

**SPECIAL AUDIT REPORT
ON THE OPERATION OF THE
PENSION DISBURSEMENT PROCESS**

A Report of the Auditor General of Jamaica

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AUDITOR GENERAL'S OVERVIEW

I commissioned an audit of the pension disbursement process at the Accountant General's Department (AGD) based on the susceptibility of pension funds to fraud and the occurrence of a fraud in 2009. This review assessed the effectiveness and adequacy of the controls over the pension disbursement process.

Management did not design appropriate strategies to ensure that the \$17.0 billion pension paid during the financial year 2010/2011 were protected from manipulation and abuse. Risk assessments were not being conducted regularly to facilitate the design of effective controls and there were no reviews of the pension payroll activity log to identify unauthorised transactions. Improper payments totalling \$6.81 million were made to pensioners/dependents and there were also irregularities totalling \$20.6 million as at May 2011, which dated back to March 2001. Despite the occurrence of a fraud of \$14 million in 2009, the AGD did not ensure that they created a strong control environment that would reduce the likelihood of fraudulent activities.

There is need for improvement in the design, implementation, and monitoring of key controls to prevent and detect irregularities. In that regard, the AGD has indicated that they are currently in the process of upgrading the pension software along with some of their administrative processes to address the weaknesses we have highlighted in this report. Nonetheless, I encourage that the software modification be pursued with alacrity to cauterise any loss the government may be enduring as a result of the existing weaknesses. It is imperative that the Department seriously consider implementing our recommendations to enhance the efficiency of the pension payment process and mitigate the risks to which it is exposed.

I wish to thank the Accountant General and her staff for the courtesies extended to my staff during the audit.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

EXECUTIVE SUMMARY

The Accountant General's Department (AGD) is controlled by the Ministry of Finance which, among other things, is responsible for the payment of pensions and other awards that are approved by that Ministry. The AGD currently pays approximately \$14.6 billion annually to approximately 28,000 pensioners. Pension payments are susceptible to fraud and irregularities; it is therefore important that the pension payment process is effectively managed to mitigate these occurrences. The audit was geared at assessing whether the AGD has an effective and efficient system in place to monitor the pension process. We found several weaknesses in the management of the pension process which are highlighted in the following paragraphs.

Key Findings

1. **The AGD did not carry-out its own data extraction of the pension payroll database,** resulting in the Department spending \$3.7 million to engage a consultant for 546 hours over a four year period. Management reported that they would have to pay the consultant at least \$160,000 to provide its pension database to the audit team. This prevented the audit from adequately assessing the appropriateness of the level of security of the database and limited the overall depth of our examination. There was also no evidence that the AGD generated the required reports to facilitate regular reviews of transactions undertaken by users to detect unauthorised transactions.
2. **We found shortcomings in the control designed to prevent pension payments to deceased pensioners.** A sample of 405 pensioners failed to provide life certificates as evidence that they were alive as at June 2011. Ninety-one of these pensioners (22 per cent) remained active, although their life certificates were outstanding for periods up to 19 months. Of these 91 pensioners, improper payments totalling \$5.60 million were made to 65 pensioners who had life certificates outstanding for between 8-19 months. Further, absence of a proactive strategy to detect ineligible dependents resulted in improper payments of \$1.14 million to 11 dependents.
3. **The controls within the pension payroll did not automatically stop payments to pensioners if the payment criteria are not met.** We noted that the system could not sustain the restoration of pensioners who opted for reduced pension to full pension after the stipulated 12 ½ years. Additionally, the system fails to automatically discontinue deductions of widows and orphan contributions from pensioners after they reach age 65 years. The date of birth for 415 pensioners sampled was omitted from the system thereby making it ineffective. Also, the payroll system does not provide an audit trail of the previous months' transactions to facilitate a review of prior periods. The AGD informed us that they are currently upgrading the pension payroll software to address these weaknesses.
4. **The AGD did not have a proactive strategy to mitigate fraud or other risks that could occur in the pension process.** Despite discovering a \$14 million pension fraud in

February 2009, documentary evidence was not presented to indicate that continued risk assessments were conducted to ensure that the controls remained relevant and effective. The AGD informed us that this was done by their Internal Audit Unit; however, they did not present to us the related documentary evidence.

5. **The AGD did not have agreements with its payment partners giving a time frame within which uncollected cheques should be returned.** This could increase the risk of improper payments. The cashier held multiple uncollected cheques for four pensioners totalling \$418,068.18.
6. **The AGD did not routinely probe and follow up on un-cashed pension cheques to promptly identify possible pensioners.** The AGD record reflected that as at May 2011 there were 4,826 un-cashed pension cheques¹ with total value of \$187.2 million dating as far back as April 2004.

Recommendations

To improve the efficiency and effectiveness of the pension process, the AGD should consider adopting the following recommendations:

1. The arrangement with the Consultant should be immediately reviewed to ascertain whether value for money is being obtained. The AGD needs to ensure that the software is fully meeting the requirements of the pension process. The Department should also meet with all users of the software within the next month and carefully assess their requirements and identify the gaps in the existing system.
2. The AGD should ensure that the Consultant correct the defects within the system so that it operates in accordance with the original design. For example, the system should be modified within the next six months to ensure that the automatic restoration of pensioners to receive full pension after 12½ years is sustained. The system also needs to be strengthened to automatically stop payment to pensioners who fail to present the life certificate by the stipulated time, stop Widows and Orphan deductions when the pensioner reaches 65 years, and stop payment to dependent children upon reaching age 19.
3. Users of the system should be trained to interrogate the pension database, modify the system for pension increases and generate the relevant administrative reports to facilitate reviews. Additionally, the AGD should ensure that super-users' reports are printed and reviewed on a monthly basis to identify irregular or unauthorised transactions.
4. The AGD should immediately conduct an assessment of all the risks associated with its pension process, and thereafter annually, to detect and eliminate weaknesses in the system based on new developments. The results of these assessments should be documented and used to design strategies to enhance existing controls.

¹ Un-presented cheques on bank statement

5. Pension payments are susceptible to fraud; as such, the AGD needs to adopt a more proactive approach to ensure that payments are made to bona-fide pensioners and dependents. Therefore, within the next six months the AGD should consider requesting from dependents, semi-annually, signed confirmations to indicate whether: (1) they remain unmarried - in the case of a female child under 19; and (2) their financial status remained the same since the death of the pensioner - in the case of the deceased pensioner's mother. Further, the AGD should also consider requesting dependents to present documentary evidence that they are still studying, in the case of dependents between ages 19-23. There should be a requirement to immediately suspend pension payments for dependents who fail to adhere to these stipulations.
6. The AGD could also undertake visits to pensioners/dependents to confirm information received. Urgent steps should be taken to substantiate payments of \$1.14 million made to eleven dependents, or recover such payments. Failure to do so could result in surcharge of the responsible officer in accordance with Section 20 of the Financial Administration and Audit Act.
7. Access to third party information would greatly enhance the AGD's detection and prevention strategies against irregularities. The AGD should therefore fast track its plans to establish linkages with third parties such as the Registrar General Department. Other third parties such as the National Insurance Scheme could be considered. This will facilitate data matching activities to promptly identify deceased pensioners and female dependents under 19 who have married.
8. Information on pensioners age assist in identifying high risk pensioners such as those beyond 100 years. The AGD should immediately investigate all pensioners whose dates of birth currently do not appear on the system. Further, steps should be taken to verify whether these pensioners are alive. The database should be immediately updated to ensure that all critical information on pensioners, such as their dates of birth, is recorded on the system. This can be used as a platform to facilitate automatic "red flagging" of pensioners who exceed a specified age.
9. The AGD's decision to suspend payments to pensioners after 7 months, instead of 3 months, may expose the Department to additional risks. Therefore, the decision to lengthen the time to produce life certificates beyond three months should be carefully reconsidered. The AGD should examine how resources are employed and consider reallocating roles and responsibilities to facilitate faster processing of life certificates. Automating the system to allow for automatic suspension of payments to pensioners who have not presented their certificates after three months, will enhance efficiency of the process.
10. The AGD needs to develop formal procedures to guide the management of uncollected cheques. Consideration could also be given for developing a Memorandum of Understanding, within the next six months, with the Post and Telecommunication Department to have cheques that remain uncollected after two months returned to the AGD. All returned cheques should be reconciled with the Department's records and future payments to pensioners suspended immediately. Physical verifications of the related pensioner should also be conducted to confirm their status. This should be done

for all uncollected cheques currently being held by the AGD. Additionally, the AGD should consider performing physical verifications to confirm the status of pensioners who have been inactive for six months and over, prior to their reinstatement to the payroll.

11. Also, the AGD could explore the option of encouraging pensioners to call in once they have not received their life certificates within a month of the time they were to be presented. These measures should also be employed along with compulsory physical inspections of pensioners who have un-cashed cheques and have not submitted life certificates to verify their existence.
12. The AGD should act immediately to ensure that all reconciling items/erroneous entries on the bank reconciliation statements are promptly investigated and actions taken to correct discrepancies to avoid financial loss. The AGD should take steps to investigate all un-cashed cheques to mitigate any potential irregularities. Stop orders should be placed on all stale dated cheques and amounts immediately written back to the bank account, in keeping with Section 7.35 of the Financial Instructions. Additionally, a schedule of "Cashed Cheques Not Returned by Bank" should be prepared and attached to the bank reconciliation statement. The schedule should be sent to the bank requesting that the un-cashed cheques be presented. Where the bank fails to present these cheques, the AGD should request a microfilm of cheques as a substitute².
13. The AGD should also ensure that the bank reconciliation statement is appropriately completed with details on all supporting schedules. This would facilitate a proper audit trail and inform the decision making process.
14. Cheques are like cash and are susceptible to abuse. The AGD should therefore ensure that there are adequate controls in place to account for, and safeguard, uncollected cheques. Commencing immediately, the AGD should review all uncollected cheques and write back those that are stale dated to the account. Further, the AGD should consider reconciling the cheques on hand with the respective records before they are returned to the vault. Formal handing over of cheques should be done whenever there is a change of custodian. A senior officer should regularly conduct a review of the process to ensure that implemented controls are working effectively. Such review should be evident by the checking officers' signature affixed to the reconciliation.
15. The AGD should ensure that the outstanding Annual Returns for the pension payroll are prepared and submitted to the Tax Authority³ at the earliest possible time and, in future, be submitted within the statutory period.

² MOF Circular No. 22 dated November 13, 2003

³ Section 67(2) of the Income Tax Act states that every return of income for any year of assessment shall be delivered on or before the 15th day of March in the year next following such year of assessment

Part One Introduction

1.1 A review of the pension payment process at the Accountant General's Department was conducted to ascertain whether adequate controls were implemented and monitored to ensure the efficiency and effectiveness of the payment process. Therefore, the audit sought to assess whether the established controls protected the integrity and the security of the information recorded on the database. Also, whether it prevented the inclusion of non bona fide pensioners on the payroll, and ensure accuracy of the payment process. Additionally, the audit assessed whether management was proactive in conducting regular risk assessments to prevent any fraudulent activity. We are mindful of a previous fraud amounting to \$14 million committed by an employee and sought to ensure that management established appropriate measures to prevent recurrence.

Audit Scope and Methodology

1.2 The audit was conducted in accordance with standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI), the FAA Act and its Instructions, Pension Acts and other relevant guidelines issued by the Ministry of Finance (MOF). The standards require that we plan our audit to obtain reasonable assurance to detect errors, irregularities and illegal acts that may significantly affect the results of the audit. The primary focus of the audit was to assess whether the Accountant General's Department has an effective and efficient system in place to monitor the operations of the pension process. The audit planning process involved gaining an understanding of the pension activities. This involved conducting an issue analysis to identify our main areas of focus. The main areas identified were to assess whether:

- there is a system in place to ensure that only bona fide pensioners are on the payroll;
- there are defined strategies to identify pension fraud risks;
- there is a system in place to ensure that pensioners are in receipt of their full entitlements;
- a proper system is in place for the disbursement of pension; and
- there is a system in place to prevent manipulation of the database.

1.3 Our audit methods included:

- Reviewing prior year working papers
- Reviewing the Pensions Acts and procedures
- Examination and analysis of the AGD records
- Interviews with management, staff and pensioners

Limitation of Scope

1.4 The AGD's failure to provide an electronic copy of the pension data base and back up files limited the scope of our audit. This prevented the audit from adequately assessing the appropriateness of the level of security of the database and limited the overall depth of

our examination. Further, the AGD advised that they could not provide us with a copy of their backup without incurring a cost nor could the AGD provide a manual for their payroll software.

Background

- 1.5 The post of Accountant General was established in 1950 as a custodian and manager of the government's financial resources and assets. Its roles and responsibilities include, among other things, the payment of pension and other awards as approved by the Ministry of Finance Pension Branch to former government employees, their dependents and gratuity payments to contract officers⁴. The Pension Unit has the responsibility to make these payments. During the financial year 2010-2011 the Department paid out \$17.1 billion to approximately 28,000 pensioners and dependents as shown in **Table 1**.

Table 1 Pension Cost for 2008-09 to 2010-11

Financial Year	Pension (\$) Billion
2010-2011	17.07
2009-2010	14.32
2008-2009	12.38
Total	43.77

⁴ Source: Accountant General Department

Part Two Controls over the Pension Process was Ineffective

The AGD does not have adequate Control over the Pension Payroll Database

- 2.1 The AGD purchased pension payroll software at a cost of US\$1,000 from a Consultant on May 1, 1996. The terms and conditions indicated that the “title in the software was vested with the AGD when the software is installed and the AGD is satisfied with the performance.” However, the AGD was unable to provide a software manual, soft copy of the pension payroll database and back up files to facilitate this audit examination. The AGD informed us that they would have to pay the Consultant \$160,000 to provide us the data.
- 2.2 The AGD informed that due to the software language they were not able to update certain payroll parameters. For example, the AGD was unable to update pension rates and generate certain user reports necessary for effective management control. These activities were restricted to the Consultant. For the period 2007 to 2010, the Consultant was paid \$3.7M to update the payroll database, generate user reports and other related activities. (**Appendix 1**)
- 2.3 Although the pension payroll software can generate a super user report that shows all transactions and modifications made by users, the AGD informed that only the Consultant knows how to generate this report. This prevented regular reviews of the super-user report to detect unauthorised transactions. We noted that this report was last printed in 2009 when a fraud of \$14.0M occurred. The AGD’s failure to conduct routine reviews of transactions undertaken within the pension payroll system will reduce the likelihood of early detection of errors and irregularities.

The System cannot Automatically Cease Payments to Pensioners who have not Submitted Evidence that They are Alive

- 2.4 The system did not prevent processing cheques for delinquent pensioners even if there is no entry of a life certificate beyond a specified period, such as three months⁵.
- 2.5 We found that the process of suspending pensioners who have not submitted life certificates to indicate that they are alive is a manual and tedious process. Before a pensioner is suspended from the payroll, life certificates are recorded and submitted to the Data Centre where the information is entered on the pension system. A list of outstanding life certificates is generated and returned to the pension unit where it is reviewed by the pension officers to identify pensioners who should be suspended or whose pension cheques should be withheld. The list is then returned to the Data Centre where they are manually suspended.

⁵ This is the stipulated period within which a life certificate should be presented.

- 2.6 This current practice could contribute to the delay in the suspension of delinquent pensioners who fail to submit life certificates. This also exposed the AGD to additional risks when it extended the time limit from three to seven months for suspending pensioners who may be deceased.
- 2.7 *The AGD has confirmed that the burdensome process in suspending and reinstating* pensioners results in the Department keeping them active, despite non-presentation of life certificates. The AGD also reported that, as a control, pensioners' cheques are held and a batch control for processing life certificates has been implemented.
- 2.8 The AGD has indicated that the process to upgrade the pension software has started. Approval has been received from the National Contracts Commission; however, the contract has not been signed. The AGD expects the upgrade will address all the defects in the pension software and should be completed by March 2012.

Payments were made to Pensioners without Life Certificate for up to 19 Months

- 2.9 To detect deceased pensioners, pension officers rely on: reports from relatives and friends of the deceased; returned cheques from the post office noted as deceased; and the death column in the newspapers. This information is updated on the pension payroll and the pensioner is terminated. Pensioners are also required to submit an authenticated life certificate quarterly, to indicate that they are alive.
- 2.10 Payments to pensioners who failed to submit their certificates within three months should be suspended. We found that of a sample of 405 pensioners with outstanding life certificates as at June 2011, 91 pensioners (22 per cent) remained active although their life certificates were outstanding for periods ranging from four to 19 months. Payments were made to 65 of these pensioners whose life certificates were outstanding between 8-19 months representing improper payments totalling **\$5.53 million (Appendix 2)**.
- 2.11 The AGD also did not establish formal procedures to ensure that all pensioners reported as deceased are promptly terminated and pension payments ceased. The AGD failed to promptly terminate payment to a pensioner reported as deceased by a relative despite receiving notifications. The complainant advised that the pensioner died on January 30, 2011. The AGD was notified on February 3, 2011; however, the AGD continued to make subsequent payments totalling \$74,101.30 to the pensioner's account for February and March 2011. Payment ceased after subsequent calls were made by the complainant. The amount of \$73,801.00 was refunded to the AGD.
- 2.12 The AGD has acknowledged that there is currently no structured process for administering reports of deceased pensioners. They indicated that they are in the process of upgrading their telephone system in an effort to improve their customer service. They have also indicated that they intend to establish linkages with the Registrar General's Department to assist in identifying deceased pensioners. However, they have not provided a timeline for this arrangement.

Absence of a Proper System to Detect Ineligible Dependents results in Improper Payments

- 2.13 We found that the AGD did not have a proactive strategy to identify dependents that became ineligible for payments. Dependents of retired members of the Public Service are entitled to continue receiving pension payments upon the death of the retired public servant. A dependent is a child who is (1) a male up to the age of 19 years or (2) an unmarried female up to the age of 19 years, or a mother who can prove that she was dependent on the officer before death and her financial status remains unchanged since the officer's death. A child may also continue to receive pension benefits up to age 23, as long as he/she is in pursuit of higher studies.
- 2.14 Although the AGD established a register to record cessation dates of dependents, at the time of the audit, only 6 of the 24⁶ dependents who were within this age group were recorded in the register. There was also no record of the cessation date on the pension payroll database.
- 2.15 This inefficient system resulted in continued payments to dependents beyond their cessation dates. Of the 24 dependents, aged 19 to 25 years, 11 dependents were not terminated on their respective cessation dates. This resulted in improper payments totalling \$1.14 million for periods up to 27 months after their respective cessation date, as detailed in **Table 2**.

Table 2 Payments to Dependents beyond Cessation Date

Pension Number	Expected Termination Date	Actual Termination Date	Amount (\$)	Period Elapsed since Termination Date (months)
290273	05/01/2009	09/01/2011	168,274.55	27
257006	08/22/2009	09/01/2011	193,645.97	24
284585	04/12/2010	09/01/2011	251,453.76	16
290772	07/01/2010	09/01/2011	22,844.68	14
280956	07/17/2010	09/01/2011	193,294.36	13
280572	07/01/2010	08/20/2011	117,313.69	13
257775	01/05/2011	09/01/2011	97,137.01	8
286397	03/16/2011	09/01/2011	51,838.20	5

⁶ The AGD records only reflected 24 dependents of the entire pension population whose age ranged from 19 to 23.

Pension Number	Expected Termination Date	Actual Termination Date	Amount (\$)	Period Elapsed since Termination Date (months)
280964	07/01/2011	09/01/2011	22,649.08	2
253024	01/20/2011	03/01/2011	14,592.21	2
291435	08/21/2011	09/01/2011	2,467.13	Less than 1
Total			1,135,510.64	

- 2.16 Further, the AGD does not have a mechanism in place to confirm the marital status of female dependents under age 19 to determine whether they should continue to receive payments. There was also no subsequent verification confirming whether dependents whose benefits were extended beyond age 19, as a result of pursuing higher studies, continued to study. We also found that the AGD continued to make payments to five dependents beyond their known periods of studies, resulting in improper payments of \$535,798⁷.
- 2.17 Additionally, Appendix Part II(4) of the Constable (Special) Act states that the payment of pension to mothers of Special Constables who have died should cease if she marries, remarries or it appears to the Governor General, at any time, that the mother is adequately provided with other means of support. However, the AGD did not establish mechanisms to determine whether the status of dependent mothers have improved/changed and should continue to receive payments.
- 2.18 Failure to establish appropriate mechanisms resulted in overpayments to individuals. This may also contribute to delay in the apportionment of these benefits to the dependents siblings.

Controls within the Pension Payroll unable to stop Payment Automatically if Payment Criteria is not Met

- 2.19 A retiring officer may elect to receive full pension or a reduced pension and gratuity. Where the officer opts for a reduce pension, he/she should be restored to full pension after 12½ years. We noted that the system restores the officer to full pension at the stipulated time but this change is not sustained beyond one month. Instead, the pensioner is reverted to a reduced pension for the following month. Consequently, pension officers have to manually restore pensioners to their full pension status. Despite several requests made by the AGD of the Consultant to correct the deficiencies, this malfunctioning of the pension payroll software remained unaddressed. This resulted in an inefficient use of resources to manually restore pensioners and increases the risk of incorrect payments.

⁷ Amount included in \$1.13 previously reported

- 2.20 The pension payroll system does not give an alert to cease deduction of Widow and Ophan when pensioners reach age 65 years or have made contribution for 35 years⁸. Pensioners' cards have to be regularly reviewed periodically to identify those pensioners who have reached age 65 and should cease payment of Widow and Orphan (Family Benefit) contribution. This is an inefficient process, which may result in the pensioners receiving incorrect benefits.
- 2.21 Knowledge of pensioners' dates of birth could assist the AGD in identifying pensioners who are entitled to age-related benefits, those no longer entitled to pay certain contributions, and also act as a red flag to detect high risk pensioners. We found that the pension database did not include the date of birth for 415 pensioners sampled. Of this amount, 339 pensioners were still active. The absence of the pensioners' date of birth on the system makes it difficult for the AGD to identify pensioners who attain age 65 years and should cease paying Widows and Orphan (Family Benefit Fund). Also, the pensioner may not benefit from the applicable tax exemption. Further, the AGD would be unable to readily identify pensioners whose age surpasses 100 years to facilitate an investigation to ascertain their existence.

⁸ Section 6 (4a &b) of Pension (Civil Service Family Benefit Fund Act requires deduction for up to 65 years or until the contributor have made contributions for 35 years.

Fraud Risk Assessment is not Conducted on an Ongoing Basis

- 3.1 The AGD did not have a proactive strategy to safeguard the pension process against the risk of fraud. Despite discovering a \$14 million pension fraud in February 2009 (**Box 1**), documentary evidence was not seen to indicate that continued risk assessments were conducted to ensure that the designed controls remained relevant and effective. *The AGD advised that risk assessments of the Department's activities were conducted by its internal audit unit; however, evidence of this assessment has not been presented.*
- 3.2 Although the AGD implemented controls to improve the system there was no evidence that the payroll was being checked and approved by the Director of the Pension Unit on a monthly basis.

Box 1 Fraud Detected in February 2009

In February 2009, weaknesses in internal controls, including the lack of adequate supervisory checks, allowed a supervisor of the pension unit to successfully assign fictitious agents to eleven (11) deceased pensioners. This fraud remained undetected for two years and cost the AGD \$14 million.

Multiple Payments held for Pensioners beyond Three Months

- 3.3 The AGD pays pensioners through three mediums: pensioners bank account; the post office; and directly to pensioners over the counter. The AGD holds cheques up to three months for pensioners. If cheques are not collected within this time, the amounts should be written back to the account and the pensioner's payment suspended. Also, cheques returned from the post office indicating that the pensioners are deceased should be written back and payments terminated. *The AGD advised that they intend to take steps to formalize the arrangement with the post office in the new financial year.*
- 3.4 Uncollected cheques could signify that the pensioner is deceased, has been relocated or that an irregularity exists. However, there was no formal agreement between the AGD and the post offices requiring a time frame within which uncollected cheques should be returned. The AGD was sometimes not notified of a pensioner's death so that the payments could be discontinued. We found that the cashier held multiple cheques for four pensioners totalling \$418,068.18, suggesting that payments continued to pensioners despite non-collection of their pension payment as shown in **Table 3**.

Table 3 Multiple Cheques Held by Cashier

Pension Number	Number of Cheques	Amount (\$)
293942	4	132,164.00
288698	7	105,000.00
293472	4	77,844.00
097162/221907	7	103,060.18 ⁹
Total	22	418,068.18

Inadequate Monitoring and Supervision of Uncollected Cheques

- 3.5 Uncollected payments are not being monitored or reviewed by an independent officer to ensure that all cheques were properly accounted for. There were no formal procedures requiring that such an activity takes place. We found that as at August 17, 2011 the cashier held 311 uncollected cheques, totalling \$7.8 million and dating as far back as July 2001. Of this amount, \$6.98 million could still be en-cashed. Thirty cheques totalling \$838,071.09 were stale dated and 29 totalling \$821,702.66 were for deceased pensioners.
- 3.6 These cheques were held in an uncontrolled area, accessed by four other members of staff. During the day, the cheques are held unsecured in carton boxes and are sometimes left unsupervised when the cashier leaves the post. There is no indication that cheques are reconciled at the end of the day and checked off by an independent officer before they are returned to the vault to ensure that they are properly accounted for.
- 3.7 Further, there was no formal handing over procedure when cheques are being temporarily passed from the cashier to the relief officer. We found that when the cashier takes a break, the cheques were handed to the relief cashier but there was no requirement for them to sign off on the number and value of cheques received. The absence of appropriate controls over the handling of cheques exposes the Department to manipulation and financial losses. *The AGD indicate that they currently have a space constraint, which should be addressed in the new financial year. They also promised adherence to the handing over procedure.*

Un-cashed Cheques were not Routinely Investigated

- 3.8 There was no evidence that the AGD routinely probe and follow up on pension cheques that were un-cashed to identify irregularities. The AGD record reflected that as at May 2011 there were 4,826 un-cashed pension cheques¹⁰ totalling \$187.2 million dating as far

⁹ Cheques held as far back as 2001

¹⁰ Un-presented cheques on bank statement

back as April 2004. However, we did not see evidence that these transactions were actively investigated to ascertain whether pensioners were deceased and the payments were for bona fide beneficiaries.

- 3.9 We were not able to identify the payees of the cheques, as the supporting schedules submitted only contained details of the cheque number and value. Failure to investigate these outstanding cheques in a timely manner prevents the AGD from detecting irregular transactions. Also, this could facilitate an environment in which fraudulent transactions and improper payments could remain undetected for protracted periods.

Irregularities Detected on the Bank Statement are not Routinely Investigated

- 3.10 Documentary evidence was not presented to indicate that investigations were conducted to ascertain the cause of continuous erroneous debits reflected on the bank reconciliation statements since June 30, 1996. For the period January to June 2011, the AGD records reflected erroneous debits ranging between \$16.7 million and \$20.6 million as shown in **Table 5** below. These amounts included transactions amounting to \$9 million for May 2011, for which no description was given. Bank credits dated as far back as May 1, 1998 and ranging between \$870,493 and 1.5M were also identified.

Table 4 Erroneous Transactions January to May 2011

Month	Erroneous Debits ¹¹	Unverified /Erroneous Credits
	\$	\$
January 2011	19,908,227.20	870,493.38
February 2011	20,585,031.22	1,352,565.06
March 2011	20,134,137.46	1,435,800.92
April 2011	18,318,467.63	1,489,265.77
May 2011	17,110,225.88	1,507,467.69

- 3.11 The delay in carrying out investigations may inhibit the AGD's ability to detect and correct irregularities in their accounts. We noted that the AGD wrote to the bank in September 2011 advising of 15 stale dated cheques drawn during July 2009 to May 2010, totalling \$220,203. These were en-cashed by the bank during April 2010 to March 2011. The bank was also notified of cheques totalling \$591,638 that did not fall within the Department's cheque sequence, but were en-cashed against the AGD's account over the period February to October 2010. (**Appendix 3**)¹². Management indicated that letters were sent to the bank to address these issues; however, none was presented to us prior to January, 2011.

¹¹ Inclusive of cashed cheques and stop payment charges

¹² AGD letter to the Bank written between January 2011 and September 2011

Table 6. Stale-dated Cheques en-cashed April 2010 to March 2011

Cheque Number	Amount (\$)	Cheque Date	Date En-cashed	Period Elapsed (months)
1180101	444.52	23-Apr-09	22-Apr-10	13
1192207	15,000.00	23-Apr-09	10-May-10	13
1428298	36,719.41	25-May-10	15-Mar-11	9
1240010	444.52	25-Aug-09	29-Apr-10	8
1338728	16,196.78	25-Feb-10	25-Oct-10	8
1339243	23,351.96	25-Feb-10	9-Nov-10	8
1391817	14,778.42	24-Jun-10	1-Mar-11	8
1224308	18,689.99	23-Jul-09	14-Apr-10	8
1353648	16,196.78	23-Mar-10	25-Oct-10	7
1387296	2,096.73	24-Jun-10	31-Jan-11	7
1275908	25,005.28	22-Oct-09	2-Jun-10	7
1406851	14,778.42	22-Jul-10	1-Mar-11	7
1336860	18,721.54	25-Feb-10	7-Sep-10	Over 6
1401334	3,000.00	19-Jul-10	8-Feb-11	Over 6
1422369	14,778.42	25-Aug-10	1-Mar-11	Over 6
Total	220,202.77			

- 3.12 As at March 2011, 238 cheques totalling \$8.7 million were cashed but not submitted to the Department by the bank. We observed that the AGD did not prepare a list of these unreturned cheques and included with the bank reconciliation statement, as required by the Ministry of Finance's guidelines¹³. There was also no evidence that the responsible officers investigated to verify the authenticity of these payments or whether these cheques were subsequently submitted.
- 3.13 Our findings also highlight weaknesses in the execution of the reconciliation for the main pension account. Although the reconciliation of this account was completed up to May 2011, at the date of our audit these irregularities, dating back beyond six years, were not detected before January, 2011. This suggests that the reconciliation process is not accomplishing one of its intended objectives.
- 3.14 Annual Returns for monthly paid pensioners were prepared up to 2005. This was as a result of a problem with the printing of the report. The AGD advised that the pension payroll system can only print up to eleven months. This constituted a breach of the Income Tax Act, which requires that employers submit an annual return of Income Tax deducted from employee's emoluments by January 14 of the following year.

¹³ Ministry of Finance Circular No. 22, dated 13 November 2003

APPENDIX ONE**Summary of Work Done by Consultant****Contracted by the Accountant General's Department**

DESCRIPTION	HOURS	RATE PER HOUR (J\$)	TOTAL (J\$)
Analysis of Pensioners Increase (Text Data); Conversion of Text data to Turbo Payroll Transactions; Modification to revise increase Print Program. Update Pensioners' Master File; Calculate Pensioners' Payroll and Evaluation of increases; Test Run and Implementation	110	7,000	770,000
	11	8,000	88,000
	45	6,000	270,000
Analysis, Design, Record, Layout, Modification, Test Run and Implementation of Pensioners Closed Out Program to Update Pensioners Files	18	7,000	126,000
Conversion of Text Data to Turbo Pay Payroll Transaction File, Modification to Revised Increase Print Program, Test Runs, Revised Pension Listing, Update Master Files, Calculate pensioners Payroll and Evaluation of increase.	24	8,000	192,000
Design ,Write Codes, Test Runs and Implementation of Payroll Inquiries and reports; or print bank transfer summary register; payroll summary; summary register and Pensioners net pay listing	196	7,000	1,372,000
Modification, Test Runs and Implementation to User Profile, payroll Menu, print Life Certificates, Print Bank Transfer cheques; Payroll Menu Program; Accommodate Electronic Banking; to print Pensioner's increase Report and update pensioners master Utility	68	7,000	476,000
Restore from A/G Back Up copies, Updating History Files Test Runs, Back up and Implementation of previous periods January 2004 to February 2009	53	7,000	371,000

APPENDIX ONE

**Summary of Work Done by Consultant
Contracted by the Accountant General's Department**

DESCRIPTION	HOURS	RATE PER HOUR (J\$)	TOTAL (J\$)
Write programs codes and test Runs to update Pensioners File	23	7,000	161,000
Consulting Services			
Turbo Pay NIS 2010 Revised Table	1	30,000	30,000
Travelling	1	1,000	1,000
Installation, Test Runs and Implementation of Turbopay Payroll NIS 2010 Revised Table	1	10,000	10,000
Subtotal			3,867,000
Less Discount			212,100
Grand Total			3,654,900

APPENDIX TWO**Unsuspended Pensioners with Outstanding Life Certificates beyond Seven Months**

Pension Number	Date Last Life Certificate was Submitted	Number of Months Outstanding	Payment Made Beyond seven Months ¹⁴
273575	30-Oct-10	8	\$10,165.38
251549	11-Oct-10	8	\$10,165.38
286218	27-Sep-10	9	\$195,264.16
153861	31-Oct-10	8	\$216,735.28
269900	07-Oct-10	8	\$17,104.00
156843	22-Oct-10	8	\$17,391.05
272736	10-Oct-10	8	\$39,260.97
288698	02-Oct-10	8	\$15,000.00
179914	13-Jan-10	17	\$11,091.00
284335	04-Oct-10	8	\$18,084.52
284914	06-Apr-10	14	\$323,660.54
274537	11-Oct-10	8	\$225.14
108256	18-Oct-10	8	\$23,229.72
262511	07-Jul-10	11	\$136,494.88
266472	16-Sep-10	9	\$43,098.00
219227	16-Sep-10	9	\$53,903.62
143379	15-Sep-10	9	\$53,488.66
137996	12-Oct-10	8	\$26,242.69
087777	11-Oct-10	8	\$23,018.95
270688	01-Oct-10	8	\$30,197.40
086250	Dec- 09	18	\$236,202.51
178471	30-Sep-10	9	\$52,567.08
137255	22-Sep-10	9	\$34,837.86
118073	23-Oct-10	8	\$27,935.16
173201	14-Dec-09	18	\$490.99
220919	16-Nov-09	19	\$411,345.60
175295	15-Oct-10	8	\$19,799.00
092455	10-Sep-10	9	\$88,656.00
159582	03-Sep-10	9	\$1,268.22
265411	12-Jun-10	12	\$11,208.00
266002	21-Sep-10	9	\$87,573.10

¹⁴ The AGD decided to suspend after seven months

APPENDIX TWO**Unsuspended Pensioners with Outstanding Life Certificates beyond Seven Months**

Pension Number	Date Last Life Certificate Submitted	Months Certificate Outstanding	Payments Made Beyond seven Months (\$)
254915	07-Sep-10	9	\$417,473.90
093590	25-Jun-10	12	\$112,013.70
285037	28-Oct-10	8	\$75,431.73
265595	08-Oct-10	8	\$27,455.18
1781541	12-Oct-10	8	\$27,109.83
053142	25-Apr-10	14	\$105,724.28
120648	01-Oct-10	8	\$26,919.82
277523	11-Oct-10	8	\$25,981.60
152556	21-Jul-10	11	\$194,185.59
170847	04-Oct-10	8	\$26,459.26
158463	03-Mar-10	15	\$9,943.44
287595	07-Jun-10	12	\$87,000.00
285425	22-Jun-10	12	\$500,202.15
177962	09-Aug-10	10	\$11,350.83
202458	10-Aug-10	10	\$3,092.49
188743	26-Jan-10	17	\$167,581.97
205422	17-Aug-10	10	\$4,235.04
197776	18-Apr-10	14	\$59,450.43
275348	21-Jul-10	10	\$74,998.20
253145	14-Aug-10	10	\$60,697.14
257838	28-Oct-10	8	\$32,130.39
167577	14-Apr-10	14	\$173,479.31
249956	19-Apr-10	14	\$41,858.46
263766	16-Jul-10	11	\$139,090.08
267608	29-Jul-10	11	\$79,999.72
268329	30-Oct-10	8	\$38,395.19
218750	22-Sep-10	9	\$17,069.52
060157	01-Sep-10	9	\$12,062.81
133926	17-Dec-09	18	\$276,082.57
157069	16-Jul-10	11	\$261,766.26
250457	22-Sep-10	9	\$17,444.00
265617	12-Jun-10	12	\$41,096.00

APPENDIX TWO**Unsuspended Pensioners with Outstanding Life Certificates
beyond Seven Months**

Pension Number	Date Last Life Certificate Submitted	Months Certificate Outstanding	Payments Made Beyond seven Months (\$)
120648	01-Oct-10	8	\$26,919.82
49478	04-Mar-10	15	\$119,568.72
			5,529,974.29

Appendix THREE**Unmatched Cheque Numbers Debited to AGD Account**

Date	Cheque Number	Amount (\$)
02-Feb 2010	6000045	38,764.32
03-Feb 2010	6221	1,246.05
26-Feb 2010	13331186	50,848.37
26-Feb 2010	13354136	46,237.33
26-Apr 2010	136517	48,333.48
27-Apr 2010	56986	15,064.99
27-Apr 2010	57210	21,238.43
29-Apr 2010	57282	12,320.97
02-Jun 2010	131838	26,478.49
25-Jun 2010	5064792	3,413.88
28-Jun 2010	13974662	23,753.80
02-Jul 2010	3147125	52,830.57
05-Jul 2010	963	49,283.03
26-Jul 2010	7187	54,751.68
03-Aug 2010	8650	5,256.00
25-Aug 2010	1059	20,985.61
25-Aug 2010	24782	30,523.49
27-Aug 2010	130641	50,659.17
03-Sep 2010	414996	24,981.53
06-Oct 2010	34896	14,666.71
Total		591,637.90