR Matters Report dated July 31, 2013.



hours of staff are entered by the Administrative Assistant in HR IRIS wherein the system automatically computes the overtime pay that will be included in the payroll processing. Time-In-Lieu hours, on the other hand, are accrued based on the TRS data.

Audit Objectives and Scope

In this audit, we examined the expense management system at the Fire Services Department. The specific objectives of the audit were to determine whether:

- Expenditure transactions were valid, authorized and recorded in accordance with applicable regulations, standards and policies.
- Appropriate systems and controls were in place to govern the Department's expense management process.

The audit examined transactions that were processed between July 2012 and December 2013 in order to account for the July 2013 change in responsible Ministry. Our audit testing was confined to the Department'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 are reported; however, the audit conclusion is based on our overall assessment of the internal control procedures to support the related management systems.

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;
- Generally accepted accounting and business practice;
- The Cayman Islands Fire Service Operational Orders; and,
- Owen Roberts International Airport Rescue and Fire Fighting Service Operations Manual.

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



- 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. IRIS Monitoring of Payment Commitments Not Fully Utilised

The Purchase Order (PO) module of IRIS is critical to facilitate accurate monitoring and reporting of purchase transactions. Moreover, Financial Regulations (2010 Revision) Part IV Section 17 (1) states 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."

Out of the 45 procurement transactions examined, we noted that the purchase orders for 13 purchase transactions were prepared between 1 and 209 days after the invoice dates, while 2 transactions did not have any purchase orders issued.

Below are the details of the 15 transactions:

	Amount	PO#	PO Date	Invoice No.	Invoice Date	No. of Days
1	\$ 864.73	31582	10-Aug-12	1209	9-Aug-12	1
2	1,741.00	32221	31-Oct-12	16004	30-Oct-12	1
3	1,069.60	33087	11-Mar-13	1943	7-Mar-13	4
4	1,783.36	32265	5-Nov-12	43936	1-Nov-12	4
5	972.89	31963	5-Oct-12	36617	25-Sep-12	10
6	801.27	31821	13-Sep-12	CDD/AUG1	31-Aug-12	13
7	2,569.46	32506	11-Dec-12	132437	8-Nov-12	33
8	4,036.28	31161	9-Jul-12	229824	30-May-12	40
9	817.45	32945	20-Feb-13	649166	8-Jan-13	43
10	720.00	32082	15-Oct-12	10115	6-Aug-12	70
11	1,188.00	31157	9-Jul-12	47074	23-Apr-12	77
12	1,250.00	32587	17-Dec-12	122012	1-Sep-12	107
13	1,543.00	32981	25-Feb-13	400	31-Jul-12	209
14	1,520.33	-	-	67283	10-Jul-13	-
15	7,751.62	-	-	1345497	3-Jul-13	-
	\$28,628.99					

We were informed that purchase orders are normally prepared for orders immediately after vendor selection. We were further advised that as the Department is an essential emergency service, there are instances where urgent purchases are required such as for example the procurement of fire vehicle parts may need to occur on weekends or when the IRIS system is down. In such instances a purchase order cannot be raised in the IRIS System prior to the receipt of goods/services,.

Whilst we understand the necessity to place urgent purchases the information should be recorded in the IRIS System as soon as possible as required by the Financial Regulations. Failure to raise purchase orders prior to ordering and/or receiving goods may result in the following consequences:

- Inaccurate financial statements due to the untimely recording of liabilities/expenses;
- Unauthorized, unnecessary or fraudulent purchases;
- Payment(s) for incorrect, inferior or incomplete orders of goods/services;
- Duplicate payments.



Recommendation

The Chief Fire Officer should ensure that purchase orders for all procurement transactions are raised and approved prior to the placement of orders.

Management's Response

Instructions were given to the Executive Officer and All Heads of Sections and Divisions that no procurement transactions must take place prior to the raising of purchase orders.

Implementation Date: *Immediately.*

2. Minimum Required Quotations Not Obtained

Section 43 (1) of the Financial Regulations (2010 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, Section 6 (6.11) of the Ministry of Home Affairs' Procurement Policy and Procedures, states that "procurements from \$1,500.00 to \$10,000.00 require a minimum of three quotations."

During our audit we tested a sample of 20 transactions valued at \$1,500 and above. We noted that there was no documentation to substantiate the basis of vendor selection, including evidence to indicate that the required quotations were obtained prior to completing the purchase transactions.

The Finance Manager informed us that quotations were obtained from vendors however, they were mostly done via telephone. In addition, although we were not provided with documentation to support this stated practice, we were further advised that prior to being transferred to the Ministry of Home Affairs, the Department followed the requirements of their former Ministry, (Ministry of Finance, Tourism & Development) to obtain 3 quotations for purchases in excess of \$5,000.00.

The lack of supporting evidence to validate vendor selection is not in keeping with the record retention provisions set out in the Financial Regulations. This also makes it difficult to obtain assurance that value for money was received for goods and services procured by the Fire Services Department.

Recommendation

The Chief Fire Officer should ensure compliance with the Financial Regulations and the Ministry of Home and Community Affairs' Procurement Policies and Procedures.



Management's Response

All efforts will be made to comply with the Financial Regulations and the Ministry of Home Affairs' Procurement Policies and Procedures.

Implementation Date: *Implemented immediately.*

3. No Evidence of Goods Receipt

Effective internal controls over procurement includes evidencing the receipt of goods and services by signing and dating the receiving documents.

Of the 40 procurement transactions examined, 11 did not have any written confirmation that the goods or services were received in good condition and in the correct quantities.

The Finance Manager indicated that there were instances where employees failed to sign invoices or purchase orders during the receipt process. She added that, in such instances, the Executive Officer would obtain confirmation that goods or services were actually received.

In operating environments where the receipt of goods and services is not consistently evidenced, it becomes difficult to establish accountability and to promptly determine when irregularities have occurred. It may be possible therefore for payments to be made for goods or services that were not provided.

Recommendation

The Chief Fire Officer should ensure that verification and receipt of goods and services is properly documented on the accompanying invoice and/or purchase order.

Management's Response

We accept and acknowledge the requirement for effectiveness of internal controls over the procurement and will make every effort to abide by the Ministry of Home Affairs Procurement Policy.

Implementation Date: *Recommendations implemented immediately.*

4. Non-compliance with Personnel Regulations

Schedule 1, Section 3 (2) (d) (iii) of the Personnel Regulations (2012 Revision) states that "employees on bands I or below whose normal working hours are shift based shall be compensated with overtime at time-and-a-half for any hours worked in excess of the normal hours worked over the shift cycle, regardless of the days of the week on which those hours were worked."



Of the 124 employees who had accrued time-off-in-lieu as at June 30, 2013, 110 (90%) were not entitled to the benefit as they were shift-based employees. The total time-off-in-lieu hours accrued by these employees as at June 30, 2013 was 19,516.25 hours and had a value of \$379,360.22. As per the Personnel Regulations, these employees should have been compensated with overtime pay and should not have been allowed to accrue time-in-lieu.

It was explained that, in an attempt to manage high overtime costs, the Department substituted overtime pay for time-off-in-lieu. According to the Chief Fire Officer, (in post at the time of the audit) the 2012/13 approved appropriations were not sufficient to cover overtime payments, thus extra duty hours for the shift-based employees were recorded as time-off-in-lieu.

The Department operated in violation of the Personnel Regulations, by replacing the requirement for paid overtime to shift-based employees with time-off-in-lieu. Further, such non-compliance may be seen by some staff as a violation of their rights and may serve to demotivate and lower employee morale. Even though a cash payment is not made, the liability for accrued time-off-in-lieu represents an expense in the financial statement and does not reduce the stated expenses of the Government even though it may reduce the cash outflow.

Recommendation

The Chief Fire Officer should comply with the requirements of Schedule 1, Section 3 (2) (d) (iii) of the Personnel Regulations and, at a minimum, ensure the following:

- Extra duty hours of shift-based employees are accrued as overtime rather than time-off-in-lieu;
- Accrued overtime is paid; and,
- Approval is sought for obtaining the appropriate resources needed to deliver optimal service.

Management's Response

Agreed and complied. The overtime calculations and policy has been rectified since the Fire Department was transferred to the Ministry of Home Affairs.

Implementation Date: *Immediately implemented.*

5. Discrepancies In Time-Off-in-Lieu Records

Section 29 of the Financial Regulations states, "a Chief Officer of a prescribed entity shall 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."

We were informed that employees did not enter their work hours directly to the Time Recording System (TRS). Access to the System was given only to the Officers-in-Charge, who have responsibility for entering the hours of their staff. The time entries are then verified by the Senior Divisional Officers by comparing the TRS entries to the attendance logbook.



During our audit, we tested the time records of 9 employees with the highest accumulated comp. time (time-off-in-lieu) in TRS. We noted that 5 employees records showed discrepancies when the time-off-in-lieu recorded in the System (TRS) was compared with the hours logged in the attendance logbook.

Management believes the discrepancies were the result of human error when the entries were transferred from the attendance logbook to TRS and had resolved most of the differences prior to the conclusion of the audit. Management further committed to investigating the remaining unresolved variances.

Errors in time recording should be identified and corrected promptly as this has financial implications for government either in losses due to over recording of hours, or in low employee morale and productivity if the hours are under recorded.

Recommendation

The Chief Fire Officer should ensure that the hours entered by the Officers-in-Charge are reviewed for accuracy by the Senior Divisional Officers during verification of time entries in TRS.

Management's Response

Management is in full agreement. The responsibility of ensuring that this recommendation is immediately implemented has been designated to the Officer-in-Charge of Sections and Divisions.

Implementation Date: *Immediate implementation.*