

R E P O R T
OF THE
AUDITOR GENERAL
ON THE
APPROPRIATION AND OTHER ACCOUNTS OF JAMAICA
FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2002

INTRODUCTION

The Report of the Auditor General of Jamaica is submitted to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act. It contains the findings arising from my audits of the accounts and financial transactions of Accounting Officers and Principal Receivers of Revenue for the financial year ended 31st March, 2002. Reference is also made to the accounts and transactions of subsequent or previous financial years, as well as the accounts of Local Government agencies and other statutory bodies and government companies where considered necessary for the information of Parliament.

2. Examination of the accounts and financial transactions of the Government is conducted in conformity with Section 122 of the Constitution and Section 25 of the Financial Administration and Audit Act. Section 25(1) of the Act states as follows: The Auditor General shall, in performing his functions under Section 122(1) of the Constitution ascertain whether in his opinion –

- (a) the accounts referred to in that section are being faithfully and properly kept;
- (b) the rules and procedures framed and applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenues and other receipts of the Government;
- (c) all money expended and charged to an Appropriation Account has been applied to the purpose for which the provision made by Parliament was intended and that any payment of public money

conforms to the authority which governs it, and has been incurred with due regard to the avoidance of waste and extravagance;

- (d) essential records are maintained and the rules and procedures framed and applied are sufficient to safeguard the control of Government property;
- (e) the provisions of this or any other enactment relating to the administration of public moneys and Government property have been complied with;
- (f) satisfactory procedures have been established to measure and report on the effectiveness of programmes and services.

Scope of the Audits

3. The audits of most ministries, departments and public bodies for the 2001/2002 financial year consisted of examinations, inquiries and investigations to allow assessment of the adequacy of the systems of internal control over the major areas of revenue and expenditure, and obtaining the information and explanations considered necessary for certifying the accounts and financial statements submitted. Additional audit emphasis was applied to those areas of governmental activity where the internal control was weak, others which had been prone to problems in the past, and new programmes. Follow-up work was also done to ascertain what action had been taken on previous audit observations and recommendations. Once again a number of programmes and projects were selected for special "value for money" audits. These special audits were aimed at assessing if adequate planning had been done, proper management control systems instituted and whether the programmes and projects had been administered economically and efficiently and were achieving their intended objectives.

Special Investigations

4. During 2002 the Department, at the request of the relevant Ministers and the Postmaster General, conducted special investigations into the operations of the Intech Fund, the financial activities of the Jamaica Tourist Board and the collection of Spectrum Licence Fees. The related reports, indicating the weaknesses observed and my recommendations for improvements, were submitted to the relevant Accounting Officers.

Contents of this Report

5. This report summarizes the more important observations made during the various audits conducted in 2002. More detailed comments on the points mentioned, as well as recommendations as to the corrective measures

considered necessary, were communicated to Accounting Officers, Principal Receivers of Revenue and other heads of agencies by way of audit queries, reports and other memoranda. Where appropriate the comments and reactions of those officers to my findings and recommendations are indicated. In a number of instances mention is also made in the report of the findings of internal auditors. The heads of government agencies were supplied with a draft of the points I intended to make in this report on their portfolios and given an opportunity to comment thereon.

6. In keeping with the statutory responsibilities mentioned at paragraph 2 above, the Auditor General is duty bound to bring to the attention of Parliament important instances in which the requirements of the Financial Administration and Audit Act, other Acts of Parliament, the Financial Regulations and Instructions, as well as good financial, accounting and management practices have not been observed. The report therefore tends to emphasize the shortcomings and unsatisfactory features disclosed by the audits. Mention is, however, also made of those areas in which a generally satisfactory state of affairs was observed and where marked improvements were noted.

Staff Development

7. The Department continued to encourage staff development. Thirteen officers were given time-off, "Day Releases" and study leave to pursue courses of study at tertiary institutions. In 2002 three officers successfully completed the ACCA examinations, two received the Bachelor of Business Administration Degree from UTECH and one obtained the CISA qualification. During the year 21 new officers attended an Induction Training Course, 20 others participated in computer training courses and one in a six-week Course Design and Development Workshop.

THE ACCOUNTS OF ACCOUNTING OFFICERS

8. Section 16 of the Financial Administration and Audit Act requires the Minister of Finance to designate in writing public officers who shall be Accounting Officers of the departments specified in such designation. Each Accounting Officer is responsible for the financial administration of the department specified and is accountable to the Minister for, *inter alia*, (i) the assessment and collection of moneys lawfully receivable by his department, (ii) ensuring that the purpose for which an appropriation is approved by Parliament is accomplished, (iii) the custody and proper use of all materials, equipment or other public property administered by him. Accounting Officers are required to maintain accounts and records to reflect:

- (i) expenditure incurred from the funds provided by Parliament;

- (ii) miscellaneous revenues, deposits and appropriations-in-aid which they are required to collect; and
- (iii) assets and liabilities of their ministries and departments.

They are also required by the Financial Administration and Audit Act to submit for audit by 31st July each year annual Appropriation Accounts which form the basis of their accountability to the House of Representatives for the voted funds for which they are responsible. Once again the audits disclosed that the financial affairs of many ministries, departments and other agencies were conducted in a generally satisfactory manner with only minor breaches of the Financial Regulations and Instructions observed. During the period under review most agencies also made genuine efforts to correct the weaknesses identified by the audits. It was noted, however, that up to 17th December, 2002 I had not received 62 Appropriation Accounts for 2001/2002, 24 for 2000/2001 and 17 for 1999/2000. The paragraphs which follow contain the observations arising from the audits which I considered should be brought to the attention of Parliament.

HEAD 0100- HIS EXCELLENCY THE GOVERNOR **GENERAL AND STAFF**

9. The audit of the office of His Excellency the Governor General and staff for the year under review disclosed a generally satisfactory state of affairs. However, the following unsatisfactory features were noted:

(i) *Outstanding Accounts*

Up to the time of my report the Appropriation Account for 2000/2001, which was returned for correction, had not yet been resubmitted. The Account for 2001/2002 was also outstanding. This contravened Section 24 (i)(b) of the Financial Administration and Audit Act.

(ii) *Inadequate Motor Vehicle Records*

Weaknesses were noted in the maintenance of the control records for motor vehicles.

HEAD 0200 – HOUSES OF PARLIAMENT

10. An audit of the accounting records of the Houses of Parliament revealed a generally satisfactory state of affairs. However, the following matters of concern were noted:

(i) *Outstanding Appropriation Account*

The Appropriation Account for the financial year 2001/2002 was not submitted for audit up to the date of this report.

(ii) *Inadequate Internal Control*

The stipulated control records for furniture and equipment and the operation of motor vehicles were not properly maintained.

(iii) *Outstanding Annual Returns*

The legally required Annual Returns for statutory salary deductions had not been filed for between three and five years.

HEAD 0300 – OFFICE OF THE PUBLIC DEFENDER

11. The audit disclosed that the financial transactions for 2001/2002 were conducted in a generally satisfactory manner.

HEAD 0400 - OFFICE OF THE CONTRACTOR GENERAL

12. The financial transactions and accounting records of the Office of the Contractor General for the year under review revealed a generally satisfactory state of affairs.

HEAD 0600 – OFFICE OF THE SERVICES COMMISSIONS

13. The audit disclosed that the financial transactions of the Office of the Services Commissions for 2001/2002 were conducted in a generally satisfactory manner. However, the Appropriation Account for 2001/2002 was not received for audit up to the date of this report.

**HEADS 1500, 1500A & 1500B –
OFFICE OF THE PRIME MINISTER**

14. The audit disclosed that the financial transactions and operations of the Office of the Prime Minister for 2001/2002 were conducted in a generally satisfactory manner.

HEAD 1510 – JAMAICA INFORMATION SERVICE

15. The audit of the financial transactions and operations of the captioned Agency for the year 2001/2002 disclosed the following shortcomings:

- (i) Twenty-nine (29) officers were overpaid salaries and allowances amounting to \$262,488 due primarily to incorrect calculations.
- (ii) There was need for improvement in the controls exercised over the disbursement process, procurement of goods and services and the stores.

CREATIVE PRODUCTION AND TRAINING CENTRE

16. The audit of the accounting records and financial transactions of the captioned entity for the year under review disclosed a generally satisfactory state of affairs. However, there was need for improved control of the stores.

HEADS 1600, 1600B – OFFICE OF THE CABINET

17. The audit disclosed that the financial transactions of the Cabinet Office for the year 2001/2002 were conducted in a generally satisfactory manner.

PUBLIC SECTOR MODERNIZATION PROJECT

18. The main objectives of the Public Sector Modernization Project are to bring about major improvements in the quality of service provided by selected public sector agencies, to enhance the ability of selected ministries to formulate sound policies, technical standards and operational norms and to improve public accountability by strengthening internal and external controls. The audit of the Project for 2001/2002 disclosed a generally satisfactory state of affairs. However, \$96.159M received as loan benefits-in-kind was not paid into the Consolidated Fund as required by law. This resulted in the understatement of government revenue and expenditure. The Cabinet Office expressed the intent to have the necessary provision included in the 2003/2004 Estimates of Expenditure.

**HEAD 1649 – MANAGEMENT INSTITUTE FOR
NATIONAL DEVELOPMENT**

19. The audit of the Management Institute for National Development (MIND) for 2001/2002 disclosed that the financial transactions and accounting records were generally satisfactory. However, the following shortcomings were noted:

- (i) Eleven (11) officers were overpaid salaries amounting to \$73,037 mainly due to incorrect calculations. Up to the time of this report \$14,156 was recovered.
- (ii) Weaknesses were noted in the controls exercised over motor vehicle operations and the payment of motor vehicle allowances.

HEADS 1700, 1700A – MINISTRY OF TOURISM AND SPORTS

20. The audit of the financial transactions of the Ministry for 2001/2002 disclosed a generally satisfactory state of affairs. However, the Appropriation Accounts for the year were not submitted for examination up to the time of this report.

JAMAICA TOURIST BOARD

21. A test audit of the Tourist Board for the year under review disclosed the following shortcomings:

- (i) *Inadequate Expenditure Control*

There were inadequate internal financial reporting and weak cash flow management. This contributed to over expenditure in several areas. Recommendations for improvement were made. I was subsequently advised that steps were being taken to correct the weaknesses.

- (ii) *Contracts*

There was no indication that two contracts involving the payment of fees of up to \$87,274,800 per annum had the required Cabinet approval. There was also no evidence that the awards of four contracts valued at \$9,223,444 were based on competitive tenders as stipulated by Government's procurement procedures. Recommendation was made that there should be strict future compliance.

(iii) *Rental of Motor Vehicle*

There was no indication that the Agency had the required approval of the Ministry of Finance for rental of a motor vehicle over a ten-month period at a cost of \$556,803.

MILK RIVER HOTEL AND SPA

22. Examination of the financial transactions and accounting records of the captioned entity for 2001/2002 revealed a generally satisfactory state of affairs. However, no evidence was produced that the requisite approval was sought from the Ministry of Finance and Planning for the upgrading of a number of staff positions and consequent increases in salary. There was also still room for improvement in the area of fixed assets management. I was subsequently advised that these issues were being addressed.

TOURISM PRODUCT DEVELOPMENT COMPANY

23. A review of the financial transactions and accounting records of the Tourism Product Development Company for 2001/2002 disclosed a generally satisfactory state of affairs. However, the following shortcomings were noted:

- (i) Statutory deductions amounting to \$251,364 were not made from some emoluments paid to staff as required by law. It was recommended that the amounts be recovered. I was subsequently advised that recovery had commenced with effect from October 2002.
- (ii) There was no evidence that the approval by the Ministry of Finance and Planning of the salary paid to a senior officer and payments of \$187,710 made on behalf of the portfolio Ministry had been obtained. The company subsequently advised that the approval of the Ministry of Finance and Planning had been requested and that recovery of the \$187,710 was being sought from the Ministry of Industry and Tourism.

**HEADS 2000, 2000A & 2000B –
MINISTRY OF FINANCE AND PLANNING**

24. The audit of the Ministry of Finance and Planning for 2001/2002 disclosed that the related accounting records and financial transactions were generally in order. However, the following shortcomings were noted:

(i) *Overpayments*

Eighteen officers were overpaid salaries amounting to \$152,356 and two watchmen were paid \$243,370 for supper allowance for which they were not entitled. The Ministry subsequently advised that \$70,630 of the salary overpayments was recovered up to the date of this report and that the write-off of \$206,929 of the overpaid supper allowance had been approved.

(ii) *Family Benefits*

Deductions from the salaries of two officers were not being made as required by the Pensions (Civil Service Family Benefits) Act resulting in arrears of \$116,700. The Ministry subsequently advised that the arrears would be collected over a 12-month period commencing December 2002.

FISCAL SERVICES LIMITED

25. An audit of the captioned Agency's financial transactions and accounting records for the year under review disclosed that there was need for improvement in the maintenance of the stores and fixed assets control records.

PROVIDENT FUND ACCOUNT

Non-submission of Accounts

26. The annual Financial Statements for the years 1999/2000 to 2001/2002 were not submitted for audit up to the date of this report as required by the Provident Fund Act.

MULTI-SECTORAL PRE-INVESTMENT PROGRAMME
GOJ/IDB LOAN CONTRACT NO. 835/0C-JA

27. The captioned programme which is jointly funded by the Government of Jamaica and the Inter-American Development Bank aims to provide financing for Pre-investment studies required to develop various public sector programmes. The audit of the programme for the period under review disclosed a generally satisfactory state of affairs. However, J\$59,142,579 for consultancy services funded from the Project's special account was not paid into the Consolidated

Fund as required by law. This resulted in the understatement of Government's revenues and expenditures.

HEAD 2011 – ACCOUNTANT GENERAL

Control Weaknesses

28. There was need for improvement in the maintenance of the control records for fixed assets and in the use of the telephones.

Financial Statements

29. During the period under review the Department made good progress in overtaking the arrears in the submission of its annual Financial Statements. However, at the time of this report the Statement for and Outstanding Loans or Credits Guaranteed by the Government for 2001/2002 was not received for audit. I was also unable to certify the Statements of Outstanding Loans or Credits Guaranteed by the Government for 1997/98 to 2000/2001 and the Statements of Public Debt of Jamaica for the years 1999/2000 to 2000/2001, as they contained errors and had to be returned for corrections.

Annual Returns

30. The most recent annual returns of statutory salary deductions filed for pensioners and monthly paid employees of the Department were for the years 1999 and 2000, respectively. Annual returns not filed on a timely basis could deprive contributors of their rights to certain benefits.

Bank Reconciliation

31. There was no improvement in the reconciliation of the two Pension Bank Accounts since my last report, as at the date of audit this remained several years in arrears. The Miscellaneous Revenue Bank Account was only reconciled to September 2000. Failure to properly reconcile these accounts on a timely basis could conceal errors and irregularities.

Motor Vehicle Loans

32. Improvement was noted in this area. However, at the time of audit, the records showed that among the delinquent loan accounts were 60 (some dated as far back as 1984) with balances totalling \$3.36M which related mainly to borrowers who were no longer in the Government Service. The Department reported that some of the cases had been referred to the Bailiff for action.

Pension Payments – Unsatisfactory Control

33. There was inadequate segregation of duties in the preparation and payment of the monthly pension payroll, unsatisfactory control over returned cheques and breaches of the policy concerning the presentation of Life Certificates. It was recommended that steps be taken to address these weaknesses promptly to prevent errors and irregularities.

Public Debt Charges – Breaches of the Law

34. The audit revealed that the proceeds of loans amounting to US\$9,015,200 received from an overseas EXIM bank and \$63M received in kind from a local commercial bank, and which related to expenditure on a government project and acquisition of motor vehicles for a government department, respectively, were not paid into the Consolidated Fund Bank Account as required by law. This resulted in the under-statement of government's revenue and expenditure. The Accountant General has brought these omissions to the attention of the Ministry of Finance and Planning for corrective action to be taken.

HEAD 2012 – JAMAICA CUSTOMS

35. The audit of the captioned Department for the year under review disclosed the following areas of concern:

(i) *Internal Control Weaknesses*

Weaknesses were observed in the controls over blank cheques, long distance telephone calls and advances.

(ii) *Breach of Procedures*

Payments totalling \$862,100 were made for refurbishing of the Department's bathrooms. However, there was no indication that government's stipulated procurement procedures had been followed. The Department was advised to ensure strict future compliance.

(iii) *Overpayments*

Eight officers were overpaid salary amounting to \$311,485 mainly as a result of inadequate internal check. It was recommended that the amounts be recovered and appropriate internal checks implemented. Up to the date of this report \$36,901 was recovered.

(iv) *Outstanding Annual Returns*

There was no improvement since my last annual report in the filing of annual returns for NHT, NIS, Income Tax and Education Tax salary deductions. The last returns submitted were for 1995. This not only breached the relevant Acts governing statutory deductions but could also adversely affect employees' entitlement to certain benefits.

HEAD 2015 – INLAND REVENUE DEPARTMENT

36. The audit of the Inland Revenue Department for the year under review disclosed that the accounting records and financial transactions were generally satisfactory. However, the under-mentioned areas of concern were noted:

(i) *Outstanding Appropriation Account*

Up to the time of this report, the Appropriation Account for the year 2001/2002 was not submitted for examination.

(ii) *Dishonoured Cheques*

At the time of audit cheques valuing approximately \$40.5M which were accepted as payment for taxes at the various collectorates, but were dishonoured by the banks on which they were drawn, had not yet been made good. The dishonouring of the cheques resulted in bank charges of \$63,312 being incurred by the Department. The main reasons given for the cheques not being honoured indicated negligence and breach of the Financial Instructions by the collecting officers. It was recommended that appropriate disciplinary measures be taken against negligent officers.

(iii) *Intransit Lodgements*

The relevant control records reflected lodgements totalling approximately \$28M made by collectorates over the period 1999-2002, which had not yet been credited to the Department's bank account. This information was questionable however, as the records were in arrears. The Department was advised to have them updated and to institute a more effective system of follow-up with the bank to ensure that all lodgements are credited to the Department's account on a timely basis.

(iv) *Tax Arrears*

- (a) a sample of 150 income tax assessments involving \$456.5M raised on taxpayers during the calendar year 2001 was examined. There was no indication that any collection effort had been undertaken in respect of assessments for \$445.4M which represented 97.6% of the sample. A new computer system was cited as one of the main reasons for the problems encountered. The records showed that as at March 31, 2002 delinquent taxpayers owed approximately \$3B for income tax. This represented 8.7% of the total collections for 2001/2002.
- (b) A sample of 150 GCT taxpayers assessed during 2001 was selected and enquiries conducted to determine to what extent collection had been effected. My findings disclosed no evidence of any collection effort having been made in respect of \$27.3M of the assessments or 8.7% of the sample size. At the time of audit the arrears in collection of GCT were only available to January 2002 as the Department was experiencing difficulties with its computer system. The records disclosed that on that date tax of \$8.26B as well as related interest, penalty and surcharge of \$19.4B were owed by 21,763 taxpayers. The Department was advised to pursue more effective means of collecting the taxes due.

HEAD 2041 – TAXPAYER AUDIT AND ASSESSMENT
DEPARTMENT

37. The audit conducted at the Taxpayer Audit and Assessment Department for the year under review disclosed several unsatisfactory features, the more important of which are noted below.

Bank Overdraft

38. For the period under review the Department's bank account was overdrawn \$35,731,440 in contravention of Section 6.3 of the Financial Instructions. As a result, interest and service charges amounting to \$80,635 were incurred.

Income Tax Outstanding

39. Of a sample of 100 taxpayers' files requested for inspection, 43 had not been presented up to the date of this report. The files examined showed

numerous instances in which returns were not made in accordance with the Income Tax Act, but instead remained outstanding for periods of up to six years. In other cases although returns were filed and assessments made, substantial sums remained unpaid.

Income Tax Refunds

40. The files of 100 taxpayers who received refunds for the period January to December 2001 were requested. However, seven of these were not received up to the time of this report. I was therefore unable to verify if these were in order. Of the cases examined three instances of overpayment totalling \$59,526 were noted. Up to the date of this report there was no evidence of recovery.

Stamp Duty and Transfer Tax

41. Reconciliation of documents stamped and the related cash collected was not always done. Failure to properly effect such reconciliations could result in errors and irregularities going undetected.

General Consumption Tax (GCT)

(i) Overpayment of Refund

Two entities were overpaid refunds of General Consumption Tax totalling \$902,244.

(ii) Non-Presentation of Records

A refund voucher requested for audit remained unrepresented at the date of this report. As a result, I was not able to verify the authenticity of a refund of \$23,611 made.

(iii) Short-fall in Collections

General Consumption Tax collections for 2001/2002 fell short of the projected amount of \$16.3B by \$2.55B or 15.6%.

(iv) Short-payment on GCT

The General Consumption Tax returns submitted by a company was incorrectly calculated resulting in the tax being short paid by \$127,439. The Department was advised to collect this amount.

(v) *Register of Taxpayers*

A sample of 198 businesses was selected to ascertain their enrolment in the Register of Taxpayers. There was no indication that 31 of these businesses were so registered. It was recommended that steps be taken to have these taxpayers enrolled in order to have them meet their statutory obligations.

HEADS 2600, 2600A & 2600B –
MINISTRY OF NATIONAL SECURITY

Unpresented Accounts

43. Up to the date of this report the Appropriation Accounts were not submitted for audit in respect of 1998/1999 to 2001/2002 for the Recurrent Head; 2000/2001 and 2001/2002 for Capital Heads A and B; and 2000/2001 and 2001/2002 for the Police Department.

Deferred Financing

44. Deferred financing facilities were used to fund the construction of the Remand Centre and the Western Regional Police Headquarters at a total cost of approximately \$475M. However, there was no evidence that the required budgetary provision and charge to an appropriation were made for these transactions, as stipulated by Section 24E of the Financial Administration and Audit Act. This resulted in the understatement of the Ministry's expenditure and Government's loan receipts in kind. The Ministry subsequently advised that the matter had been referred to the Ministry of Finance for corrective action to be taken.

Bank Reconciliations

45. The bank reconciliation statements disclosed numerous unresolved discrepancies with dates from as far back as 1989. The Ministry was again reminded that failure to resolve these outstanding issued could lead to the loss of public funds. Interest charges totalling \$106,152 were incurred on bank overdrafts which were caused by deficient cash management.

Overpayment on Contract

46. A contractor engaged to carry our extension work at the Forensic Laboratory was overpaid \$383,316. The Ministry was informed to effect recovery.

Salary Overpayments

47. During the period under review the Ministry's Internal Auditors reported over-payments of salaries totalling \$2,990,958 of which \$308,624 was repaid up to the date of this report. The Ministry was advised to recover the outstanding amounts.

Immigration and Passport Office

48. The audit of the accounting records at the captioned Office disclosed deficiencies in the cash accounting system and inadequate segregation of duties in the custody of and accounting for passports. The Ministry subsequently advised that corrective measures were being taken.

JAMAICA DEFENCE FORCE

Accounting Weaknesses

49. Deficiencies were noted in the control exercised over the stores and the preparation of salaries. Reconciliation of the bank accounts continued to be in serious arrears. Recommendations were made for improvements as the weaknesses detected could result in the loss of public resources. The JDF subsequently advised that corrective measures had been or were being taken.

POLICE PUBLIC COMPLAINTS AUTHORITY

50. The audit of the Police Public Complaints Authority for the year under review revealed a generally satisfactory state of affairs.

PRIVATE SECURITY REGULATION AUTHORITY

51. The audit of the financial transactions and accounting records of the captioned entity for the financial year 2001/2002 disclosed a generally satisfactory state of affairs.

HEAD 2624 – DEPARTMENT OF CORRECTIONAL SERVICES

Outstanding Appropriation Accounts

52. The Appropriation Accounts for financial years 1998/1999 to 2001/2002 were not received for examination up to the date of this report.

**HEAD 2627 – RESIDENT MAGISTRATES COURTS,
FAMILY AND TRAFFIC COURTS**

53. Audits of seven court offices for the year under review disclosed the continuing need for improvements in the maintenance of cash books, value books, receipt book registers, bailiff records and cheques stock records. The weaknesses could result in errors or loss of public funds. It was recommended that the relevant records be kept and checked in the manner prescribed by the Government's financial rules. The Ministry of Justice promised early corrective action.

HEAD 2630 – ADMINISTRATOR GENERAL'S DEPARTMENT

54. The audit of the financial transactions and accounting records of the Department for 2001/2002 disclosed a generally satisfactory state of affairs.

HEAD 2632 – TRUSTEE IN BANKRUPTCY

55. The accounting records and financial transactions examined for the year under review disclosed a generally satisfactory state of affairs.

HEAD 2800 – MINISTRY OF JUSTICE

Accounting Arrears

56. Up to the date of this report the Appropriation Accounts for the Ministry and its departments for 2001/2002 were not submitted for audit.

**HEAD 3000 –MINISTRY OF FOREIGN AFFAIRS
AND FOREIGN TRADE**

Outstanding Appropriation Accounts

57. The Appropriation Accounts for 2001/2002 were not presented for audit up to the date of this report.

Accounting Weaknesses

58. Deficiencies were noted in the clearing of advances and in recovering the cost of private telephone calls.

HEADS 4000 & 4000A –
MINISTRY OF LABOUR AND SOCIAL SECURITY

General Comments

59. For the financial year under review, audits conducted at the Ministry's Head Office and four Parish Offices showed improvements in the management and accounting practices. However, there were still areas of weakness in the system of internal control, maintenance of accounting records and in conforming to government guidelines and regulations.

Outstanding Appropriation Accounts

60. The Recurrent and Capital A Appropriation Accounts for the year 2000/2001 which were returned for corrections had not been re-submitted up to the date of this report. The Appropriation Accounts for 2001/2002 were also outstanding.

Internal Control Inadequacies

61. Weaknesses in internal control were noted in the areas of payment vouchers, toll calls, receipt book register, furniture and equipment inventory and blank cheques stock. It was recommended that steps be taken to address these weaknesses promptly as these could expose the Ministry to losses.

Internal Audit

62. There was need for better response by management to the reports made by the internal auditors to ensure that the concerns raised are promptly and effectively addressed. The Ministry subsequently advised that this concern was being attended to.

Parish Offices

63. The audit conducted at the Trelawny parish office disclosed a generally satisfactory situation. Inspection at the St. James, Hanover and St. Thomas parish offices, however, disclosed the following weaknesses:

- (i) There was need for improved security during the disbursement of food stamps.
- (ii) Instances were noted of payments being made to individuals other than the beneficiaries or agents without written authorization.

(iii) *Outstanding NIS Contributions*

Outstanding NIS contributions by 238 employers amounting to \$22,479,678 were noted as shown below:

<u>Office</u>	<u>Amount (\$)</u>
St. Thomas Parish Office	3,634,285
St. James Parish Office	17,297,222
Hanover Parish Office	1,548,171

These companies were also delinquent in filing Annual Returns since 1995. It was reported that court action was being taken against some of them. Failure of employers to remit contributions and Annual Returns may deprive contributors of benefits. The Ministry subsequently advised that \$2,053,244 of the amount outstanding had since been collected.

- (iv) At the Hanover parish office five files for Old Age and Incapacity Assistance were not submitted for audit. It was therefore not possible to verify whether the related beneficiaries were properly included in the programme.

National Insurance Fund (NIF)

64. (i) *Accounting Weaknesses*

Weaknesses were noted in the system of accounting for NIS contributions collected, and maintenance of contributors' accounts continued to be in serious arrears.

(ii) *Loans*

(a) The audit revealed that a loan of \$1,391,000 was granted to the Ministry by the Fund on March 14, 2000 to purchase a motor vehicle. There was no evidence that a loan agreement existed or that the loan was repaid. The motor vehicle was subsequently transferred to another Ministry. The Fund managers should take appropriate steps to have the amount repaid or the vehicle returned to the NIF.

(b) There was no evidence that a written agreement existed for a loan of \$14,700,000 to a company. As a result I was unable to ascertain the interest rate, loan period, repayment terms, collateral requirements and other terms and

conditions. It was recommended that steps be taken to regularize this matter.

Canadian Farm Work Programme

65. The audit of the captioned Programme for 2001/2002 disclosed the following areas of concern:

- (i) A loss of C\$4,928 was incurred in having a bank draft cancelled because it had been purchased for the wrong amount.
- (ii) There was no certification on the paid telephone bills as to whether the related calls were private or official.
- (iii) Information was not provided as to whether 15,000 X-ray films purchased for C\$52,074 were received in good condition and properly accounted for.
- (iv) Seven computers purchased by the Ministry during the year under review were not included in the furniture and equipment inventory.

HEADS 4100, 4100A & 4100B – MINISTRY OF EDUCATION, YOUTH AND CULTURE

Outstanding Appropriation Accounts

66. Up to the date of this report, the Appropriation Accounts for 2001/2002 were not received for examination. Failure to submit the Appropriation Accounts within four months of the related financial year is a breach of the Financial Administration and Audit Act.

Overpayments

67. Examination of expenditure vouchers disclosed overpayments amounting to \$59,500. The Ministry was advised to effect recovery. I was subsequently advised that recovery of \$19,000 had since been effected.

Deferred Financing

68. Information obtained indicated that Deferred Financing was the means of funding the building of 27 schools during 1999-2002, which upon completion would be handed over to the Ministry of Education, Youth and Culture. Eight of the schools were completed up to May 2002. Requests for details relating to these deferred financing projects were made to the Urban Development Corporation, which I was advised is the implementing agency, but up to the date

of this report a response had not been received. I was therefore unable to verify whether the requirements of the Financial Administration and Audit Act had been met.

Finman Project Accounting Software

69. The Ministry awarded two contracts at a total value of \$5.3M for the provision of a general project accounting software and the piloting and training of personnel in the use thereof. However, three years after the projected completion date of the contracts, the software was not in use reportedly because it had not been piloted or members of staff trained in its usage. To date \$4.8M of the total contract sum had been paid. The Ministry subsequently indicated that an agreement had been reached with one of the contractors for a plan of action, which would see the completion of all outstanding activities by the end of March 2003. Lapse of time and new technological developments could result in obsolescence of the system. It was recommended that steps should be taken to ensure that the system was appropriately updated and implemented as early as possible.

Value for Money Audit – Traditional School Feeding Programme

70. A Value for Money audit conducted on specific areas of the Ministry's Traditional School Feeding Programme for the year under review revealed the following deficiencies.

(i) Programme Objectives

Parliament approved a budget of \$258.7M for financial year 2001/2002 to provide at least 208,506 lunches per day in several schools islandwide. Of this allocation, \$211.3M was spent. The objectives of the Programme were not sufficiently defined in measurable terms and communicated to the schools. It was noted, however, that the schools were operating on the basis that the main aims were the provision of a nutritious meal to students and improved school attendance. There was no evidence that the Ministry had any formal means of measuring the impact of the Programme on the attendance of students. Consequently, it did not appear able to determine whether the Programme was meeting this objective. It was recommended that all the objectives of the Programme be defined in measurable terms and communicated to the schools. A system for measuring the attainment of these objectives should also be implemented.

(ii) *Nutritional Standards of the Meals*

There was no indication seen that nutritional standards were established for the meals by the Ministry. This prevented it from determining whether the stated objective of providing a third of the daily nutritional requirements of the students was being met. It was recommended that nutritional standards consistent with the objectives of the Programme should be established for the meals and communicated to the schools. Measures should be implemented to monitor and ensure compliance with these standards.

(iii) *Allocation of Grants and Commodities*

The Ministry provided no basis for the establishment of the feeding grant of \$250 per child per year, and no documented policy was presented for the allocation of commodities, except rice. A number of instances were identified where schools indicated that commodities, especially rice, were received spoiled or insect infested. The general view of the schools sampled was that the quantity of the grant and commodities supplied by the Ministry was inadequate to meet existing needs. No price range of the cost at which meals should be sold to students was set by the Ministry and each school was allowed to fix its own price. This could result in prices being set that exclude needy children. It was recommended that the process of allocating the grants and commodities should be based on an appropriate assessment of existing needs and costs. The Ministry should also set a range within which schools are allowed to charge for products sold.

(iv) *Procurement and Distribution of Commodities*

The process of procuring the commodities was found to be consistent with government's procurement guidelines. Deliveries of commodities to schools within the Corporate Area were generally reported to be satisfactory. Several schools in the rural areas, however, complained about late deliveries and lack of information on delivery schedules and quantities of commodities to be received. Late and irregular deliveries can result in waste and non-provision of lunches. It was recommended that the schedule of deliveries and quantities should be communicated to the schools and that the delivery process should ensure that commodities reach the schools for the beginning of each term.

Nutrition Products Limited

71. An audit of the accounting records and financial transactions of the captioned company for the year under review revealed a generally satisfactory state of affairs. However, the following shortcomings were observed:

- (a) The latest bank reconciliation statements for its five accounts included several discrepancies which had remained unresolved for lengthy periods. It was recommended that appropriate corrective actions should be effected without delay. The company subsequently advised that this matter was being attended to.
- (b) A documented staff loan policy, approved by the Board and the Ministry of Finance, was not in place. It was also noted that contrary to the guide-lines issued by the Ministry of Finance, no interest was charged on loans granted, neither was there any indication that the loans were secured. I am subsequently advised that all staff loans/advances had been suspended pending approval of a policy by the Board and the Ministry of Finance and Planning.

ST. JOSEPHS TEACHERS' COLLEGE

72. An audit of the captioned institution revealed the following:

(i) *Internal Control Weaknesses*

The stipulated control records for items of furniture and equipment were not maintained. There were also long delays in the lodgement of cash collected.

(ii) *Outstanding Annual Returns*

Annual returns for statutory salary deductions were not submitted for the periods beyond the 1997 calendar year. This could adversely affect employees' access to certain benefits. It was recommended that the filing of annual returns should be brought up to date.

(iv) *Contractor's Levy*

Contractor's levy of \$401,580 was not deducted from the amounts paid on contracts thereby violating the Contractor's Levy Act. It was recommended that appropriate corrective action should be taken.

YORK CASTLE HIGH SCHOOL

73. (i) *Internal Control Weakness*

Furniture and equipment inventory records were not being maintained.

(ii) *Outstanding Financial Statements*

Audited financial statements for the year ended March 31, 2001 had not been submitted to the Ministry as required by Section 89(1)(d) of the Education Act.

(iii) *Emoluments*

An officer was overpaid salary during the period September 1997 to January 2002, totalling \$219,987. There was inadequate segregation of duties in the processing of salaries. The possible implications of this weakness were conveyed to the School and corrective action recommended. I was subsequently advised that \$31,627 of the overpayment had been recovered up to the date of this report.

EXCELSIOR COMMUNITY COLLEGE

74. (i) *Audited Financial Statements*

At the time of examination submission of audited financial statements to the Ministry was seven years in arrears.

(ii) *Internal Control Weakness*

Deficiencies were noted in the maintenance of the fixed assets records. The possible adverse implications were highlighted and appropriate corrective measures recommended.

(iii) *Unremitted Annual Returns*

There were several years' arrears in the submission of annual returns for statutory deductions made from employees' emoluments. Failure to submit annual returns on a timely basis could adversely affect employees' entitlement to certain benefits. Appropriate corrective action was recommended.

(iv) *Consultancy Services*

A contract was not seen for the engagement of a consultant in 1997 at a cost of \$1,560,000 for the provision of an accounting system. There was no indication that the selection was on the basis of competitive tenders or quotations. The consultant's report was not submitted until 2001 and the system developed had not yet been implemented. Government's policy for the employment of Consultants was breached and the College appeared not to have received value for money spent. Future compliance with the Government's guidelines was recommended.

APPRENTICESHIP BOARD

75. The audit of the Apprenticeship Board's financial transactions for the year under review disclosed a generally satisfactory state of affairs. However, no reconciliation of the bank account was done for over a year. This could result in errors and unauthorized transactions going undetected for protracted periods.

INSTITUTE OF JAMAICA

76. The audit of the financial transactions and accounting records of the Institute of Jamaica for the year under review disclosed a generally satisfactory state of affairs except that a proper Fixed Asset Register did not exist to record the assets owned by the Institute. This could hamper the entity's ability to account for and safeguard its assets. The Institute subsequently advised that corrective action was being taken.

JAMAICA CULTURAL DEVELOPMENT COMMISSION

77. The audit of the Commission's financial transactions and accounting records for the year under review disclosed a generally satisfactory state of affairs. However, the original suppliers' invoices were not presented to substantiate payments amounting to \$1.1M as required by the regulations.

JAMAICA LIBRARY SERVICE

78. A review of the accounting records and financial transactions of the Jamaica Library Service for 2001/2002 disclosed a generally satisfactory state of affairs.

NATIONAL LIBRARY OF JAMAICA

79. An examination of the financial transactions and accounting records of the captioned entity for the year under review showed a generally satisfactory state of affairs. However, there was room for improvement in the maintenance of fixed assets records and in the accounting for cash collected.

THE NATIONAL GALLERY OF JAMAICA

80. The audit of the financial transactions and accounting records of the National Gallery for the year under review disclosed the need for improvement in the controls over the cash management system, recording of investments and the disbursement process.

NATIONAL YOUTH SERVICE

81. A review of the financial transactions and accounting records of the National Youth Service for the year under review revealed a generally satisfactory state of affairs.

HEADS 4200, 4200A & 4200B – MINISTRY OF HEALTH

General Comment

82. For the year under review, audits were conducted at the Ministry's Head Office, Health Corporation Ltd., the National Family Planning Board, the four Regional Health Authorities Head Offices and several related health institutions and facilities in the regions. These disclosed several areas of internal control weaknesses and accounting deficiencies.

Outstanding Appropriation Accounts

83. Up to the date of this report the Appropriation Accounts for 2001/2002 had not been received for audit.

Outstanding Advances

84. The accounting records reflected net un-cleared advances totalling approximately \$102M for the financial years 1993/94 to 2001/2002. Failure to promptly clear advances could prevent public funds being properly accounted for and also resulted in the understatement of government expenditure.

Inadequate Control over Properties and Staff Residences owned by the Ministry

85. The audit of records relating to Ministry properties and staff residences revealed the following deficiencies:

- (i) The Ministry did not maintain a register for the properties it owns. This prevented effective control over the use of and collection of revenue for such properties. It was recommended that a proper property control register be implemented without further delay.
- (ii) Rental arrears for properties/residences stood at approximately \$2.4M as at March 2002. In some instances the amounts collected for rent was less than the rental rates indicated in the occupancy agreements, and there were cases where occupancy agreements had expired for protracted periods before they were renewed. In addition, some persons left the employment of the Ministry but continued to occupy the apartments rent-free. The non-collection of outstanding rent deprived the Ministry of much needed revenue to maintain the properties. It was recommended that appropriate steps be taken to rectify the situation.
- (iii) Where apartments were rented with furniture and equipment, these fixed assets were not included in the Ministry's inventory records or appropriately marked to facilitate proper accountability. It was recommended that these weaknesses in control be corrected.
- (iv) The lease agreement between the Ministry and the University of the West Indies in relation to the University Crescent Apartment Complex was not presented for inspection.

Losses and Irregularities

86. During the period under review the Ministry reported the following losses and irregularities:

- (a) A nurse was overpaid sessional allowances for the period May 2000 to December 2001 totalling \$203,085. The Ministry advised that of this amount \$161,683 had been recovered up to the date of this report.
- (b) An employee was overpaid acting and uniform allowances totalling \$99,016. The Ministry advised that up to the date of this report \$34,973 had been recovered.

- (c) Irregularities in the collection of fees totalling \$7,195,826 were discovered at the Kingston and St. Andrew Health Department. The matter was reported to the police. Information I requested from the Ministry to allow me to inquire into this matter had not yet been provided.
- (d) The Old Harbour Bay Health Centre was broken into in November 2001, and cash totalling \$85,321 was subsequently discovered missing. The matter was reported to the police.
- (e) The Yallahs Health Centre was broken into in February 2002, and cash totalling \$33,160 was subsequently found missing. The matter was reported to the police.
- (f) A cash pan containing \$29,876 was reported missing at the Princess Margaret Hospital. The matter was reported to the police.
- (g) A cash pan containing \$283,851 was reported missing at the Kingston Public Hospital. The matter was reported to the police.
- (h) A cashier assigned to the Spanish Town Hospital was implicated in the loss of \$212,750. The matter was reported to the police.

PESTICIDE CONTROL AUTHORITY

87. The audit of the captioned Authority for the year under review indicated a generally satisfactory state of affairs.

HEALTH CORPORATION LIMITED

88. (i) *Line of Credit*

The Corporation's records revealed that the entity was experiencing difficulty in maintaining an acceptable level of medical supplies for the public sector, which stemmed from the high level of accounts receivables, caused mainly by the Regional Health Authorities inability to make timely payments for goods supplied on credit to the hospitals and health departments. Consequently, the Ministry of Health and the Ministry of Finance and Planning arranged in September 1999 for the Corporation to be facilitated by a US\$2.7M line of credit through the EXIM Bank, with a second line of credit of \$2M negotiated through the same financial institution in September 2000. In November 2001, the Ministry of Finance and Planning

took over the debt of \$138.8M owed to the EXIM Bank. Parliament's approval of this arrangement was not seen.

- (ii) The Accounts Receivables revealed that as at March 31, 2002, amounts totalling \$196.58M remained uncollected.
- (iii) The records disclosed that at March 31, 2002 the Corporation owed suppliers \$125.49M. Failure to collect the outstanding debts from the Regional Health Authorities could pose a threat to the continued viability of the Corporation. The entity and the portfolio Ministry were requested to advise on the measures to be taken to improve the Corporation's cash flow.

NATIONAL FAMILY PLANNING BOARD

Unsubstantiated Payments

89. No supporting suppliers bills were presented for payments totalling \$46,681. I was therefore unable to attest to their authenticity. It was recommended that the un-presented bills be located and produced for inspection at an early date.

WESTERN REGIONAL HEALTH AUTHORITY

- 90. (i) *Outstanding Receivables and Payables*
 - (a) Records were not maintained to show the outstanding accounts receivable for the Region. This undermined management's ability to monitor the collection process. It was recommended that records should be instituted to reflect the outstanding receivables.
 - (b) As at December 31, 2001, \$97.34M was shown as owed to suppliers for goods and services supplied to the Region. This could tarnish its credit worthiness and result in a difficulty in obtaining future supplies. The Regional Health Authority was requested to advise how it intended to settle outstanding bills.
- (ii) *Un-remitted Statutory Deductions*

At the time of audit, statutory deductions amounting to approximately \$149.M made from employees' salaries were not remitted to the relevant agencies. This could have an adverse

effect on employees' entitlement to certain benefits. The Authority subsequently advised that statutory deductions for NHT and NIS were paid up to June 2002 and that arrangements were made with the Inland Revenue Department to remit \$3M monthly.

(iii) *Unsubstantiated Payment Vouchers*

The required supporting documents were not presented for 22 payments totalling \$1,443,571. The authenticity of the payments could therefore not be verified. It was recommended that the relevant bills be produced for inspection.

(iv) *Engagement of Security Consultant*

There was no evidence that a contract was executed between a Security Consultant and the Regional Health Authority for the provision of Security Consultancy at a cost of \$45,000 per month. Ministry of Finance and Planning's approval for the assignment of a government motor vehicle to the consultant was also not seen.

(v) *Staff Loans*

It was noted that two employees resigned without clearing their loan balances of \$36,333.

SOUTH EAST REGIONAL HEALTH AUTHORITY

91. (i) *Bank Reconciliation*

Reconciliation of five bank accounts was in serious arrears at the time of audit.

(ii) *Stolen Vehicle*

A Toyota Hiace Bus was reported stolen at gunpoint. At the time of the theft, the vehicle was not being used for official duties. Although the theft was reported to the police, there was no evidence that a report was made to the Attorney General to determine whether any disciplinary action should be taken against the driver.

(iii) *Classification of Post*

The post of Director of Operations and Maintenance was classified at the GMG/SEG 3 level by the Management Development Division

of the Cabinet Office. It was noted, however, that approval was given by the Ministry of Health for the reclassification of this post to the SEG 5 level. The authority for this development was not seen.

(iv) *Non-Remittance of Statutory Deductions*

At the time of the audit, Education Tax and Income Tax salary deductions for October 2000 to March 2002 totalling \$686.2M had not been remitted to the Inland Revenue Department. The Authority was asked to indicate how it intended to settle the amounts owing.

(v) *Losses and Irregularities*

Inspections conducted at the Kingston Public and Princess Margaret Hospitals revealed two cases of losses of public moneys amounting to \$305,482 due to ineffective internal control over the custody of cash. In addition, cash inspections conducted at several health centers in the Region, revealed untimely lodgements and inadequate custody of cash. It was recommended that the Regional Health Authority ensure compliance with the established procedures concerning the control over public moneys.

NORTH EAST REGIONAL HEALTH AUTHORITY

92. (i) *Non-remittance of Statutory Deductions*

Statutory deductions totalling \$167.2M made from employees' emoluments up to March 31, 2002 had not been remitted to the relevant agencies.

(ii) *Furniture and Equipment Control*

Up to the time of audit, the Master Inventory was not posted beyond October 2000, and therefore did not reflect fixed assets acquired during the year under review costing \$5,198,681. This weakened management's control over such assets.

(iii) *Cost Over-run*

A contract awarded in the sum of \$1,285,332 to undertake renovation of the Accident and Emergency Ward at the Part Maria Hospital, reflected a cost over-run of \$2,283,489. However, the necessary supporting documents were not presented to substantiate the additional cost .

(iv) *Examination of Salaries*

Four officers were engaged at grades above those approved by the Ministry of Finance and Planning resulting in the payment of additional salaries and travelling allowances totalling \$2,951,092 up to June 2002.

(v) *Employment of Internal Auditor*

The Regional Health Authority engaged the services of an Internal Auditor on a contractual basis for three years at an annual remuneration of \$1,500,000. The required Ministry of Finance approval for the salary level was not seen.

Missing Cash – Port Maria Hospital Health Complex

93. Cash totalling \$103,000 which was stored in filing cabinets was found missing. There was no indication that this loss was reported as required by the Financial Administration and Audit Act.

SOUTHERN REGIONAL HEALTH AUTHORITY

94. (i) *Outstanding Receivables*

Records were not maintained to show the outstanding accounts receivable for the Region. This undermined management's ability to monitor the collection of outstanding revenue.

(ii) *Bank Account*

There continued to be arrears of more than two years in the reconciliation of the General Bank Account. This could conceal errors and irregularities for a protracted period. In addition, interest charges of \$24,890 were incurred on an unauthorized bank overdraft.

(iii) *Internal Audit Reports*

The Internal Audit Unit reported on the under-mentioned losses and irregularities:

- (a) There were break-ins at five health centers, which resulted in loss of equipment, drugs and cash totalling \$46,667.

(b) There were 82 cases where receipts for Food Establishments Licence and Food Handlers Permit totalling \$74,494 were not accounted for.

(c) An employee was overpaid emoluments totalling \$101,698 while on study leave.

(iv) *Unsubstantiated Payments*

The relevant supplier bills were not presented for 13 payment vouchers involving expenditure totalling \$868,742. Therefore, the authenticity of the payments could not be verified.

(v) *Furniture and Equipment Inventory*

Up to the time of audit, the required Furniture and Equipment Inventory records were not maintained. Assets seen also bore no identification marks as required by the Financial Instructions. These deficiencies weakened management's control over such assets.

(vi) *Tax on Private use of Assigned Government Vehicles*

The related income tax totalling \$134,460 for the partial private use of assigned motor vehicles was not collected from five officers, as required by law.

(vii) *May Pen Hospital*

The records disclosed that the institution engaged the services of two doctors to work on a sessional basis without the approval of the Regional Health Authority. This practice could undermine budgetary control in the Region.

HEAD 4234 – BELLEVUE HOSPITAL

95. The audit of the captioned hospital for the year under review disclosed the following unsatisfactory features:

(i) *Outstanding Account*

The Appropriation Account for 2001/2002 was not received for examination up to the date of this report.

(ii) *Bank Reconciliation*

Reconciliation of the Hospital's bank accounts was in serious arrears.

(iii) *Overtime Payments*

Payments totalling \$3,943,976 were made to various members of staff for work done beyond normal working hours. However, the hours worked could not be verified as the time of departure was not recorded in the Attendance Registers. It was recommended that the guidelines relating to compensation for work done outside of normal working hours should be strictly adhered to.

(iv) *Unsubstantiated Payment and Journal Vouchers*

Suppliers' bills were not presented to support payments on 11 payment vouchers for expenditure totalling \$152,603. Journal vouchers for \$2,039,237 also had no substantiating documents attached or referred to. Therefore the authenticity of these transactions could not be verified.

(v) *Stores and Storekeeping*

The audit of the store records revealed that in several instances the quantities of food item acquired exceeded the amounts requested by the Dietician. A satisfactory reason for this practice was not presented.

GOJ/IDB LOAN NO.579/OC-JA
HEALTH SERVICES RATIONALIZATION PROJECT

96. The Health Services Rationalization Project which is jointly funded by the Government of Jamaica and the Inter-American Development aims to strengthen the health sector policy, expand health system planning and management, and improve the quality and availability of secondary and tertiary health care services. The audit of the project for the financial year 2001/2002 revealed that the accounting records and financial transaction were generally satisfactory.

GOJ/IDB LOAN NO. 1028/0C-JA
HEALTH SECTOR REFORM PROGRAMME

97. The Health Sector Reform Programme which is jointly funded by the Government of Jamaica and the Inter-American Development Bank aims to provide support for the Government of Jamaica in implementing reforms which seek to improve the efficiency, equity and quality of health care and to foster the financial sustainability of the sector. The audit of the programme for the period under review disclosed a generally satisfactory state of affairs. However, the Jamaican dollar equivalent of US\$710,147 received as benefit-in-kind was not paid into the Consolidated Fund as required by Law. This also resulted in the understatement of Government's revenues and expenditure.

ADOPTION BOARD

98. A review of the financial transactions and accounting records of the Adoption Board for 2001/2002 revealed a generally satisfactory state of affairs.

GOLDEN AGE HOME

99. The audit of the financial transactions of the Golden Age Home for the year under review revealed a generally satisfactory state of affairs. However, there was room for improvement in the disbursement process and the maintenance of the investments control records.

MEDICAL COUNCIL OF JAMAICA

100. An audit of the Medical Council of Jamaica for the year under review revealed that several payment vouchers bore no evidence of being authorized or certified. Investment records, receipt books and blank cheques registers were not properly maintained, and cash collected was not lodged promptly.

NATIONAL COUNCIL ON DRUG ABUSE

101. An examination of the financial transactions and accounting records of the National Council on Drug Abuse for the year under review revealed the following shortcomings:

(i) *Internal Control Weaknesses*

- (a) There was a need for improvement in the procurement process as several instances were identified where payments were made without the appropriate authorization and requisite supporting documents. These weaknesses could compromise the entity's ability to safeguard against improper payments.
- (b) Deficiencies were noted in the maintenance of the advances ledger and the furniture and equipment and the motor vehicles control records. In addition, a formal staff loan policy was not seen.

(ii) *Non-deduction of Tax*

Payments totalling \$480,000 made to an officer were not subject to income tax as required by Section 5(1C) of the Income Tax Act.

UNIVERSITY HOSPITAL OF THE WEST INDIES

102. An audit of the captioned entity's financial transactions and accounting records for the period 2000/2001 revealed the following deficiencies:

(i) *Salaries and Wages*

- (a) Four officers were overpaid emoluments totalling \$61,177.
- (b) Statutory deductions in excess of \$213M as at December 31, 2001, made from staff salaries, were not remitted to the relevant collecting agencies.
- (c) Payment for electricity at an officer's private residence was not treated as emoluments and taxed accordingly. This contravened the Income Tax Act and Ministry of Finance Circular No. 12 dated August 5, 1994.

(ii) *Fixed Assets*

No Fixed Asset Registers were presented for review. The absence of these records undermined management's ability to properly account for, monitor and safeguard the organization's assets. I was also unable to verify ownership of three motor vehicles as no certificates of title were presented for examination.

(iii) *Contracts*

There was no evidence presented that the National Contracts Commission approved the award of contracts amounting to \$43,934,000 or that competitive bidding had been employed in the selection process for contracts costing \$42,721,507.

(iv) *Outstanding Financial Statements*

The audited financial statements for 1999/2000 to 2001/2002 were not available for review. This resulted in an inability to assess the Hospital's financial status over this period.

HEAD 4220 – REGISTRAR GENERAL'S DEPARTMENT

103. The audit of the captioned Agency for the year under review revealed the following matters of concern:

(i) *Emoluments*

Statutory deductions from gratuity payments to members of staff were subsequently refunded to employees. It was also noted that statutory deductions were not made from subsequent gratuity payments of \$2.25M to staff. This was said to have been done based on the verbal advice of an officer of the Tax Payers Audit and Assessment Department. It is my view, however, that this contravened the related Tax Bulletin issued by that Department. I have therefore referred the matter to the Tax Department for resolution. Overpayments of \$164,702 were also noted, of which \$120,223 was recovered up to the time of this report.

(ii) *Overseas Travel*

The stipulated approval of the Ministry of Finance and Planning for foreign travel was not seen for overseas trips costing US\$33,765. The Department has promised future compliance with this requirement.

(iii) *Contracts for Transportation Service*

Satisfactory documentary evidence was not presented to indicate that the prescribed procurement procedures were followed in the engagement of three contractors for transportation services and to whom \$3,739,000 was paid for the period under review. It was

recommended that the Ministry of Finance and Planning's guidelines on the procurement of goods and services be strictly observed in future.

HEAD 4235 – GOVERNMENT CHEMIST

104. The audit of the Government Chemist's Department for the period under review disclosed a generally satisfactory state of affairs.

HEADS 5100, 5100A & 5100B - MINISTRY OF AGRICULTURE

General Comment

105. The audit of the financial transactions and accounting records of the captioned Ministry revealed a generally satisfactory state of affairs. However, there were still some areas of concern, particularly in relation to the portfolio agencies. The more important of these are highlighted below.

Furniture and Equipment Inventory

106. Up to the time of audit, furniture and equipment acquired at a cost of \$836,916 during the financial year under review had not been recorded in the inventory records. This could result in weakened management control over the assets. It was recommended that the records should be updated on a timely basis.

AGRICULTURAL DEVELOPMENT CORPORATION

107. The audit of the captioned entity for the year under review disclosed the following shortcomings:

(i) *Outstanding Financial Statements*

The most recent financial statements presented were stamped "Draft" and related to the financial year ended March 31, 1996. The absence of up-to-date financial statements made it difficult to determine the financial status of the organization. It was recommended that the preparation and audit of financial statements should be expedited.

(ii) *Expenditure Vouchers*

Weaknesses were observed in the procurement procedures, and the validity of transactions amounting to \$1,312,952 was not verified, as the relevant supporting documents were not produced.

(iii) *Emoluments*

Certain appropriate salary records were not maintained. Preparation and submission of the annual Tax Returns were also in arrears. In addition, statutory deductions made from employee's emoluments between September 1997 and February 2002 amounting to \$14,262,367 had not been paid over to the relevant agencies. This could result in penalties being applied for breaching the law, and also adversely affect employees' access to certain benefits.

(iv) *Payment of Allowance*

The required Ministry of Finance approval for paying transportation allowances in excess of the stipulated government rate was not presented.

(v) *Security Contract*

Security services at the Corporation's premises were provided at a cost of approximately \$70,000 per month. However, a related contract was not presented. The employment of a security company without a contract is a breach of Government's financial rules and could adversely affect the agency's interest in the event of any disputes.

RURAL AGRICULTURAL DEVELOPMENT AUTHORITY (RADA)

108. Audit inspections carried out at RADA'S Headquarters and three of its Parish Offices revealed the following deficiencies:

(i) *Outstanding Statements*

Audited financial statements for financial years 2000/2001 and 2001/2002 were not available for inspection. Where financial statements are not current, it is difficult to determine the true financial status of the organization. It was recommended that steps should be taken to bring the statements and their audit up to date. RADA expressed the intention to have this done by the end of February 2003.

(ii) *Unverified Transactions*

Supporting documents were not presented to substantiate expenditure amounting to \$88,594. This prevented validation of the authenticity of the related transactions.

(iii) *Parish Offices*

Deficiencies were noted in (a) the maintenance of salary and stock records, furniture and equipment inventories; toll call registers; blank cheques and value books; (b) the disposal of fixed assets; and (c) the control and operation of motor vehicles. Instances were also noted where contract vouchers were not properly certified. Failure to correct these weaknesses will continue to expose the Authority to possible errors and losses.

Tree Crop Programme

109. The Tree Crop Programme commenced in January 2000 with the main objectives being to increase the availability and diversity of economically viable and nutritionally important fruit tree species, and encourage the development of the food processing industry by the provision of raw materials. An audit of the programme disclosed the following:

(i) *Progress and Achievement*

For the financial year 2001/2002, information provided disclosed that only 180.45 hectares of fruit trees were established compared to the target of 300 hectares. This was said to have been due mainly to inadequate funding which adversely affected staffing, acquisition of planting materials and reimbursements to farmers. Of the budgeted provision of \$21M for the year actual expenditure amounted to \$16.57M.

(ii) *Allocation of Benefits*

Proper records were not maintained of benefits to farmers. Breaches of the Ministry's procedures for the allocation of benefits were also noted. There was no evidence of efforts being made to collect outstanding contributions totalling \$372,333, which were due from beneficiaries for the 20% funding of the cost of plants and materials distributed to them.

(iii) *Examination of Contracts*

An examination of seven contracts for \$2,872,184, which were awarded in connection with the Programme, revealed the following shortcomings:

- (a) There was no evidence that competitive price quotations for each contract were received.
- (b) The recommendations of the Ministry's Contract Committee were not seen.
- (c) Mobilization advances were made to two contractors without any such provision being included in the contracts.
- (d) Amounts totalling \$126,000 appeared to have been overpaid to a Contractor for duplicated claims.

(iv) *Motor Vehicle Assignments*

The audit disclosed that two officers who were assigned government vehicles on a full-time basis were also simultaneously paid full motor vehicle upkeep and mileage allowances amounting to \$457,350 in breach of government regulations. The officers should also have paid an amount of \$30,728 for income tax for the private use of the vehicles in accordance with the Income Tax Regulations. The Ministry was advised to recover the overpayments totalling \$488,078 from the officers.

(v) *Unpresented Documents*

The relevant payment voucher and supporting documentation were not presented for the purchase of a motor vehicle costing \$615,000.

Losses and Irregularities

110. The following losses and irregularities were reported by the Ministry.

(i) *Rural Agricultural Development Authority (RADA)*

A Dell Notebook Computer valued at approximately \$102,217 was reported missing from the RADA Head Office. The report alleged that the loss was due to the negligence of an officer.

(ii) *Aquaculture Branch*

Investigations initiated by the Ministry revealed that several items of fishing equipment valued at \$180,200 were not accounted for by an officer employed to the Aquaculture Branch. The officer was subsequently sent on leave pending the outcome of the investigations.

The Ministry was asked to indicate how these matters were resolved.

JAMAICA AGRICULTURAL SOCIETY

111. A review of the financial transactions and accounting records of the Society for 2001/2002 revealed the following unsatisfactory features:

(i) *Statutory Deductions*

The remittance of statutory deductions made from employees' emoluments had not been made for of more than 18 months. This was in breach of the relevant Acts and could expose the Society to penal sanctions as well adversely affect officers' entitlement to certain benefits.

(ii) *Salaries*

Payment of \$50,000 per month to a Board Member was not taxed, as required by law.

(iii) *Disbursements*

There were weaknesses in the disbursement process as payments totalling \$1,243,923 either had no appropriate supporting documents presented or bore no evidence of being either checked or authorized as required by the Government's financial rules. These could undermine the Society's ability to prevent improper payments.

(iv) *Internal Control Weaknesses*

The unacceptable practice of signing blank cheques continued. Weaknesses were also identified in the maintenance of the receipt books and the fixed assets registers, while reconciliation of the bank accounts was in serious arrears and not properly effected.

Failure to implement effective controls could result in losses and abuse.

JAMAICA 4-H CLUBS

112. A review of the financial transactions and accounting records of the Jamaica 4-H Clubs for the year under review revealed the following deficiencies:

(i) *Internal Control Weaknesses*

Reconciliation of two bank accounts was in serious arrears and the control over fixed assets was inadequate as an appropriate inventory system was not in place.

(ii) *Statutory Deductions*

As at March 31, 2002 deductions made from employees' emoluments during the preceding 12 months for Income Tax and Education Tax had not yet been remitted to the relevant authorities.

JAMAICA VETERINARY BOARD

113. The audit of the Jamaica Veterinary Board for the year under review revealed a generally satisfactory state of affairs.

HEADS 5200, 5200A & 5200B – MINISTRY OF INDUSTRY, COMMERCE AND TECHNOLOGY

Accounting Arrears

114. The Appropriation Accounts for 2001/2002 were not received for examination up to the date of this report and the Account for the Recurrent Head of Estimates for 2000/2001, which was returned for amendment, has not been resubmitted for audit. Reconciliation of the Salaries Bank Account was over three years in arrears making it possible for errors and irregularities to remain undetected for protracted periods.

JAMAICA BUREAU OF STANDARDS

115. Arising from an audit of the captioned Agency, the following unsatisfactory features were noted:

(i) *Emoluments*

- (a) The required approval of the Ministry of Finance and Planning was not presented for emoluments being paid by the Agency.
- (b) An officer was in receipt of emoluments simultaneously from both the Agency and the portfolio Ministry resulting in an overpayment of \$376,855, of which \$231,698 was recovered up to the date of my report.

(ii) *Internal Audit*

The reports of the internal audit unit were not presented for perusal. I was therefore unable to assess the extent to which any recommendations made had been implemented.

JAMPRO

116. An examination of the accounting records and financial transactions of the Agency for the year under review disclosed a generally satisfactory state of affairs. The concerns raised were adequately addressed.

FAIR TRADING COMMISSION

117. The audit of the financial transactions and accounting records of the Commission for the year under review disclosed a generally satisfactory state of affairs.

**HEAD 5238 – OFFICE EOF THE REGISTRAR
OF COMPANIES**

118. The audit for the captioned Agency for the year under review disclosed the following unsatisfactory features:

(j) *Travelling Expenses*

The required approval of the Ministry of Finance and Planning was not presented for an overseas trip costing \$91,606 and the rates of travelling allowances paid to 21 officers. The Agency was advised to have the matters regularized.

(ii) *Outstanding Matter*

Overpayment of salaries totalling \$43,409, which was mentioned at paragraph 120 of my 2000/2001 annual report had still not been recovered. The responsible officers were reported to the Financial Secretary for possible surcharge.

HEAD 5239 – POST AND TELECOMMUNICATIONS
DEPARTMENT

Outstanding Financial Statements

119. Up to the date of this report, the Appropriation Account for 2000/2001, which was returned for amendments, had not been resubmitted. The Account for 2001/2002 and the Annual Revenue Statements for 2000/2001 and 2001/2002 were also outstanding. This contravened section 24 I (1) of the Financial Administration and Audit Act.

Intransit Lodgements

120. At the time of audit the related records indicated that lodgements totalling \$2,539,000 made by various post offices over the period 1999 to 2002 remained intransit. This information was questionable however, because the records were not updated in a timely manner. The Department was advised to bring the records up to date and pursue vigorously with the relevant banks, amounts that remained long outstanding so as to safeguard the Government against possible loss of funds.

Inadequate Controls

121. The reconciliation of three bank accounts continued to be in serious arrears, which could facilitate and conceal errors and irregularities. The Department was advised to seek the assistance of the Ministry of Finance in reconciling these accounts. There was also need to improve the controls over the use of the telephones and fuel advance cards.

POSTAL CORPORATION OF JAMAICA

122. The audit of the captioned agency revealed the following matters of concern:

(i) *Emoluments*

- (a) The required approval of the Ministry of Finance for the emoluments paid to the Corporation's employees was not produced.
- (b) Overpayment of salary amounting to \$81,051 made to an officer was noted. It was recommended that internal check be improved and the over-payment recovered. Recovery was promised.
- (c) Income tax amounting to \$18,837 was not deducted from the salary of an executive of the Corporation. This was as a result of the incorrect application of tax credit. It was recommended that income tax owing be recovered and paid over to the relevant agency. Recovery was promised

(ii) *Credit Card*

There was insufficient documentary evidence to substantiate that the respective payments constituted proper use of public funds as required by the Ministry of Finance's instructions. Future compliance with the rules was promised.

**HEADS 5500, 5500A & 5500B –
MINISTRY OF MINING AND ENERGY**

123. The 2001/2002 Appropriation Accounts had not been submitted for audit up to the date of this report. Expenditure on the Ministry's Recurrent Head of Estimates for 2000/2001 exceeded the amount authorized by Parliament's by \$2,981,234. This will require Parliamentary approval by way of Final Supplementary Estimates.

JAMAICA BAUXITE INSTITUTE

124. An audit of the captioned entity disclosed the following concerns:

(i) *Internal Control Weaknesses*

Deficiencies were noted in the controls over the fixed assets and the use of advance cards. Future compliance with the governmental rules on these matters was advised.

(ii) *Credit Cards*

Sufficient information was not presented to allow verification that credit card related payments amounting to \$107,127 constituted proper charges against public funds.

BAUXITE ALUMINIA TRADING COMPANY

125. An audit of the captioned entity for 2001/2002 disclosed a generally satisfactory state of affairs. The few internal control weaknesses noted were subsequently corrected.

HEAD 5800 – MINISTRY OF LAND & ENVIRONMENT

**LAND ADMINISTRATION & MANAGEMENT
PROGRAMME (LAMP)
GOJ/IDB LOAN CONTRACT NO. 1219/OC-JA**

126. The Land Administration and Management Programme is funded by the Government of Jamaica and the Inter-American Development Bank. The purpose of the Programme is to establish a dynamic land market that promotes the efficient use of resources thereby allowing accessibility to all segments of the society to land in a fair and transparent manner. The audit of the Programme's accounting records and financial transactions for the year under review disclosed a generally satisfactory state of affairs.

NATIONAL ENVIRONMENT AND PLANNING AGENCY

127. The National Environment and Planning Agency was established as an Executive Agency from April 1, 2001. The audit of the Agency for the financial year 2001/2002 disclosed the following shortcomings:

(i) *Overpayments*

Seven employees were overpaid a total of \$235,705, while failure to comply with directives of the Ministry of Finance resulted in ten officers being paid salaries exceeding the approved limit by \$637,500.

(ii) *Unverified Transactions*

The required supporting documents were not presented for five payments totalling \$86,119 while no information was provided as to how fuel coupons costing \$26,090 were accounted for.

HEAD 5821 – TOWN PLANNING DEPARTMENT

Outstanding Appropriation Accounts

128. The 1999/2000 and 2000/2001 Appropriation Accounts, which were returned for amendments, had not yet been resubmitted up to the date of this report.

HEAD 5847 – NATIONAL LAND AGENCY

129. The National Land Agency was established as an Executive Agency on April 1, 2001. The audit of the Agency's financial transactions and accounting records for the period under review disclosed a generally satisfactory state of affairs. However, the following shortcomings were noted:

(i) *Outstanding Financial Statements*

Up to the date of this report, the Annual Financial Statements for the period 2001/2002 were not presented for audit. This constituted a breach of the Executive Agencies Act.

(ii) *Arrears in Crown Lands Lease Payments*

The records indicated that a total of approximately \$17.4M was owing for outstanding lease payments by individuals and companies on 259 parcels of government land. In several instances lessees were in arrears for in excess of three years. It was recommended that more effective measures be pursued to collect the amounts outstanding.

**HEADS 6300, 6300A & 6300B –
MINISTRY OF WATER AND HOUSING**

General Comments

130. The audits conducted at the Ministry's Head Office and one of its agencies disclosed that the financial transactions for the year under review had been

conducted in a generally satisfactory manner. However, the under-mentioned deficiencies were observed.

Outstanding Appropriation Accounts

131. The Appropriation Accounts for 2001/2002 had not been submitted for examination up to the date of this report. This contravened the Financial Administration and Audit Act.

Internal Control Weaknesses

132. Weaknesses were noted in the maintenance of the control records for stores, motor vehicles, stationery, blank cheques and furniture and equipment. This could expose the Ministry to losses. It was recommended that early corrective actions should be taken.

Value-for-Money Audit – Major Rural Water Supply Project

133. A decision was taken to subject the Major Rural Water Supply Project to a special Value-for-Money Audit based on the importance of the availability of water to all segments of the population and the significance of the budgetary provision for 2001/2002. My initial survey work disclosed that the project was divided into two phases. The budgetary provision for 2001/2002 related to phase 2 but the actual expenditure of J\$2.3M for the year, incurred on staff costs only, provided very limited scope for comprehensive value for money considerations. Phase 1, on the other hand, involved expenditure of J\$170.2M which was incurred on six water supply schemes which were completed over the period 1992 to 1999. It was therefore decided to concentrate on phase 1 for the purpose of the special audit.

Maintenance of Schemes

134. (i) During the visits conducted at six of the water supply schemes, it was observed that in some instances, motors were burnt; pumps were taken out for repairs and not replaced; one of the schemes was underutilized as quite frequently no water reached the pumping station; while another was not operating due to a burnt electrical panel which was removed but not replaced. The National Water Commission advised that the problems were due largely to adverse variations in the quality of the electricity supply.
- (ii) Although most residents in the related areas had access to household connected water, the factors mentioned above have resulted in the supply of water to some communities being disrupted and hence residents had to store water. The Rapid Response Team trucked water on behalf of the National Water

Commission to the residents of two of the schemes and surrounding environs.

- (iii) Although the National Water Commission has a documented maintenance programme, it appeared as if this was not faithfully adhered to. The Commission said this was partly due to financial constraints. The inadequate maintenance of the water supply schemes resulted in residents of the respective communities being denied the intended access to potable water from time to time. It was recommended that the water supply schemes should be adequately maintained in order to ensure that the residents have continued access to this precious commodity.

Servicing of Motors

135. The servicing of motors was reported to be restricted by the limited financial resources of the National Water Commission. It appeared that the motors were serviced only when there were problems. In those instances where motors were serviced the breakdown cost was low. On the other hand, where no preventive servicing was effected the breakdown costs were significant. It was recommended that motors should be serviced adequately to ensure efficient operation and to minimize the possibility of substantial breakdown costs.

Water Quality

136. The National Water Commission (NWC) through its Quality Control Assurance and Environment Department (QCA & E) is responsible for monitoring the quality of water. The audit disclosed that while the standard for the presence of residual chlorine in water was met, that for the presence of Coliform bacteria was not met in many instances. The presence of Coliform in the water is an indication that the water is contaminated with faeces and may be dangerous to health. One of the main contributing factors for the presence of Coliform in water was cited as inadequate contact time between Chlorination (treatment) and distribution. The failure to maintain standards can adversely affect the health of residents. It was recommended that the standards for ensuring water purification should be closely monitored to enforce compliance. The NWC indicated that its water was among the best in the world but there was room for improvement. It advised that steps were being taken to deal with the challenges faced.

Unaccounted for Water

137. The levels of unaccounted for water (UFW) at three of the schemes (Gutters/Down, South Chapelton – Ennis Pumping Station and Cross Keys/Rest Store) were very high. For the period January 2002 to June 2002, the cost for the UFW for these schemes amounted to approximately \$7M. This was reportedly due to:

- (i) illegal connections;
- (ii) leaks (underground); and
- (iii) malfunctioning Bulk Meters at some plants.

The high levels of unaccounted for water resulted in significant loss of funds to the National Water Commission. It was recommended that the system/methods for determining unaccounted for water should be more frequently monitored and more efficient and effective mechanisms instituted to detect and correct such situations. It was reported that corrective measures were being pursued.

Examination of Contracts

138. Five of the schemes that were constructed had a combined contract sum of \$20.3M. The total actual expenditure was \$65.5M resulting in cost overruns of \$45.2M which were reportedly due to variations and price escalations for which no supporting documentation was presented. Without adequate documentation it was difficult to determine whether there was appropriate justification for the additional cost incurred. It was recommended that the relevant documents should be produced for inspection.

CARIB ENGINEERING CORPORATION LTD.

139. The audit of the captioned Agency for 2001/2002 disclosed no indication that the required tendering process or Cabinet approval was adhered to in the award of several contracts which were termed as 'Fast Track Projects'. The breach of guidelines governing the award of contracts could result in the Government not receiving good contractual service at the most reasonable cost. It was recommended that the stipulated guidelines should be complied with in future.

NATIONAL WATER COMMISSION (N.W.C.)

140. A test audit of contracts awarded by the Commission during the period under review disclosed five instances in which emergency work costing approximately \$44M was done and which by-passed the usual contract award procedures, but there was no indication that the National Contracts Commission was formally informed thereof. The N.W.C. advised that this had been done verbally as there was no specific requirement for written notification. It was recommended that future communication between the National Contracts Commission and the N.W.C. as to the purpose, cost, contractor and justification for emergency work should be documented.

WATER RESOURCES AUTHORITY

141. An audit of the accounting records and financial transactions of the Authority for 2001/2002 disclosed a generally satisfactory state of affairs

HEADS 6500, 6500A & 6500B – MINISTRY OF TRANSPORT AND WORKS

Tax on Private use of Government Vehicle

142. Income Tax of \$69,500 had not been deducted from the emoluments of an officer provided with a government owned motor vehicle, as required by the Income Tax Act.

Land Acquisition

143. There was no evidence that the Ministry had requested the Commissioner of Land Valuation to undertake a valuation of properties to be acquired for the expansion of Hope Road and Cargill Avenue. The Ministry advised that "informal valuations" were done. I was therefore unable to determine whether the prices were fair and reasonable. It was recommended that valuations by the Commissioner of Land Valuation should be obtained for future acquisitions. A deposit of \$432,000 was made for the purchase of the land at Cargill Avenue. However, only land valued at \$350,727 was utilized and transferred to Government up to the time of audit. The Ministry was asked to indicate how the difference of \$81,273 would be accounted for.

HEAD 6550 – NATIONAL WORKS AGENCY (N.W.A.)

144. The audit of the National Works Agency for the year under review revealed the following areas of concern:

(i) *Remittance to Government of Jamaica*

The Agency had not remitted to the Consolidated Fund 50% of gross revenue collected as required by the Financial Instructions for Executive Agencies. Instead, the amount remitted was based on the revenue collected less certain major items of expenditure.

(ii) *Indebtedness for Tax on Private use of Motor Vehicles*

At the time of audit Income Tax of \$118,793 had not been deducted from the emoluments of eight persons for the partial private use of

motor vehicles assigned to them. A total of \$64,980 was subsequently recovered in November 2002 and further recoveries was promised.

NORTHERN COASTAL HIGHWAY DEVELOPMENT PROJECT **SEGMENT 1**

145. The Government of Jamaica, with financial support from the Japan Bank for International Cooperation (JBIC) is developing the infrastructure along the country's northern coastline. Under this initiative, the captioned Project aims to improve approximately 268 kilometres of the coastal road – from Negril to Port Antonio via Montego Bay. Segment 1 of the Northern Coastal Highway Improvement Project (NCHIP) extends eastwards 71.2 kilometres from Negril roundabout to Bogue (Just outside Montego Bay). The audit of the Project disclosed considerable time overrun as the contract should have been completed by September 1999 but was still incomplete at 6th September, 2002. Cost overrun was also substantial as the original contract price was for \$974M. However, \$2.572B has been spent on this segment to date, an overrun of \$1.597B or 164%. The major reason for the cost overrun was said to be the low tender price by the original contractor whose contract was terminated, and by the subsequent sub-contractors which were being used to complete the Project.

NORTHERN COASTAL HIGHWAY DEVELOPMENT PROJECT **SEGMENT 2**

146. Segment 2 of the Northern Coastal Highway Development Project is jointly funded by the Government of Jamaica and the Inter-American Development Bank and is that portion of the highway extending eastwards approximately 97 kilometres from Montego Bay to Ocho Rios linking the parishes of St. James, Trelawny and St. Ann. The audit of the Project for the period under review disclosed that \$42M received as benefits-in-kind under the related loan had not been paid into the Consolidated Fund as required by law. The N.W.A. advised that this was due to inadequate funding by the Ministry of Finance & Planning.

CIVIL AVIATION AUTHORITY

147. The audit of the Civil Aviation Authority's(CAA) accounting records and financial transactions for 2001/2002 were found to be generally satisfactory. However, the under-mentioned shortcomings were noted:

(i) *Appropriations-in-aid*

There was no evidence that the excess collection of Appropriations-in-aid amounting to \$8,121,358 was surrendered to the Consolidated Fund as required by law.

(ii) *Outstanding Financial Statements*

The audited financial statements for 2000/2001 and 2001/2002 were not available up to the time of this report.

(iii) *Outstanding Statutory Deductions*

As at March 2002 statutory deductions of approximately \$45.5M made from employees emoluments over the period 1998 to March 2002, were not remitted to the relevant collecting agencies.

(iv) *Loans to Staff*

There was no evidence of approval by the Ministry of Finance of a staff loan scheme operated by the Authority.

HEADS 7200, 7200A & 7200B –
MINISTRY OF LOCAL GOVERNMENT
AND COMMUNITY DEVELOPMENT

148. The audit of the captioned Ministry for the year under review revealed a satisfactory state of affairs as the few weaknesses noted were appropriately addressed.

PARISH INFRASTRUCTURE DEVELOPMENT PROGRAMME

149. The Parish Infrastructure Development Programme is jointly funded by the Government of Jamaica and a loan from the Inter-American Development Bank. The chief objective of the Programme is to improve the capacity of local authorities to deliver basic services and maintain parish infrastructure. The audit of the Programme for 2001/2002 found the accounting records and financial transactions to be generally in order. However, the amount of J\$36.8M received as benefits-in-kind under the loan was not paid into the Consolidated Fund as required by law. This resulted in the under-statement of Government's revenue and expenditure. The Ministry advised that this omission was due to inadequate

budgetary provision and that attempts were being made to obtain the necessary provision in the supplementary estimates of expenditure for 2002/2003.

NATIONAL SOLID WASTE MANAGEMENT PROGRAMME

150. The National Solid Waste Management Programme is jointly funded by the Government of Jamaica and the Inter-American Development Bank and is implemented by the Ministry of Local Government and Community Development. The main objectives of the programme are to improve the environmental and sanitary conditions of the solid waste sites in the Kingston Metropolitan area and other non-active sites around the country, as well as to develop an action plan for a country-wide Solid Waste Management Programme. The audit of the accounting records and financial transactions for the year under review disclosed a generally satisfactory state of affairs.

JAMAICA FIRE BRIGADE

151. The audit of the captioned entity for 2001/2002 disclosed the under-mentioned deficiencies:

(i) *Outstanding Financial Statements*

Audited Financial Statements for the years 1996/1997 to 2001/2002 were outstanding. The Department reported that the arrears were due mainly to inadequate accounting personnel which it was in the process of correcting. This unsatisfactory state of affairs undermined the accountability process and should be remedied urgently.

(ii) *Procurement Breaches*

Goods and services valued at approximately \$1.3M were procured without evidence that the required competitive price quotations were obtained or that the Procurement Committee was involved in the exercise. This breached the entity's procurement policy and government's guidelines. It was also noted that goods and services costing \$242,020 were procured using pro forma invoices as supporting documents instead of the original suppliers' bills/invoices as stipulated by the Government's financial rules. It was recommended that this practice be discontinued as it could result in erroneous or duplicated payments.

(iii) *Overpayments*

Overpayments of \$62,820 were made to an officer due to errors in the rate of duty allowance and the payment of acting allowance beyond the period of entitlement. The Brigade was instructed to recover the overpayments.

(iv) *Unremitted Statutory Deductions*

Statutory deductions from employees' emoluments totalling \$243.1M were not remitted to the relevant collecting agencies as at March 31, 2002. The Brigade reported that this was due to cash flow problems. This not only breached the relevant Acts but also exposed the entity to penalties.

METROPOLITAN PARKS AND MARKETS

Audited Financial Statements

152. Audited annual financial statements for the years 1999/2000 and 2000/2001 were outstanding at the time of audit. This was in breach of Section 3 of the Management and Accountability of Public Bodies Act.

Internal Control Weaknesses

153. Deficiencies were noted in the controls exercised over motor vehicle operations, the issue of advance cards, the use of credit cards, fixed assets and the personnel function.

Bank Overdraft

154. Interest charges totalling \$83,310 were incurred on bank overdrafts for which the approval of the Ministry of Finance was not seen. It was recommended that appropriate steps be taken to prevent any recurrence.

Outstanding Statutory Deductions

155. Statutory salary deductions totalling \$74.68M made over the period 1997 to March 2002 were not remitted to the relevant agencies. The company advised that this was due to severe cash flow problems. Management was reminded that failure to remit statutory deductions could result in penalties and deprive employees of benefits.

SOCIAL DEVELOPMENT COMMISSION

156. The audit of the financial transactions and accounting records of the Social Development Commission for 2001/2002 disclosed the following deficiencies:

(i) *Statutory Deductions*

Income Tax deductions totalling \$29.8M made from employees' emoluments between May 2001 to March 2002 had not been remitted to the Inland Revenue Department. This was in breach of the law and could expose the Commission and its officers to legal sanction.

(ii) *Unsubstantiated Expenditure*

The necessary suppliers' invoices and bills were not presented for expenditure totalling \$1,152,914, therefore the authenticity of the payments could not be verified.

(iii) *Uncleared Advances*

Advances amounting to approximately \$18.5M, which had been on the books for three or more years, remained uncleared at March 31, 2002. As a result I was unable to ascertain the use to which the related funds had been put.

KINGSTON AND ST. ANDREW CORPORATION

157. The audit of the captioned entity for 2001/2002 revealed the following unsatisfactory features:

(i) *Outstanding Financial Statements*

Up to the date of this report the annual financial statements for 2000/2001 and 2001/2002 had not been received for examination.

(ii) *Collection of Revenue*

(a) Adequate control did not exist for the collection of user fees from places of amusement. Detailed records were not available for verification of revenue due, and there was no evidence of proper procedures to enforce collection.

- (b) An examination of the rental register disclosed arrears of rental due to the Corporation at August 2002 amounting to \$557,274.
 - (c) From the records presented the Corporation collected fines on only 525 of the 1950 traffic tickets issued for the period January to December 2001. There was no indication of follow up action against the delinquents.
- (iii) There was need for improvement in the control exercised over the New Kingston parking lots tickets.

Market Operations

158. The KSAC informed me that in July 2001 it had to, at short notice, assume responsibility for the operations of markets in the Corporate Area which had previously been under the management of Metropolitan Parks and Markets. An audit of the accounting records and financial transactions for these markets in respect of the year under review disclosed the following deficiencies:

(i) *Unpresented Employment Contracts*

Payments totalling \$2,210,000 for the period July 2001 to July 2002, were made to two officers. However, the related employment contracts were not presented for audit.

(ii) *Non-Remittance of Statutory Deductions*

As at July 2002 statutory deductions of approximately \$5.56M made from employees salaries, were not remitted to the relevant authorities.

(iii) *Outstanding Receivables*

The records disclosed that at August 2002 rental arrears owed to 15 markets by occupants amounted to \$9,990,410.

(iv) *Unverified Payments*

Two officers were paid \$99,163 for fuel supplied to their motor vehicles but there was no evidence that they were entitled thereto.

(v) *Garbage Collection, Cleaning and Security Arrangements*

Payments totalling \$13.4M were made for security, garbage collection and cleaning. However, no related formal agreements were presented

(vi) *Internal Control Weaknesses*

Revenue collected was not always lodged intact as required. Furniture and equipment purchased at a cost of \$735,186 were not taken on inventory as the required control records were not maintained. There was need for more effective control to ensure that only the cost of authorized official telephone calls was met from public funds. At July 2002 the records showed that uncollected amounts for unidentified private calls stood at \$138,327.

PARISH COUNCILS

159. The audits disclosed that the financial transactions and accounting records of the Parish Councils for the year under review were generally satisfactory. However, the under-mentioned deficiencies were noted:

(i) *Arrears of Revenue*

At the time of audit the records reflected that arrears of rents/leases totalling \$8,662,634 were owed to ten Councils; barbers/hairdressers fees of \$1,701,195 to four Councils and butchers licenses of \$1,269,734 to four Councils. This deprived the Councils of revenue which could assist in the implementation of projects.

(ii) *Unremitted Statutory Deductions*

At the time of my audits substantial amounts of statutory deductions made from employees' emoluments at four Councils had not been remitted to the relevant collecting agencies for protracted periods. This involved approximately \$16.4M for Portland, \$6.6M for St. Mary, \$8.8M for St. Elizabeth and \$8.5M for Manchester. The non-remittance of these deductions on a timely basis not only breached the relevant laws but could also adversely affect employees entitlement to certain benefits. The matter should therefore be rectified as early as possible.

(iii) *Tax on Private Use of Government Vehicles*

At St. Mary, Westmoreland and Manchester Parish Councils income tax of \$97,500, \$61,875 and \$68,750 respectively, had not been deducted from the emoluments of certain officers who were provided with motor vehicles, as required by the Income Tax Act.

ST. ELIZABETH PARISH COUNCIL

Overpayment of Salaries

160. A test check of the salary records disclosed that inadequate internal checks resulted in seven officers being overpaid emoluments totalling \$93,552. It was recommended that those checks be improved and the overpayments recovered as early as possible. The Council subsequently advised that \$23,658 of the overpayments had since been recovered.

ACKNOWLEDGEMENT

161. I take this opportunity to record my appreciation to Accounting Officers and their staff, and officers of Local Government agencies and other statutory bodies and government companies for the cooperation and courtesies extended to my staff and myself during the year 2002.

ADRIAN P. STRACHAN, CD, FCCA, FCA
AUDITOR GENERAL

19TH December, 2002