Auditor General's Department

THEMATIC APPROACH TO THE DEVELOPMENT OF AUDIT PLAN

2017-2019

Table of Contents

Auditor General's Reflection

The Auditor General has a constitutional duty to conduct audits of Ministries, Departments and Agencies (MDAs) in Jamaica. The Financial Administration and Audit (FAA) Act provides the broad framework that governs the work of the Auditor General in ensuring that rules, policies, laws and regulations are applied as intended and are indeed complied with. Though audit principles have remained unchanged over the years, the manner in which we apply these principles have evolved. This is deliberate to ensure that in executing the constitutional duties of the Auditor General our practices and focus are reflective of the evolving public sector and needs of our stakeholders; also, to ensure that the Auditor General's Department continues to add value to the system of governance by remaining relevant through audit practices.

Over the past five years, we developed our audit plan and strategically selected audit candidates that we assessed as being fundamental to; efficient and effective use of scarce public resources and delivery of social services and the Government's achievement of Vision 2030 National Development Plan. Invariably, the audits conducted across the public sector revealed common deficiencies such as poor governance and improper use of resources. With this in mind, as a precursor to preparing our strategic plan for the next three years, I commissioned the development of a thematic approach, which analysed and categorized the weaknesses identified during our audits over the last five years. The aim is to ensure that the audit resources are appropriately allocated to subject matters based on risk level and the value added component.

In that regard, a robust assessment of audit reports issued from April 2011 to November 2016 was done to classify the issues therein. The complexity and interrelated nature of these issues were grouped into **five key themes** which speak to the egregious contraventions within the MDAs. These five audit themes are **i) Governance, ii) Project Management, iii) Resource Management, iv) Procurement and Contracts Management and v) Information and Communications Technology**. Additionally, we intend to assess the effectiveness of the Government's plans to implement the 17 Sustainable Development Goals promulgated by the United Nations.

My hope is that this report will also aid Heads of MDAs in the assessment of governance arrangements and control systems with an objective to minimize the potential threats of misappropriation or loss of assets, abuse of state power and the possibility of fraud, as well as inform the design of appropriate corrective mechanisms.

Pamela Monroe Ellis, FCCA, FCA, CISA
Auditor General

INTRODUCTION

How the Audit Themes were developed?

The Auditor General has incorporated a forward-looking approach in conducting audits for the next three years. In developing this approach, an assessment of our audit reports issued from April 2011 to November 2016 was undertaken to identify the common weaknesses across the MDAs. The findings were then classified under 19 sub-themes, as illustrated in the Appendix.

Further analyses resulted in the identification of **five key themes** based on the characteristics and interrelatedness of the sub-themes.

The Five Key Audit Themes

Governance

Project Management

Resource Management

Procurement & Contracts Management

Information & Communications Technology

Use of the Audit Themes

Each theme incorporates an analysis of our findings and the impact on the entities' resources. Accordingly, we have included extracts from our audit reports, which illustrate the typical findings. It is envisaged that the themes will be used by the MDAs to assess the effectiveness of the internal controls and operational management of their entities as well as guide them in identifying appropriate solutions for inherent weaknesses.

Possible Benefits of the Audit Themes to Stakeholders

i.   The Public Accounts Committee and the Public Administration and Appropriations Committee can use the themes to inform Parliament of the systemic weaknesses in the public sector that may require legislative changes.

ii. The Ministry of Finance and the Public Service can use the themes in the formulation of policies and procedures to ensure consistency, transparency and accountability of Government entities.

iii. Boards can request investigations to determine how well their entities are addressing the risks identified in the themes.

iv. Accounting Officers may use the themes to inform their internal control and risk management processes.

v.   Internal auditors and Audit Committees can use the themes to assist in choosing the operational areas to audit.

The self–assessment questions provided with each theme are intended as a guide for MDA to assess their specific performance.

Limitations to the use of the Audit Themes

These themes were developed solely from audits performed within the financial years reviewed which were selected based on our risk assessments and audit plans. Therefore, the themes are a reflection of the common control weaknesses identified. Accordingly, there will be issues faced by the MDAs that will not be audited in a given year as our audit programmes are geared towards high risk areas that may require improvement and which expose the public sector to losses.

Governance

The Government of Jamaica signalled in September 2012, its increased focus on governance in the public sector through the promulgation of the Public Bodies Management and Accountability (PBMA) Act, Accountability and Corporate Governance frameworks along with various guidelines. However, public sector bodies have not fully adhered to the tenets espoused in the laws and guidelines to strengthen overall governance arrangements. As a result, there is a need for greater oversight and monitoring of Government programmes and activities to ensure transparency and accountability in the use of public resources.

Corporate Governance encompasses a set of principles, illustrated below, that should ensure that public sector bodies are properly managed.

Source: Corporate Governance by Annand Subramanian

It is expected that MDAs that aspire for good governance will incorporate the philosophies depicted in the tree below in their business practices.

Source: Applied Corporate Governance – Iod and a Corporate Governance Index

We identified three major areas of concern under the Governance audit theme namely: *Oversight & Monitoring*, *Transparency & Accountability*, and *Corporate Planning & Performance Management*[1].

Oversight and Monitoring

We found that, on average, the Ministries and the Boards provided insufficient or ineffective oversight to public bodies and Agencies, which contributed to delays or the inability to meet project objectives, as well as project slippage. As a consequence, some entities failed to achieve their mandate, as well as to implement planned projects and programmes within the agreed timelines.

Common oversight and monitoring issues identified

National Centre for Youth Development

• **Ten years after the promulgation of the National Youth Policy, NCYD has not completed the required National Strategic Plan for Youth Development.** In addition, the 2003 National Youth Policy mandates that the Policy should be reviewed every five years. The Policy has never been revised although the Ministry of Youth and Culture engaged the services of a Consultant, in September 2012, to spearhead the revision process. The revision process was originally slated for completion in June 2013. However, the scheduled completion date was extended to February 2014. - (*Auditor General's Report on the National Centre for Youth Development (NCYD), October 2014*)

Port Authority of Jamaica

• PAJ has not instituted the appropriate mechanism to fully implement an Enterprise-wide Risk Management (ERM) Framework to facilitate a structured, consistent and continuous process for managing risk within the PAJ and its subsidiaries. The Framework should include an approved risk management policy and procedures guidelines (Framework Document) and an effective oversight and monitoring mechanism to ensure that identifiable risk are managed and remedial action undertaken in a timely basis. The objective is to ensure that risk factors that may impact the achievement of the PAJ Group core objectives are identified, assessed, managed and controlled. - (*Auditor General's Special Report on Port Authority of Jamaica, July 2016*)

Self-assessment questions

1. Are the Ministry's oversight mechanisms effective in monitoring performance of the portfolio entities?
2. Is the Board complying with the PBMA Act, Accountability and Corporate Governance Frameworks and Ministry of Finance Guidelines and Circulars?
3. Does the Board have mechanisms to manage the achievement of the strategic plans?

---

[1] Refer to **Appendix (I)** for details of the findings categorized under each sub-theme.

4. Is the entity operating according to its mandate?
5. Does the entity conduct a risk assessment of its activities, document risks in a risk register and monitor mitigation efforts?

Transparency and Accountability

There were instances where public bodies were not held accountable by Parliament and the public for their use of public resources and execution of their mandate. For example, we found instances of non-submission of quarterly, half-yearly and annual reports (including audited financial statements) by public entities; thereby depriving the Portfolio Ministries and Parliament of timely and relevant information on the performance of public bodies. Although, the preparation of financial transactions has been automated in majority of the MDAs, they continue to struggle to prepare financial reports in a timely manner. This has continued to hinder Parliament in making sound and timely decisions on relevant financial data.

Consequently, our resources have been committed to clearing long outstanding audits and resolving outstanding issues on incorrect financial reports submitted by MDAs. Our assessment revealed that as at November 30, 2016, 326 financial reports were not submitted by MDAs for audit for the financial years ended up to March 31, 2016. Additionally, there are 210 statements that are yet to be finalized as these have not yet been returned by the MDAs (**Table 1**).

Table 1: Status of uncertified financial statements (FS) for financial years up to March 31, 2016

Entities	Audit Type	FS not submitted to AuGD	FS returned to client: awaiting adjustments	Total
Ministries and Departments	Appropriation Accounts	169	125	294
Parish Councils and Libraries	Financial Statements	110	31	141
Statutory Bodies and Agencies	Financial Statements	47	54	101
Total		**326**	**210**	**536**

Self-assessment questions

1. Have the MDAs prepared and submitted all required reports to Portfolio Ministries and/or Parliament within the prescribed time?
2. Are the financial statements up to date?
3. Do staff members possess the relevant competencies to accurately prepare financial statements?
4. Have all the statutory obligations been met?
5. Are there clear guidelines for the selection of key personnel and consultants?

# Corporate Planning and Performance Management

Proper planning and performance management are critical to an organization achieving its objectives. Entities should therefore develop formal business plans outlining the objectives, key performance indicators (KPIs) and targets that should inform the operational task performed by employees. Further, objectives should be appropriately aligned with KPIs and targets, which will allow performance to be easily measured, monitored and evaluated.

However, our audits revealed that some public bodies did not develop SMARTER[2] objectives or clearly defined the actionable steps to be taken by employees in meeting strategic objectives. Additionally, there were instances in which the entities only reported or assessed a fraction of the KPIs specified in the respective business plans.

Self-assessment questions

1. Does the Ministry evaluate the performance of Board members?
2. Do MDAs conduct feasibility studies prior to the implementation of projects?
3. Are there clear deliverables to allow for evaluation of consultants and key personnel?
4. How is the accuracy of the information in performance reports verified?
5. Does the performance information used cover all the key activities?
6. Are indicators relevant to the activities they are intended to measure?
7. Are indicators aligned with goals and strategy?
8. Do performance reports explain performance in a transparent manner?
9. Are key performance indicators clearly identified and annual variation reports reviewed?

---

[2]SMARTER is an acronym used to set objectives. S – Specific, M – Measurable, A – Attainable, R – Relevant, T – Time-bound, E – Evaluate, R – Reevaluate
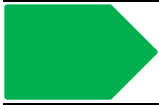
Project Management

Project management is an effective process to handle complex activities with due regard to the control of time, cost, quality and progress in achieving the project objectives. Our audits revealed the absence of KPIs, irrelevant or inappropriate performance measures, and lack of post evaluation. As a result, there was uncertainty whether projects achieved their intended outcomes. In addition, some public bodies did not undertake proper due diligence prior to the execution of projects and as a consequence projects had to be re-scoped or abandoned, thereby incurring significant cost and time overruns. Public bodies also had difficulty achieving their core mandate given the weak performance outcomes. We noted two major areas of concern under the Project Management audit theme namely, *Planning & Evaluation* and *Implementation & Monitoring*[3].

Source: Project Management by Adair Engineering

Planning and Evaluation

Planning is relevant to proper management and execution of projects in order to efficiently, effectively and economically achieve the objectives of the project in accordance with the entities' strategic objectives. This will ensure that the expected outputs and outcomes are attained according to plan; and that the expected benefits to the public are derived. We found that MDAs continued to undertake poor planning and inadequate evaluation of projects, which have resulted in the significant loss of scarce financial and human resources.

---

[3] Refer to **Appendix (II)** for details of the listing of findings categorized under each sub-theme.

Jamaica Social Investment Funds	**Weaknesses in JSIF's planning process resulted in non-commissioning of sewage system and termination of projects.** JSIF's lack of proper coordination and liaison with the National Works Agency, along with JSIF not ensuring that commitments of the other implementing agencies were documented; resulted in the non-commissioning of a $57.4 million drainage system. Further, Professional fees of $330,000 had already been incurred when another project, Marketing for Agricultural Activities, was terminated. The termination resulted from a dispute regarding the ownership of the land, which was slated for the project. This may be the result of poor planning activities as one of the conditions for JSIF to implement projects is that land ownership must be clearly established beforehand. JSIF indicated that they have since reviewed their procedures to include the purchase of land titles directly from the National Land Agency. (*Auditor General's Report on Jamaica Social Investment Fund: Assessing the Management of Sub-Projects, November 2014*)
Port Authority of Jamaica	PAJ invested US$2.7 million and J$40.1 million to acquire Navy Island and 10 lots on Titchfield Hill respectively, between 2001 and 2007. PAJ indicated that the investment in Navy Island was undertaken to augment its existing marina development and facilities, to encompass a first class resort, which would enhance the town and general environs of Port Antonio. A review of Board minutes of June 2001 disclosed that the Titchfield properties were acquired to facilitate cultural tourism. The Board subsequently approved the investment and requested that a plan for the proposed development be presented. PAJ would also discuss the development of existing attractions with a government entity which had been mandated to carry out the refurbishment of these attractions. In November 2001, Cabinet gave approval for PAJ to extend the Port Antonio Marina Project and restore properties including Titchfield Hill as an added attraction and complement to the Marina Project. We saw no evidence that prior to making these investment decisions, PAJ conducted feasibility studies to assess the viability of the projects. Accordingly, we were unable to assess whether PAJ determined the expected cash flow and rate of return on the investments. Further, the investment decisions appeared not to be in line with the Authority's mandate, which does not include the development of properties for tourist attractions. To date, the proposed tourism developments have not materialised. In August 2015, the buildings were demolished at a cost of $1.7 million due to the state of disrepair and the existence of squatters. (*Auditor General's Special Report on Port Authority of Jamaica, July 2016*)

Self-assessment questions

1. Are projects and programmes appropriately planned and executed?
2. Does the entity conduct and document the due diligence process prior to project approval?
3. Are there mechanisms in place to track and monitor project implementation?
4. Does the Ministry have the mechanisms to assess the capacity of the implementing agencies for projects?
5. Does the Ministry revise its operational plans based on periodic analysis of performance?
6. Are objectives and goals measureable and do plans include indicators to measure progress?

Implementation and Monitoring

Implementation and monitoring are critical functions in the project management process to enable the proper mobilization, utilization and control of resources throughout the project. Both functions also allow management to detect and address any issue that may arise, in a timely manner. Our audits revealed instances of poor implementation and monitoring of projects, which have resulted in significant loss of scarce financial and human resources.

Housing Agency of Jamaica	HAJ's weak project management contributed to significant delays on the Hills of Boscobel and the Whitehall III (Infrastructure) housing developments, which both suffered time overruns of 856 days and 777 days respectively. HAJ's information management and record keeping practices require immediate review and improvement. The delays have contributed to cost over-runs of $682 million. HAJ also incurred time-overruns of 339 days on the Whitehall III development in respect of the housing units. The Monitoring Reports prepared by HAJ disclosed that soil suitability, change to design and re-scope of works contributed to the over-runs. HAJ projected that the Hills of Boscobel will suffer a loss of at least $318 million after factoring cost over-runs of $519 million. (*Auditor General's Report on the Housing Agency of Jamaica: Management of housing development projects, November 2015*).
Ministry of Labour and Social Security - PATH	Slow implementation of the Social Assistance Graduation Strategy. Cabinet approved in May 2014, the phased exit of 11,017 families who were no longer deemed eligible for the Programme of Advancement Through Health and Education (PATH), and a two year phased implementation of a Social Assistance Graduation Strategy for 1,000 beneficiary families on the Programme. The objective of the Graduation Strategy was to ensure that beneficiary families did not remain on the Programme indefinitely. The estimated cost to implement both the exit and transition programmes amounted to $1,255.50 million. However, Ministry of Labour and Social Security failed to execute the planned activities in accordance with Cabinet's decision. Consequently, this cost the Government of Jamaica approximately $1.3 billion for the FY 2014/15 to FY2015/16 in cash benefits paid. (*Auditor General's Report, December 2016*)

Self-assessment questions

1. Does the entity have mechanisms in place to track and monitor the implementation of projects, paying keen attention to agreed outputs, time and cost?
2. Are qualified and experienced personnel engaged to execute projects?
3. Has the project objectives been met and were the desired outcomes achieved?
4. Has the entity conducted and documented post-project evaluations?

Resource Management

Within the context of the public sector, resource management is the efficient and effective deployment and allocation of the country's resources when and where needed. Resources include money, human skills, information and communications technology, natural, production and inventory. Money is used to procure all the other resources that are needed to provide quality public services. The Government has implemented various control elements in order to monitor and manage resources. Control elements include the Ministry of Finance & the Public Service, Internal Audit Units within various MDAs, the Public Accounts Committee (PAC), the Public Administration and Appropriations Committee (PAAC), the Office of the Auditor General, and the Office of the Contractor General.

Source: i3Works Case Study on Resource Management

The country's financial resources are allocated throughout the MDAs via the central planning system. The budget is used to plan, direct and monitor the financial resources. The PAAC is primarily responsible for monitoring budgetary expenditure.

Some weaknesses identified in the audit of appropriation accounts

1. Untimely preparation and submission of appropriation accounts for the conduct of audits and to enable timely tabling in Parliament;
2. Failure to properly approve virements before reallocation of funds among budgetary components; and
3. Unauthorized allocation and expenditure of financial resources by Government entities.

These breaches are categorized under the *Administrative & Financial Management* and *Operational Management* sub-themes[4].

---

[4] Refer to **Appendix (III)** for details of the listing of findings categorized under each sub-theme.

Administrative and Financial Management

Administrative & Financial Management focuses on the most effective and efficient means of using the Government's resources to carry out its functions. This will require entities to adequately plan, direct, control and organize these resources to ensure that strategic objectives are achieved.

We found that the lack of proper knowledge, understanding and awareness of the standards and guidelines, as well as the limited capacity building of employees, impacted on the operational performance of Government entities.

The implementation of effective internal controls should prevent losses and damage to reputation as well as the inability to achieve strategic objectives.

Post and Telecommu-nications Departments	The audit disclosed weaknesses in the controls over furniture and equipment, bank reconciliation statements and payment vouchers. We found that the inventory records were not updated to reflect equipment totalling $15.2M that was acquired during the year. Additionally, bank reconciliation statements for the Deposit Account were 54 months in arrears. Further, the audit revealed that cash management of the Payroll Account was not properly exercised as funds in the account would not be able to facilitate the total value of the cheques drawn as at March 31, 2014. (*Auditor General's Report, December 2015*)
	Errors in the calculation of some salary payments resulted in overpayments totalling $224,329.40 and income tax short deducted by $190,190.77. We also did not receive evidence of Ministry of Finance's approval for the attachment of travelling allowance to 29 posts and were therefore unable to verify that the related payments had been properly made. Amounts totalling $201,158.61 were subsequently recovered, with arrangements in place to continue recovery of the balance. (*Auditor General's Report, December 2016*)
Ministry of Education	**Long outstanding advance balances.** It appeared that the required supervisory reviews and reconciliations of the advance accounts were not being faithfully conducted to ensure that all expenditure is appropriately reported in the relevant financial year. This was evidenced by uncleared advance balances at March 31, 2015 and 2016, which totalled $2 billion and $2.8 billion, respectively, for the three heads of accounts. The 2015 balances were being carried from at least 2010. *(Auditor General's Report, December 2016).*
	Reconciliation of bank accounts. Our review of the status of the reconciliation of the Ministry's bank accounts revealed that the process was not likely to be supporting the intended internal control over the Ministry's cash resources, making it possible for errors and irregularities to remain undetected for protracted periods. We were unable to verify the status of the reconciliation of the General Salary and regional bank accounts, which were said to be in arrears since March 2013. The February 2016 bank reconciliation statements for the Recurrent and Deposit accounts included reconciling items for erroneous debits and credit memos of $154.8 million and $332,245.03, respectively. *(Auditor General's Report, December 2016).*

Operational Management

The operating functions of MDAs are guided by their respective Acts, Guidelines and Regulations promulgated by the Ministry of Finance & Public Service. This is to ensure that the functions of MDAs are aligned with the Government's vision for the delivery of quality services.

Fisheries Department	**There were marginal increases in number of registered and licenced fishers, while number of registered and licenced vessels, declined.** Of the approximately 21,937 registered fishers at March 2014, only 3,091 were licensed, a non-compliance rate of 86 per cent. In addition, of the 6,411 registered vessels, only 105 were licensed, a non-compliance rate of 98 per cent. The audit did not identify any concerted efforts made by the Fisheries Department (FD), since our 2008 audit, to ensure that fishers comply with the Fishing Industry Act that requires all fishers and vessels to be registered and licenced. FD was also unaware of the number of unregistered and unlicensed fishers and vessels operating in Jamaican waters. FD advised that it would have to undertake a census to obtain the precise number of registered and licensed fishers and vessels. However, it did not have the financial resources to carry out such census. (*Auditor General's Annual Report, Fisheries Department December 2014*).
Early Childhood Commission	**The Commission did not carry out the minimum biannual inspections as required by the Early Childhood Regulations 2005**. Section 3(a) of the Regulations requires the Commission to conduct inspections at least twice yearly for each early childhood institution. We reviewed 20 early childhood institution files and noted that only 29 of the minimum requirement of 120 Inspection Reports for the three-year period 2012/2013 to 2014/2015 were completed. In addition, the Commission did not carry out follow up procedures in a timely manner to ascertain whether the institutions met the timelines given to them to attain the legal standards. This may have contributed to instances where the conditions of early childhood institutions declined from one inspection period to the next. We noted that at March 31, 2015, there was a ratio of one Inspector to 107 institutions and one Development Officer to 64 institutions in the Commission's records. (*Auditor General's Report, Early Childhood Commission, November 2015*)
Private Security Regulation Authority	**The PSRA needs to improve the timeliness of its follow-up and enforcement activities in respect of non-compliant organisations and individuals especially in collaboration with the Jamaica Constabulary Force (JCF).** For the financial year 2014/2015, the PSRA investigated 25 cases of illegal operations. In 10 cases, the operations were regularized before the PSRA's field visit. However, 14 organisations were found to be operating illegally while 1 organisation, though licensed, had employed 8 un-registered security guards. Of the 14 illegal organisations, only one was reported to the JCF for further action and none of the eight un-registered guards were registered up to May 2015. The Authority subsequently advised that one of the 14 illegal organisations has since been licensed and a plan of action has been developed to have the others pursue regularization or closure by December 31, 2015. We were also advised that a follow-up review will be conducted on the firm with the un-registered guards and that termination notices have since been submitted for some security guards. Additionally, the PSRA explained that steps are being taken to improve collaboration with the JCF through a review of their current Memorandum of Understanding (MOU). (*Auditor General's Annual Report,* Private Security Regulation Authority*, November 2015*)

Self-assessment questions

1. Is the entity aware of and consistently comply with the relevant financial regulations and instructions?
2. Have the entity adequately documented policies and procedures that guide our operating functions?
3. Have we engaged personnel with the requisite competencies?
4. Do we ensure that staff is allocated to activities with the greatest risk?
5. Is continuing education promoted among all staff?
6. Are inventory records maintained and updated to ensure the safeguarding of assets?
7. Are scarce and/or limited resources efficiently managed?

Procurement and Contracts Management

The Government has in place procurement laws and clear policies that are outlined in the GOJ Procurement Handbook. However, we found that the procurement of goods, services and construction works was not always fair, transparent and open to competition. MDAs did not clearly outline the scope of works or include measurable deliverables to assess performance. In some instances, we found that the methodology for selecting contracts did not involve competitive tender, resulting in uncertainty as to whether value for money was obtained.

Source: The ABCs of Contract Management for NGOs and NPOs – Jana Wiggins

There is a need for contracts management planning activities, in all phases of the procurement process, to include needs assessment, feasibility study, cost-benefit and business case analyses and the preparation of a Contracts Management Plan. This will enable MDAs to develop timelines for procurement needs, and not treat routine contracts as emergency and thereby employ the sole source methodology or segment contract to avoid scrutiny. Audits conducted by the AuGD revealed several weaknesses in the procurement and contracts management processes[5].

---

[5] Refer to **Appendix (IV)** for details of the listing of findings categorized under each sub-theme.

Kingston and St. Andrew Corporation (KSAC)	The KSAC failed to obtain competitive price quotes for goods and services procured at a total cost of $7.7 million. They were advised that failure to obtain competitive tenders, not only breached the government's procurement procedures, but may have denied the KSAC the benefit of the most economical price. (*Auditor General's Annual Report, December 2011*)
Ministry of National Security	We identified 35 payments totalling approximately $15.62 million made to a supplier for the provision of meals to police personnel and prisoners in St. James. However, there was no evidence that a written contract existed between the Jamaica Constabulary Force (JCF) and the supplier outlining the terms and conditions under which the meals were to be provided. Additionally, we found no evidence that a competitive process was used to engage the supplier neither was there any evidence of endorsement from the National Contracts Commission (NCC) in keeping with the requirements of the Government of Jamaica Handbook of Public Sector Procurement Procedures. The JCF was also not able to provide any proof that the supplier was tax compliant and registered with the NCC. The JCF was advised to strengthen its procurement system to ensure that all procurements are conducted in accordance with the Government of Jamaica procurement procedures. Going forward it should also ensure that written contracts are in place for significant procurements in order to secure its interests and reduce exposure to losses. (*Auditor General's Report, December 2016*)

Administering and Evaluating Contracts

To ensure the effective execution of contracts, it is important that the entity's project team has the required qualifications and skills to monitor the contractor's progress and performance in line with the project objectives and the expected outcome is achieved. MDAs should develop policies and procedures that clearly outline the appropriate method of communication, level of approval; and set arbitration for disputes. This will enable the implementing agencies to achieve the project goals by experiencing minimal exposure to risk, time and cost overruns and conflicts.

Ministry of Education - Education System Transformation Programme	We noted that the Project Manager was tardy in granting approval for time extension, as in one instance, approval for extension was granted six months after the request was made. This was not in keeping with the contract agreement, which stipulates that the Project Manager should decide within 21 days of request whether to extend the contract. (*Auditor General's Annual Report, December 2015*)
	The Ministry's procurement process was further compromised as we did not see the Permanent Secretary's approval for a variation in contract sum from $5,974,800 to $6,257,800, an increase of $283,000, for emergency waterproofing of concrete roof slabs at a high school in St. Catherine. In addition, the contractor was overpaid the contract retention amount of $258,642.00. Further, the Board and Principal of a Region 1 high school subjected the Government to a liability of $3.5 million without prior approval. Renovation work was carried out at the school without the apparent prior knowledge or approval of the Ministry, which became aware when payment was demanded. (Auditor General's Report*, December 2016*)
Agriculture Competitiveness Programme	Consultancy contracts stipulated the maximum amount payable to consultants and the related monthly installments. However, we identified inconsistencies in the wording of three contracts which resulted in two officers being paid a total of $288,095.24 in excess of the payment ceiling. (*Auditor General's Annual Report, December 2015*)

Performance

There is a need for contracts to be monitored to ensure that the requested goods and services are delivered and rendered at consistently high levels, and on time. Our audits revealed instances where substandard goods and/or shoddy works were provided, without any recourse by the MDAs. MDAs were not enforcing penalties or liquidated damages for cost and time overruns on contracts, depriving the Government of savings on poor performing contracts.

Ministry of Education - Education System Transformation Programme	The Ministry of Education's (MOE) failure to faithfully monitor the construction of the Cedar Grove High School contributed to cost and time overruns, which amounted to $135.62m and 372 days respectively. The MOE awarded a contract in the sum of $660M for the construction of the Cedar Grove High School on May 21, 2012. The MOE did not achieve the stated contract duration period of 18 months; instead the construction which was slated to be completed on November 21, 2013 was not completed until November 28, 2014, resulting in time over run of 372 days (12 months). (*Auditor General's Annual Report, December 2015*)
Housing Agency of Jamaica	HAJ's weak project management contributed to significant delays on the Hills of Boscobel and the Whitehall III (Infrastructure) housing developments, which both suffered time overruns of 856 days and 777 days respectively. HAJ's information management and record keeping practices require immediate review and improvement. The delays have contributed to cost over-runs of $682 million. (Auditor General's Report on *Housing Agency of Jamaica, November 2015*)

Self-assessment questions

1. Are the procurement policies and procedures in line with Government policies and best practices?

2. How do we ensure that our purchases and contracts represent value for money?

3. Will all procurements meet the public sector standards of honesty, integrity as well as stand up to public scrutiny?

4. Have we effectively used the incentives and penalties in our contracts?

5. Do we verify important performance information provided by contractors?

6. Do we have the necessary assurance over the functions and controls of outsourced service providers?

7. Do we ensure that timely monitoring activities are undertaken and documented?

8. Are the performance of contractors adequately assessed against agreed standards?

9. Has the entity justified the procurement in terms of the quantity and specifications of the goods or services needed and; has it considered and properly compared alternatives?

10. Is there a resulting Procurement Plan (e.g. annual) in place to guide purchasing and contract activities?

11. Does the public body make a rational decision on the choice of procurement procedure?

12. Did the public body elect the procedure offering the most open competition price?

Information & Communications Technology

The public service is gradually being transformed from a largely manual operation to full automation with the integration of human resource, administration and financial management functions, through the adoption of Information and Communications Technology (ICT). Further, key operational processes carried out by Principal Receivers of Revenue, such as the collection of taxes and custom duties, have been automated and in some instances require users to submit documentation online. We have found that although Government entities have embraced ICT, the management of the risk associated with the varying types of technologies remains inadequate. Information technology audits conducted since 2009 revealed that weaknesses were generally related to Systems Acquisition & Implementation, Information Security, Business Continuity Management (BCM), E-Commerce and Third Party Service Management[6].

Information System Acquisition & Implementation

The adherence to proper system development and acquisition procedures is critical to ensuring that the systems delivered meet the needs and expectations of users. System requirements should be sufficiently detailed to ensure that all the procedures carried out by the entity are captured or that relevant manual controls are implemented. Where a system does not meet basic business needs, processes may be circumvented or executed contrary to the organization's standards.

Information Security

Information security is concerned with ensuring the confidentiality, integrity and availability of data and information systems within an organization. It requires management to implement adequate controls over user identification as well as, the assignment of rights and entitlements within a system. Entities should apply the "need to know" principle in granting access to internal users to ensure that only authorized functions are performed. It also prevents the alteration and transfer of sensitive data to unauthorized employees and associates. Additionally, management should implement controls that prevent access by unauthorized external users with malicious intentions; however, these controls were inadequate in the entities that we reviewed.

---

[6] Refer to **Appendix (V)** for details of the listing of findings categorized under each sub-theme.

Electoral Commission of Jamaica	The ECJ had several weaknesses concerning its user activation and de-activation procedures. These procedures were not adequately documented and the relevant records containing authorization for adding or removing network users were either inadequate or not maintained. The lack of effective monitoring and review of user accounts led to a number of discrepancies. For example, the ERS accounts of four former employees remained active after their departure while the ERS Election Officer User accounts of 13 former temporary employees of the Commission remained active after their departure from the ECJ.

The ECJ did not implement a comprehensive password policy that established standards for the creation of strong passwords, the protection of those passwords and the frequency of change, to protect the information stored on the Commission's devices. We observed that 15 employees' passwords were set to "never expire", contrary to the ECJ's policy of requiring users to change their passwords periodically. Six of these users' passwords were in excess of five years old. (Auditor General's Report - Information Systems Review of the Electoral Commission of Jamaica, November 2012) |
| **Transport Authority** | The Transport Authority does not have a system in place to monitor the activities of privileged users and administrators to ensure that they are not abusing or misusing their access rights. Other activities such as network monitoring, firewall activity review and review of user accounts were not conducted in accordance with a specified schedule but were performed on an ad hoc basis and the results of the reviews were not normally documented. (Auditor General's Report - Information Systems Review of the Transport Authority, April 2012) |
| **Fiscal Services Limited (Currently eGov Jamaica Ltd)** | The FSL does not have a documented comprehensive Information Security Policy to provide general direction for protecting the confidentiality, integrity and availability of corporate information within FSL. The development of such a policy is currently a work-in-progress. Consequently, greater reliance is placed on the experience of certain key personnel within the organisation leading to a higher information security risk especially within the context of a relatively high staff turnover. There was also no designated function or officer(s) to ensure that there is a consistent and co-ordinated approach to information systems security across the organisation. Additionally, the FSL does not have an automated network access control system to prevent unauthorized individuals from attaching a device on its network and accessing system resources without management's knowledge. This activity is currently being manually monitored but this is not likely to be very effective given the size of FSL's network and the fact that security officers do not always record or log all electrical equipment at the various points of entry. (Auditor General's Report - Information Technology Audit Report Of Fiscal Services Limited (Fsl) Review Of General Computer Controls – August 2011) |

Business Continuity Management and IT Disaster Recovery

Business Continuity Management is probably the most overlooked area by organizations as they do not foresee the possible disruptions to the provision of services. In most instances, management assume that the relevant controls are in place to prevent or detect any threat to the entity's operations. However, most times, this is not the case. Our audits revealed that many public entities (including those listed below) did not commit the necessary financial and human resources to business continuity planning, despite the reliance on ICT to conduct core functions. It is important that management ensures that proper business continuity plans are prepared and tested to enable the organization to continue offering critical services in the event of any disastrous interruptions to its activities.

Transport Authority	The Transport Authority does not have a formal system in place to conduct periodic testing of its disaster recovery plans to ensure that the procedures remain relevant and effective in the event of a disaster. There is also no formal procedure to ensure that back-up media for the LMIS and its other systems are regularly tested to determine the integrity and completeness of the back-up files. This may lead to complications and delays in the event of an unplanned disruption especially if backup media are corrupted or other circumstances have changed subsequent to the last review of the plan. (Auditor General's Report - Information Systems Review of the Transport Authority, April 2012)
Accountant General's Department	The Accountant General's Department has not completed its Business Continuity/Disaster Recovery Plan to manage the impact of unplanned service disruption. We noted that the draft plan did not adequately address issues related to relocation sites, availability of equipment in the event of a disaster or the identification of applications and systems essential to service delivery. Additionally, details of suppliers, service level agreements and guidance on dealing with occurrences and the impact of hacking were not clearly addressed. The absence of these vital elements could lead to an extended, unplanned service disruption in the event of a disaster. (*Auditor General's Annual Report, December 2014*)
Fiscal Services Limited (Currently eGov Jamaica Ltd)	At the time of our audit, the FSL was in the process of developing a Disaster Preparedness and Recovery Plan to manage the impact of unplanned service disruption. However, the draft plan did not adequately address the issue of periodic testing procedures to ensure that the plan remains relevant and effective in the event of a disaster. We also found that there was no system in place to ensure that backup media were regularly tested to determine the integrity and completeness of the backup files. This may lead to further complications and delays in the event of an unplanned disruption especially if backup media are corrupted or other circumstances have changed subsequent to the last review of the plan. *(Auditor General's Report - Information Technology Audit Report of Fiscal Services Limited (FSL)– August 2011)*

E-Commerce

E-commerce has improved the accessibility of Government to businesses and individuals through websites and online services. Improved tax compliance and the payment of taxes and fines may also be linked to increased accessibility of online services, aimed at easing the process and reducing transaction time. Users of these services therefore require systems to accurately reflect their transactions and be reliable and available as their needs arise. However, this is sometimes not the case as shown below and may result in losses and reputational damage.

Tax Administration Jamaica	The Jamaica Tax Online System provides an interface to the Property Tax System (PTS) and Integrated Computerized Tax Administration System (ICTAS) in a similar manner as the Integrated New Cash Remittance System (INCRS) used in the Collectorates. A sample of transactions made via the e-portal was compared with data from ICTAS to determine if the respective accounts were updated in a timely manner. The investigations revealed that five (5) transactions totalling $50,000 for Coin Operated Machines (Tax Type 212) were not updated to the taxpayer's account. The ICTAS *Failed Posting Transaction Report* showed that the update had failed due to an invalid period. (*Auditor General's Report - Application Review of the Jamaica Tax Online System, December 2010*).

Third Party Service Management

Where MDAs do not have the necessary resources in-house to manage its ICTs, some functions may be outsourced to private sector entities. Risks are, however, not transferred and as such an organization should ensure that they are properly managed and that mechanisms are in place to monitor the performance of the provider in line with formal agreements. We found some short comings in the administration of service level agreements as illustrated in the examples below. It is critical that entities ensure that roles and responsibilities are clearly defined and that all rights to the data or software are preserved.

Central Treasury Management System	The Central Treasury Management System (CTMS) is implemented to enable better management of public resources, in particular cash by bringing the treasury management function under one agency, the Accountant General's Department (AGD). ...The implementation of the CTMS required upgrading the government accounting financial management system (FinMan) used by over 30 MDAs and the coding and deployment of a Treasury Management Module (TMM) to be used by the AGD.
	We found that Ministry of Finance and Planning paid the developer $24.7 million in respect of FinMan Upgrades without the Financial Systems Unit (FSU), AGD, and eGov signing off on the User acceptance testing report, and the requisite Business Continuity and Disaster recovery procedures and systems in place in accordance with the contract agreement. (*Auditor General's Annual Report* - Central Treasury Management System) (CTMS), *December 2014*)

Self-assessment questions

1. Does requirements definition process adequately capture the needs of management, operational staff and customers?
2. Is there a robust selection process to determine the suitability of proposed systems based on the defined requirements?
3. Do system acquisition/development contracts include provisions for the availability of source codes and complete system documentations?
4. Do we conduct proper quality assurance and user acceptance testing prior to implementation?
5. Are there mechanisms in place for the prompt resolution of post-implementation challenges?
6. Are change management policies and procedures adequate?
7. Do we have approved policies and procedures to ensure the confidentiality, integrity and availability of information and related systems?
8. Is information security incorporated in our standard operating procedures?
9. Are proper systems in place for the monitoring and reporting of information security risks and violations?
10. Do we have a business continuity policy and are sufficient resources committed to Business Continuity/IT Disaster Recovery planning?

11. Can we readily identify our critical processes and are the relevant risks managed?

12. Have processes been implemented to ensure the reliability of information system backups?

13. Is the Business Continuity/IT Disaster Recovery Plan (BCP/IT DRP) appropriately tested and updated?

14. Did we conduct proper research to determine whether e-services will meet the needs of our major customers?

15. Do we conduct performance reviews to ensure that e-service targets are being achieved?

16. Are adequate systems in place to ensure that user identity can be verified?

17. Are there sufficient controls to ensure the confidentiality and integrity of information provided online?

18. Are the roles and responsibilities of each party clearly defined in outsourcing contracts?

19. Do outsourcing contracts include provisions for access controls and the maintenance of confidentiality, integrity and availability of my organization's data?

20. Do we ensure that performance standards are clearly documented in service level agreements (SLAs)?

21. Is periodic monitoring conducted to ensure that agreed performance standards are being met?

22. Are periodic audits of the service providers' operations included as a contract provision?

Appendix

I.   Governance

The main Governance audit theme is divided into three sub-themes: *Oversight and Monitoring*, *Transparency & Accountability* and *Corporate Planning* & *Performance Management*. Our audits revealed the following issues categorized by sub-theme:

Oversight & Monitoring	Transparency & Accountability	Corporate Planning & Performance Management
1. Unapproved or undocumented policies and procedures 2. Corporate Governance Framework not implemented 3. Confusion with applicability of Corporate Governance Framework 4. Disconnect between Board and Management 5. Inadequate monitoring by Portfolio Ministries & the Ministry of Finance 6. Lack of risk management 7. Non-functional board sub-committees 8. Failure to adequately mitigate risks identified by Internal Audit 9. Ineffective Boards 10. Non appointment of Boards	1. Absence of Board Charter 2. Lack of evidence to support decisions 3. Failure to prepare and/or submit required financial statements and reports timely 4. Conflicts of interest not disclosed 5. Inadequate or lack of sanctions for non-performance	1. Inadequate corporate and operational planning 2. Inadequate resource allocation/utilization 3. Absence of the entity's performance evaluation 4. No evaluation of Internal Audit and Board's performance

II.   Project Management

Project management includes all the planning, implementation, monitoring and evaluation of social and developmental projects that are funded by GOJ, local and international donors to ensure that the project objectives are achieved and the people of Jamaica receive value for money. Audit issues identified are as follows, categorized by audit sub-themes:

Planning & Evaluation	Implementation & Monitoring
1. Lack of coordination with other Government agencies 2. Retroactive approval of variations in contracts 3. Lack of adequate due diligence 4. Lack of relevant and reliable data to support performance	1. Inadequate project monitoring 2. Lack of post evaluation of projects 3. Cost and time overruns 4. Absence of impact assessments

III.   Resource Management

The resource management audit issues were further divided into *Administrative & Financial Management* and *Operational Management* issues. See issues below.

Administrative & Financial Management	Management of Core Business Functions
1. Untimely preparation of bank reconciliations 2. Failure to write off assets 3. Overpayments (purchases, salaries and allowances) 4. Poor inventory management 5. Inadequate supporting documents 6. Long outstanding advances 7. High receivables balances 8. Unrecorded assets (Financial & Non-Financial) 9. Outstanding statutory deductions 10. Lack of supervisory review of bank reconciliations 11. Long outstanding rental income for Government properties 12. Misuse of assets 13. Inadequate maintenance of Government properties 14. Unapproved positions of employment	1. Poor Loan Management 2. Insufficient monitoring of institutional loans 3. Slow revenue collections & poor arrears management 4. Inadequate feasibility assessment prior to acquiring housing land 5. Unsupported decisions 6. Ineffective monitoring of regulated entities 7. Non-existent or outdated standard operating procedures 8. Ineffective allocation of resources 9. Lack of required technical expertise for core functions

IV.   Procurement and Contract Management

Procurement and Contract Management audit theme is sub-divided into the administration, evaluation and performance of contracts. Issues identified are listed below:

Administering & Evaluating Contract	Performance
1. Unclear contract terms 2. Non-compliance with procurement guidelines 3. Overpayments (Invoices, salaries and allowances)	1. Lack of evaluation of contract performance against targets. 2. Cost and time overruns on contracts 3. Failure to conduct timely quality checks

V.   Information and Communications Technology

The weaknesses identified under the Information and Communications Technology audit theme have been categorized into five sub-themes detailed below:

Information System Acquisition and Implementation	Information Security	Business Continuity Management and IT Disaster Recovery Planning (IT/DRP)	E-commerce	Third Party Service Management
1. Information systems do not meet user business needs 2. Inadequate systems documentation 3. Weak application controls 4. Outdated programming language 5. Business rules not enforced in Information systems 6. Lack of interface between the systems used by the MDA 7. Lack of audits trails within the information systems acquired	1. Incomprehensive Information Security Policies 2. Poor user account management 3. Unencrypted passwords and excessive validity periods 4. Excessive user privileges 5. Inherent weakness in Access Control Software 6. Insufficient network monitoring 7. Inadequate physical access controls 8. Outdated antivirus software	1. Unapproved Business continuity plans (BCPs) 2. Lack of BCP/IT DRP testing 3. No backup media testing 4. Outdated emergency contact details 5. Unidentified alternative processing site 6. Irregular transfer of backup tapes to offsite locations	1. Online transactions not updated 2. Poor user account management 3. Inadequate Change Management Controls 4. Un-reconciled payments	1. Limited or no access to database and backups 2. Unenforced contract provisions regarding data ownership 3. Payments made contrary to contract terms