



**MARITIME AUTHORITY OF THE CAYMAN
ISLANDS**

PAYROLL & EXPENDITURE AUDIT

Audit Report

October 2015

**INTERNAL AUDIT UNIT
CAYMAN ISLANDS GOVERNMENT**

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



INTERNAL AUDIT REPORT
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MARITIME AUTHORITY OF THE CAYMAN ISLANDS

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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 2014-2015 Audit Plan, we recently concluded a payroll and expenditure audit of the Maritime Authority of the Cayman Islands (MACI).

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
We noted that policies and procedures for the procurement and expenditure processes were not documented. In addition, we noted that, while documented policies and procedures for payroll were in place, they were deficient in a number of key areas.	Ensure that the business processes surrounding the payroll, procurement and expenditure functions are written into policy, duly approved and circulated to the applicable staff members.	Management agrees with the recommendation and undertakes to implement by July 1, 2016 (draft format).
It was noted that one employee did not have insurance coverage, as required by the Health Insurance Law, for the entire period under review.	Ensure that all employees have adequate health insurance coverage as required under Section 5 (2) of the Health Insurance Law (2013 Revision).	Proof of health insurance coverage was provided to HR by the concerned employee on July 1, 2015 (not IAU verified). Moreover, HR undertakes to seek confirmation of said coverage on an annual basis from the employee's health insurance provider.

Conclusion

With the exception of the findings noted in this report, the Internal Audit Unit concludes that the payroll and expenditure management systems within MACI are adequate to support the achievement of its objectives. We have made recommendations for improvement in the areas where deficiencies were noted, to which MACI's management has agreed and committed to the implementation of the corrective action plans.

Deloris E. Gordon
Director, Internal Audit Unit

October 23, 2015



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II. INTRODUCTION

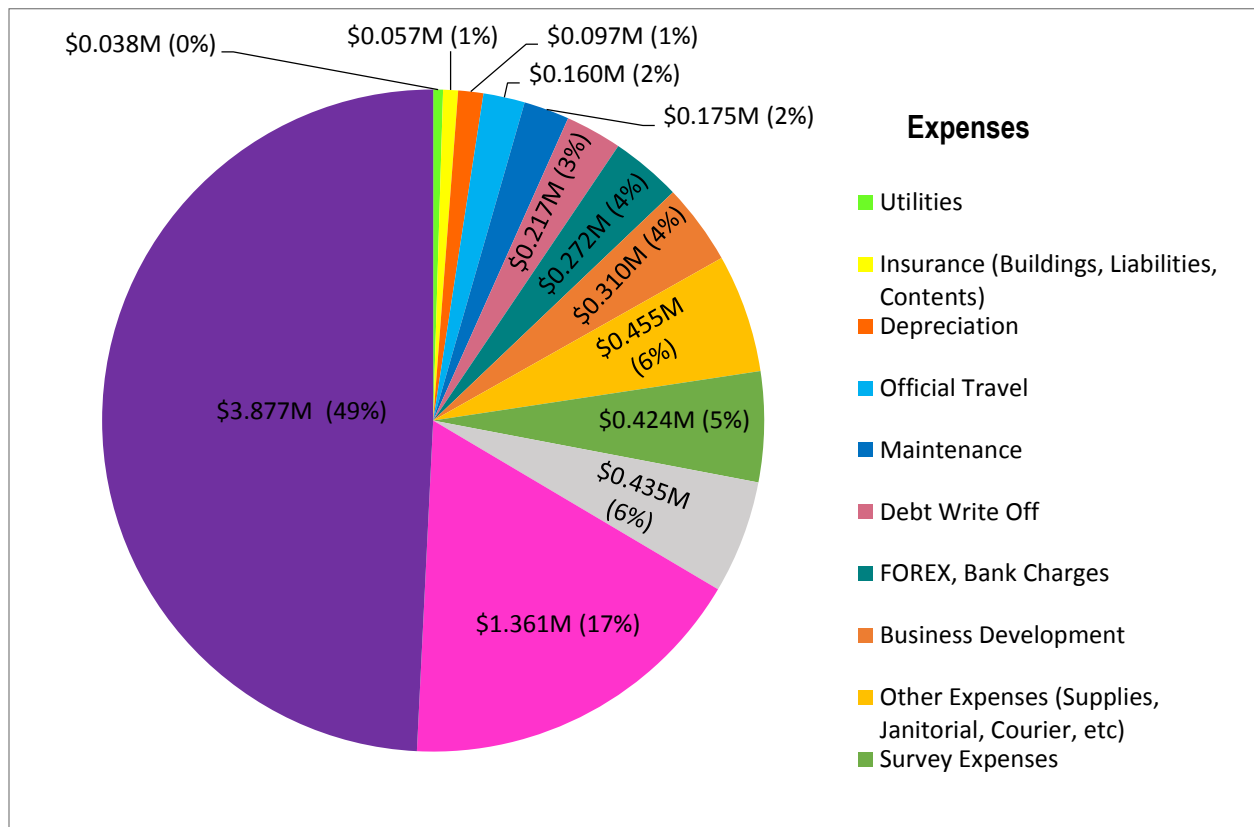
Background

MACI is a legal entity established in accordance with the Maritime Authority of the Cayman Islands Law. The Authority, which was formed in 2005, is a wholly-owned entity of the Cayman Islands Government and is overseen by a Board of Directors appointed by the Governor of the Cayman Islands.

The Authority's main office is in Grand Cayman, however, there is also a European Regional Office located in the United Kingdom. Additionally, the Authority has representations in Greece, the United States of America, France, Japan, Singapore, the Netherlands, Australia, Brazil, the Philippines and Hong Kong. The Grand Cayman office has a staff complement of 31, while the UK office employs 19 persons.

As per Section 6 (1) of the Maritime Authority of the Cayman Islands Law (2013 Revision), the Authority's main function is to administer and enforce applicable laws relating to merchant shipping and seamen, and to promote the proper development of ship registration, survey and related services.

To carry out its activities in FY2014/15, the Authority allocated a budget of \$9,116,923.00 for its operating expenses. As of June 30, 2015, actual operating expenses amounted to \$7,878,187.28 broken down as follows:





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As shown above, MACI's largest expense during the period was personnel costs, accounting for 49% of its expenditure budget. Following is a breakdown of said costs:

Type of Expense	Amount	Percentage
Basic Salary	\$ 3,136,686.93	80.9%
Employee Health care	359,166.63	9.3%
Pensions	179,568.38	4.6%
Employee National Insurance (UK Office)	126,453.54	3.3%
Motor Car Upkeep	31,185.40	0.8%
Temporary Relief	22,746.62	0.6%
Other (work permit fees, recruitment, wellness)	23,570.40	0.6%
Movement in Annual Leave Provision**	(2,071.54)	-0.1%
Total	\$ 3,877,306.36	100%

** This expense pertains to untaken leave accruals.

Computerized Systems – Expenditure and Payroll

For the FY2014/15, the Authority started using GP Dynamics to process and record their expenditure transactions. The Authority's payroll transactions on the other hand were processed using IRIS; however, in July 2015, subsequent to our fieldwork, the Authority implemented the GP Dynamics payroll module.

Audit Objectives and Scope

During this audit, we examined the payroll and expenditure management systems at the Maritime Authority of the Cayman Islands. The specific objectives of the audit were to determine whether:

- The payroll and expenditure management systems were adequate to ensure the accuracy and timeliness of transactions;
- There was adequate segregation of duties, review and approval procedures to ensure payroll and expenditure transactions were valid and authorized;
- Payments and purchases were for legitimate expenses of the 2014/15 financial year;
- Goods and services that were ordered and paid for were received during the financial year;
- Relevant contracts/agreements were in place to support employment and general expenditures; and
- Transactions were in compliance with Laws, Regulations, policies and procedures, and best practices.

The audit examined samples which were selected from an overall population of payroll and expense transactions that occurred between July 31, 2014 and April 30, 2015.



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;
- Health Insurance Law;
- National Pensions Law;
- Generally accepted accounting principles 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 control 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. Lack of Documented Policies and Procedures – Payroll, Procurement & Expenditure

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 operational consistency.

Although management has established standard practices for procurement and expenditures, which are generally being followed by staff, we noted that these procedures were not documented. In addition, although some documentation surrounding the processing of payroll exists, we found it to be deficient in a number of key areas, primarily the provision of sequential payroll processing guidance (i.e. step-by-step procedures) and the documentation integral to the payroll process.

In our discussions with Management, we were informed that the policies and procedures are in the process of being reviewed and updated. In addition, Management stated that the job descriptions of applicable managers are being revised to reflect additional duties and responsibilities relating to procurement and the approval of purchases.

Based on this finding, we are concerned that the undocumented policies and procedures may lead to disruptions in MACI's operations, particularly if key personnel leave, as well as inconsistencies in executing transactions. Additionally, the lack of documented policies/procedures will make it difficult to hold staff accountable in the event of deviations or non-compliance with said policies/procedures.

Recommendation

The Chief Executive Officer should ensure that the business processes surrounding the payroll, procurement and expenditure functions are written into policy, duly approved and circulated to the applicable staff members.

Management's Response

Recommendation accepted. Management is in agreement with the recommendation and will ensure that payroll, procurement and expenditure functions are written into policy, duly approved and circulated to applicable staff members.

Implementation Date: *July 1, 2016 (Draft format)*



2. Non-Compliance With Health Insurance Law

Section 5 (2) of the Health Insurance Law (2013 Revision) states that, “subject to this section, every employer shall effect and continue on behalf of (a) himself; (b) his dependents; (c) each of his employees; and (d) the dependents of each of his employees, a standard health insurance contract.”

In addition, Section 5 (16) states, “a person who fails to comply with subsection (1) or (2) commits an offence and is liable on summary conviction to a fine of thirty thousand dollars, and on conviction on indictment to a fine of forty thousand dollars.”

During our audit, we noted that one employee did not have insurance coverage for the entire period under review. According to the Head of HR and Administration, in January 2014 MACI shifted from one insurance provider to another, and, under the new arrangement, employees became responsible for a portion of the premium payments. However, the concerned employee refused to comply with the conditions of the new policy and opted out of the MACI Health Insurance Group Plan.

We further noted that there was no evidence on file that the employee had secured health insurance coverage with another insurance provider, as is required under the Law. When brought to Management’s attention, we were informed that the Head of HR and Administration would request the employee to provide formal confirmation from a local health insurance provider; a request that, according to Management, was subsequently made on June 18, 2015.

As a result of this finding, we determined that MACI is in violation of Section 5 (2) of the Health Insurance Law, which may result in indictment and the incurrence of fines.

Recommendation

The Chief Executive Officer should ensure that all employees have adequate health insurance coverage as required under Section 5 (2) of the Health Insurance Law (2013 Revision).

Management’s Response

Recommendation accepted. Proof of health insurance coverage was provided to HR by the concerned employee. HR undertakes to seek confirmation of said coverage on an annual basis from the employee’s health insurance provider.

Implementation Date: *July 1st 2015 (not IAU verified)*



3. Absence of Documentation to Support Tendering/Vendor Selection

Section 37 (1) of the Financial Regulations (2013 Revision) states that, “subject to paragraphs (2), (3) and (4), 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; and (b) the sale of assets with a book value of fifty thousand dollars or more.

Additionally, for procurement transactions under \$50K, MACI’s unwritten policy requires that a minimum of two quotations be obtained to serve as a basis for vendor selection. Moreover, best business practices require that vendor selection be documented in a manner that clearly demonstrates value-for-money consideration and provides evidence justifying the rationale behind and necessity of the transaction.

From our review of 30 expenditure transactions at MACI for the period July 1, 2014 to April 30, 2015, we noted the following:

- a. Payments in excess of \$50,000 were made to 2 independent consultants without any evidence of tendering or documentation to justify the basis of vendor selection. Total payments made to the 2 consultants amounted to CI\$220,944.35.

In our discussions with Management, we were informed that these consultants are representatives in countries where MACI has a presence but no official office. Currently, certain aspects of the recruitment process (i.e. advertising, short-listing and interviewing) are being carried out, however, maintenance of the related documentation needs improvement.

- b. 9 transactions did not have quotations or other relevant documentation to evidence the basis for vendor selection. The procurement transactions with these vendors ranged in value from CI\$2,317.20 to CI\$12,355.17 and related to purchases of a number of different services.

Management advised that, where possible, at least 2 quotes for general purchases and services are obtained. However, there are instances when quotes are obtained via telephone, which leaves no paper trail. Additionally, in some cases, such as logistics for yacht shows/events, the event organizers recommend the vendors to be used by participants.

The lack of supporting evidence to validate vendor selection makes it difficult to ascertain if value for money was received for goods and services procured by MACI. In addition, failure to obtain the necessary quotes may result in missed opportunities for savings and, ultimately, excess spending.

Recommendation

The Chief Executive Officer should ensure that the basis of selection for vendors is properly documented. The Chief Executive Officer should also ensure compliance with MACI’s own procurement policies (currently undocumented) and Sections 37 & 41 of the Financial Regulations. In



addition, to facilitate strict adherence and accountability, the Chief Executive Officer should ensure that MACI's procurement policies are documented as recommended in finding #1 in this report.

Management's Response

Recommendation accepted.

Implementation Date: *July 1, 2016 (Draft format)*