



**VARIOUS ENTITIES
FY 2014/15 UNANNOUNCED CASH AUDIT**

Audit Report

June 2015

**INTERNAL AUDIT UNIT
CAYMAN ISLANDS GOVERNMENT**

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REF: 1415-10

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 2014-15 Audit Plan, the IAU recently conducted unannounced cash counts at the following government entities:

- The Department of Agriculture
- Cayman Islands Law School
- Judicial Administration
- The Legislative Assembly
- The Department of Prisons
- Radio Cayman

Summary of Cash Counts

During the cash counts, we audited all floats and collections on hand at the specified entities. No variances were noted:

Entity	Date Audited	IAU Count (inclusive of float)	Cashier's Records (inclusive of float)	Variance
The Department of Agriculture	May 1, 2015	██████████	██████████	-
Cayman Islands Law School	May 6, 2015	██████████	██████████	-
Judicial Administration	May 7, 2015	██████████	██████████	-
The Legislative Assembly	May 8, 2015	██████████	██████████	-
The Department of Prisons	May 4, 2015	██████████	██████████	-
Radio Cayman	May 8, 2015	██████████	██████████	-
TOTAL:		██████████	██████████	-

Audit Conclusion

The results of the cash counts at the specified entities did not identify any variances between the cash on hand and the cash collection reports.

However, we did note some internal control weaknesses within the revenue collections processes at two of the audited entities, to which we have made recommendations for improvement. Management of the



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concerned entities have acknowledged the deficiencies and have committed to the implementation of our recommendations.

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

DeLoris E. Gordon
Director, Internal Audit

June 29, 2015



II. INTRODUCTION

Background

Section 29 of the Financial Regulations (2013 Revision) states that "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."

Cash is highly susceptible to abuse; therefore, it is expected that adequate cash controls are present in all cash handling environments. Such controls should include adequate segregation of duties, thorough supervisory review procedures, timely deposit of funds collected, proper recording of cash transactions and safeguards to protect funds until they are deposited.

Audit Objectives and Scope

Our specific objectives were:

- To confirm the existence, accuracy and completeness of funds/collections in hand;
- To ensure that funds collected were adequately safeguarded until deposited; and,
- To determine whether the internal controls/systems in place for the collection, deposit, review and change in custody were adequate as detailed in the audit methodology below.

Cash on hand, representing one day's collections and floats for each entity, was verified during the period of May 1st – 8th, 2015.

Audit Methodology

The audit methodology involved conducting the unannounced cash counts at the above mentioned entities, and comparing total cash on hand to the relevant receipts and system generated reports. In addition, observations and enquiries were made to assess the adequacy of:

- Physical safeguards/security measures at each premises;
- Change in custody procedures;
- End-of-day reconciliation, and review and approval procedures; and,
- Overage/shortage procedures.

The general aim of a cash audit is to assess the accuracy and completeness of cash on hand as well as to determine whether adequate internal controls are in place to safeguard and account for cash. While our methodology did include the use of enquiry and observation to assess the aforementioned internal controls, those measures were limited to the specific cash counts and did not involve audit sampling tests, as would ordinarily be conducted in a full audit.



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Audit Criteria

The cash collections procedures of the audited entities were measured against the requirements of the Public Management and Finance Law (2013 Revision), the Financial Regulations, generally accepted accounting principles and best business practices.



III. AUDIT REPORT

1. Inadequate Safeguarding of Funds

Section 29 of the Financial Regulations (2013 Revision) requires chief officers to establish an appropriate system of internal controls to safeguard the entity or executive resources for which the prescribed entity is responsible. Best business practice also requires that accessibility to liquid assets be restricted. Ideal restrictions can include the use of tills and drawers with locking mechanisms, and the use of dual access combination safes.

During our audit at the Department of Prisons, we noted that [REDACTED]
[REDACTED] is located in an area that is shared with 3 other staff members and is commonly exposed to high volumes of foot traffic.

Similarly, we observed during our audit at the Legislative Assembly that [REDACTED]
[REDACTED]

When queried, a staff member at the Prison informed us [REDACTED]
[REDACTED]
[REDACTED]

In response to a similar query, staff at the Legislative Assembly informed us that there had been a key for the drawer originally, however, as at the date of the audit, the location of the key was unknown.

Although the collections on hand at both entities at the time of our cash count were immaterial, the current practices in place greatly increase the risk of theft/misappropriation of assets.

Recommendation

Department of Prisons

The Director of Prisons should [REDACTED]
[REDACTED]

Legislative Assembly

The Clerk of the Legislative Assembly should ensure [REDACTED]
[REDACTED]



Management's Response

Department of Prisons

Agreed. [REDACTED]

Implementation Date: July 2015

Legislative Assembly

Agreed. We have made arrangements to [REDACTED]

Implementation Date: 23 June 2015

2. Lack of Documented Policies and Procedures – Farm Sales

Section 29 of the Financial Regulations (2013 Revision) 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." Integral to any sound internal control system are documented policies and procedures, which 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.

During our review, we noted that, although management at the Prison has established some standard procedures to govern farm sales, these procedures have not been documented. Among the undocumented procedures is a requirement for a sales order to be hand-written by an officer or an inmate at the Prison Farm and a copy to be taken by the purchaser to the Accounts Office.

During the May 4th cash count, we observed the following:

- A sales order had not been received by the Accounts Office for the sale of a bag of vegetables to a senior Prison employee. As a result, there was no way for the Accounts Office to independently verify the size of the bag being purchased, nor determine the correct price to be charged. In the absence of the written sales order, we were concerned that there was no independent way to determine the correct sales price.

Considering this finding, we queried whether verification checks, such as reconciliations, had been instituted to identify discrepancies (e.g. missing sales orders) within the farm sales process. We were



informed that it is not the Department's practice to perform a reconciliation of the sales orders to ensure that all have been received and properly accounted for.

In response to further inquiries, we were told that both issues were attributed to a lack of documented policies and procedures on farm sales which, according to the Business & Finance Manager, are currently being drafted for inclusion in the Department's policies and procedures manual.

We are concerned that the lack of documented policies and procedures in this area will continue to result in inconsistencies within the process, thereby increasing the likelihood of misappropriation of assets, fraud and loss of revenue.

Recommendation

The Director of Prisons should ensure that suitable policies and procedures are established and documented to govern farm sales. Such policies and procedures should include, at a minimum, provisions for the consistent issuance of sales orders and the daily reconciliation of said orders against IRIS receipts and/or invoices. In addition, upon implementation of the policies and procedures, employees should be held accountable for any deviations or non-compliance.

Management's Response

Agreed. The Business and Finance Manager is in the process of drafting a Prison Service Instruction on the sale of goods and products. This instruction will include the requirements to issue sales orders, to keep an inventory of goods/products and the necessity for segregation of duties. The policy will also detail actions taken for any deviations from the policy or non-compliance with the policy.

Implementation Date: 31st July 2015

3. Lack of Accountability

Effective internal controls in a cash handling environment includes mechanisms and procedures to ensure that responsibility can be assigned in the event that business objectives are not met or disparities occur.

During our audit at the Legislative Assembly, we noted that the Department's cash float of \$100 was shared by two clerical officers. In addition, revenue collections were maintained in the same drawer, irrespective of which clerical officer collected the funds (i.e. both clerical officers may process transactions within the same day to ensure coverage during lunch etc.). As such, we noted that there is no clear accountability as to which clerical officer is responsible for what portion of the float or collections.



Based on discussions with management we determined that this issue was caused by management oversight in establishing adequate accountability procedures when a second clerical officer began assisting with the cashiering duties.

While generally the daily amount of revenue collected is quite small, we are concerned that, in the event of a discrepancy, particularly a shortage, it will prove difficult to assign responsibility for the error.

Recommendation

The Clerk of the Legislative Assembly should ensure that appropriate handover procedures are established to increase accountability within the cash collections process. Such procedures should necessitate the documentation of amounts being handed over and require the signatures, signifying agreement, of the transferor and the transferee.

Management's Response

To increase accountability we have made arrangements to purchase two cash pans which will be labeled with the two clerical officers' names and have a [REDACTED] Each officer will have to account for their float at the end of the day which will be verified either by the Clerk or Deputy Clerk. The specific denominations of cash will be recorded in the cash book and signed off by the Officer and the verifying Clerk.

Implementation Date: 23 June 2015