AUDITOR GENERAL'S DEPARTMENT

ACTIVITY BASED AUDIT

NATIONAL INSURANCE SCHEME

MINISTRY OF LABOUR AND SOCIAL SECURITY

The Auditor General is appointed by the Governor General and is required by the Constitution, Financial Administration and Audit Act, other sundry acts and letters of engagement, to conduct audits at least once per year of the accounts, financial transactions, operations and financial statements of central government ministries and departments, local government agencies, statutory bodies and government companies.

The Department is headed by the Auditor General, Pamela Monroe Ellis, who submits her reports 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.

This report was prepared by the Auditor General's Department of Jamaica for presentation to the House of Representatives.

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Vision

Promoting a better country through effective audit scrutiny of Government operations.

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QUOTED:-

December 23, 2015

The Honourable Speaker
House of Representatives
Gordon House
81 Duke Street
Kingston
Jamaica

Dear Sir,

In accordance with the provision of Section 29 of the Financial Administration and Audit (FAA) Act, I have the honour to submit my report on the findings and recommendations of the Activity-based Audit on the Ministry of Labour and Social Security - National Insurance Scheme (NIS) for tabling in the House of Representatives.

Yours faithfully,

Pamela Monroe Ellis (Mrs.)
Auditor General

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Summary

The National Insurance Scheme offers social insurance and pension coverage as security to contributors and limits the risk of loss of income due to retirement, incapacity and death. National Outcome No. 3 of Vision 2030 National Development Plan (NDP) seeks to " mitigate vulnerabilities that can leave persons at risk" and "seeks to cushion citizens against losses in income and threat to their economic security.[1]" The Ministry of Labour and Social Security (MLSS) pays pension benefits of over $14 billion to over 109,090 contributors annually.

The activity based audit was undertaken to determine whether MLSS is effectively managing the National Insurance Scheme. The key findings and recommendations are outlined below.

We found that the MLSS has taken steps to address some weaknesses; for example, since November 2015, three Standard Operating Procedures have been finalized and cheques and bank drafts returned to the MLSS are now being documented. However, the adverse findings reported herein have not been fully corrected.

Key Findings

Poor governance may compromise the integrity of the pension process. The audit revealed that weaknesses in the governance of the National Insurance Scheme put the scheme at risk of not achieving its objectives.

1. **The commitment of the MLSS to implement strategies to mitigate risks is also in question as MLSS has consistently ignored the findings of the Internal Audit Unit.** MLSS does not have a robust reporting and records management system and was unable to provide minutes of management and committees meetings held. Our review process was frustrated by the poor manner in which the files were maintained as well as the incomplete nature of the files. The audit further noted that 5 officers who held key positions in the pension process did not proceed on vacation leave for up to 17 years. Instead, the MLSS repeatedly denied the officers leave requests and either allow them to accumulate or pay them in lieu of vacation leave. In November 2015 MLSS advised us that vacation leave applications for three officers were recently approved.

2. **Weak system of internal controls over the Pension Payment Process may foster irregular activities.** Despite discovering fraudulent practices in previous years and reports issued by this Department, MLSS still did not implement a proactive strategy to mitigate the pension process against fraud risk.

   a) For the financial years 2010/11 to 2014/15, MLSS paid $32.5 billion to the Post and Telecommunications Department (PTD) to facilitate the encashment of pension vouchers without performing any form of reconciliation. MLSS is required to pay a service charge for each pension voucher cashed. However, the accuracy and conditions under which the MLSS paid over $239.6 million as service charge to the

[1] Vision 2030 Jamaica. Page 77

PTD for the financial years 2011/12 to 2014/15 could not be determined as MLSS did not carry out the required reconciliations or present a formal contract.

b) We found that the lack of due diligence in the payment process by the MLSS resulted in overpayments totalling $10.1 million to 152 pensioners. We noted that $5.3 million or 50 per cent of the overpayments were made to pensioners who were not eligible for the benefit.

c) The audit also found that there was inadequate control over reconciliation of the Pension Bank accounts. Despite being a key control tool to detect payment irregularities, the MLSS did not prepare bank reconciliation on a timely basis and there was no segregation of duties and supervisory review in the reconciliation process. Additionally, MLSS did not record returned cheques and bank drafts valuing $16 million. MLSS could not account for 334 pension vouchers valued at $1.3 million. Whilst, we note an improvement in the status of the arrears when compared to previous years, the NIS, based on the nature of its activities, is exposed to a high risk of errors and irregularities. Therefore, MLSS should take steps to ensure that bank reconciliations are prepared in a timely manner and kept current.

3. **Weaknesses in the oversight of compliance activities may undermine the MLSS's effort to increase compliance.** Lack of documented operating procedures combined with weak oversight of the Compliance Unit reduces the ability of the MLSS to ensure it increases the level of compliance among contributors.

a) The system implemented by MLSS to indentify total delinquency was not working as intended. As a result, the MLSS was unable to provide us with the population of non-compliant contributors and value of arrears. We also found that while the MLSS relied on the reports from the Parish Offices to ascertain the arrears information, no system was implemented to ensure that the Parish Offices complied with reporting responsibilities. Consequently, for the quarters ended March 2015, July 2015 and September 2015, only four, six and three, respectively of the 13 Parish Offices had submitted reports. The MLSS has since indicated that the Ministry is in the process of conducting an island wide survey to determine the number of employers and contributions owed.

b) Additionally, we found that the MLSS only examined non-compliant contributors for Kingston and St Andrew. The audit also found that the MLSS was taking up to three years to pursue arrears with a value of $1.3 billion from 342 employers. From our sample, we noted that the MLSS also failed to apply the requisite 20 percent interest as prescribed by the National Insurance Regulation to arrears totalling $3.6 million. In addition, the MLSS did not issue temporary receipts for $31.9 million it collected from 31 employers.

c) In 2013, MLSS established a Waiver Committee to review applications for waiver on interest charged on arrears and make recommendations to the Permanent Secretary for approval. MLSS did not present the minutes of the meetings where interest waiver totalling $8.2 million was recommended and subsequently approved, for seven employers. Consequently, we were unable to determine the basis on which the Waiver Committee submitted the recommendations to the Permanent Secretary.

Recommendations

We strongly suggest that the Ministry of Labour and Social Security consider the following recommendations to improve the overall management of the National Insurance Scheme.

1. We urge MLSS to immediately implement controls over the pension payment process. This should include a robust system of reconciliation, segregation of duties, thorough documentation and the implementation of rigorous monitoring and reporting mechanisms.

2. The MLSS should develop, document and implement strategies that will strengthen the compliance activities and standardized practices across Parish Offices. A comprehensive and robust system should also be implemented to identify delinquent employers through periodic verification of payments and annual returns submissions and consistent monitoring.

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Part One

Introduction

1.1 The National Insurance Scheme (NIS) is managed by the Social Security Division within the Ministry of Labour and Social Security (MLSS). The NIS was established on April 4, 1966 with the passing of the National Insurance Act, 1965. The NIS is a compulsory contribution social security scheme, which offers financial protection to the worker and his/her family against loss of income arising from injury on job, incapacity, retirement and death of the insured.[2] As shown in **Figure 1,** pensions and various grant benefits are provided to contributors.

Figure 1 Pension benefits per type 2011-12 to 2014-15

Type	2014-15	2013-14	2012-13	2011-12
Old Age	76,291	73,491	69,725	70,249
Invalidity	6,423	6044	5,539	5,475
Widows	16,975	16,748	16,261	16,753
Widowers	2,158	1,988	1,807	1,819
Funeral Grant	6,961	-	-	-
Employment Injury Benefit	176	0	0	257
Maternity	11	-	-	-
Sugar Worker	23	26	26	50
Special Anniversary	10	14	20	92
Orphan/Special Child	62	66	66	70
Disablement		1474		
Total	**109,090**	**99,851**	**93,444**	**94,765**

Source: *Extracted from NIS Annual Reports 2011/12 to 2014/2015*

1.2 The objectives of the Social Security Division are to among other things:[3]

i. Modernize and improve the administration of the Social Security System for more efficient operation;
ii. Ensure the operation of an efficient, objective and transparent Beneficiary Identification System (BIS) for social assistance;
iii. Expand coverage under the National Insurance Scheme by ensuring compliance, in accordance with the provisions of the National Insurance Act ; and
iv. Ensure prudent management of the National Insurance Fund for long-term sustainability and provision of improved benefits.

[2] http://www.mlss.gov.jm
[3] Annual Performance Report 2013-2014 page 3-4

NIS Financing

1.3 The NIS is funded through contributions of employees, self employed persons, voluntary contributors and investment income generated from the activities of the Investment Secretariat and the National Insurance Board (NIB). These monies should be lodged to the National Insurance Fund (NIF) in keeping with Section 39 of the National Insurance (NI) Act.

1.4 Review of the NIF financial statements for financial years 2010/11 to 2013/14 revealed that although NIS contributions steadily increased, the NIS benefit payments made were in excess of the contributions collected **(Figure 2).** Consequently, payments of benefits, NI Gold and administrative expenses were supplemented by investment income generated by the Secretariat.

Figure 2 Net Income

Details	2010-11 ($'000)	2011-12 ($'000)	2012-13 ($'000)	2013-14 ($'000)	2014-15 ($'000)
Investment & Other Income	5,472,812	6,850,216	6,071,051	7,311,188	6,652,929
Contributions NIS	7,621,775	9,454,893	9,652,978	11,990,720	12,995,580
Total Income	**13,094,587**	**16,305,109**	**15,724,029**	**19,301,908**	**19,648,509**
Payments NIS Benefit	(10,405,122)	(11,045,000)	(11,859,256)	(14,213,008)	(14,883,679)
Payments NI Gold	(383,802)	(408,219)	(423,797)	(482,591)	(499,984)
Administrative Expenses	(584,663)	(568,841)	(704,996.00)	(904,232)	(859,323)
Net Income	**1,721,000**	**4,283,049**	**2,735,980**	**3,702,077**	**3,405,523**

Source: NIF Audited Financial Statements

Vision and Mission Statement

The MLSS's vision is to

Be the premiere Ministry contributing to national development through the provision of efficient and effective labour and social security services within the context of a globalized economy.

The MLSS's mission is to

Promote a national productivity culture, a stable industrial relations climate, an efficient labour market and effectively managed social protection programmes particularly for the most vulnerable, within the framework of the decent work agenda.

Audit Objective, Scope and Methodology

1.5 We conducted an activity based audit to determine whether the MLSS is effectively managing the National Insurance Scheme. The audit was planned and conducted in accordance with INTOSAI performance audit standards. The planning process involved gaining a thorough understanding of the operations of NIS and developing an issue analysis which focused on the primary functions of the NIS. Our assessment was based on the review of internal and external documents, interviews with staff and analysis of data provided by the MLSS and NIF. Our audit covered the five-year period 2010-11 to 2014-15. We also considered relevant information outside the audit period. The audit review focused mainly on corporate governance practices and payments of NIS benefits.

Part Two

Governance and Pension Monitoring Systems

2.1 In this section of the report we seek to determine whether MLSS has in place effective corporate governance mechanisms that would allow for strategic direction and effective oversight of the pension process. The effectiveness of corporate governance would be manifested in the extent to which MLSS has established and implemented formal procedures and internal control systems that would improve accountability.

2.2 We expect MLSS to establish robust mechanisms to safeguard pension funds and to ensure that the resources under their stewardship are used economically, efficiently and effectively. While steps have been taken to address some weaknesses identified in previous audits, MLSS have not been faithful in correcting the pervasive weaknesses in governance that were formally brought to their attention from as far back as 2011.

2.3 Despite discovering fraudulent practices in previous years, MLSS still did not implement a proactive strategy to mitigate the pension process against fraud risk.

Management not proactive in addressing internal control and system weaknesses

2.4 MLSS had not taken steps to respond to internal audit reports detailing systematic weaknesses and the lack of robust control mechanisms. The main purpose of Internal Audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. We found that MLSS had yet to respond to 27 issues concerning internal controls and system weaknesses identified by the internal auditor from as far back as December 2011. For example, MLSS had not corrected breaches of the National Insurance Regulations regarding issuance of agreements and compliance letters. Further, MLSS did not implement the internal auditor's recommendations that could reduce the inherent risk of loss of valuables returned by the post office or pensioners. **Figure 3** shows a summary of NIS specific internal audit findings to which management has not responded.

Figure 3 NIS specific internal audit findings

Audit report for quarter ending	Finding	Management response as at Nov 2015
Dec 2011	Breach of the NIR regarding issuance of Agreement and Compliance letters	Outstanding
March 2012	Overpayment to pensioners $1,921,216	Outstanding
Dec 2012	(i) Operations with annual expenditure of $408 million without a contract (ii) No evidence of internal check on documents presented by Sagicor for reimbursement	Outstanding
March 2013	(i) $128 million paid to Post and Telecommunications Department (PTD) without verification (ii) Stamps valuing $302.5 million issued to PTD (3/8/2010 – 30/1/2013) without reconciliation	Outstanding
Dec 2013	Absence of supervisory review resulting in an officers holding over 266 foreign currency bank drafts valuing approximately $17 million for approximately 5 months	Outstanding
March 2014	(i) At Dec. 2014, 321 of 674 applications recommended by the Ministry in 2013 had not been processed for payment (ii) Incorrect assessment of visits recorded on IS 1 cards. (iii) Inconsistency in treatment of interest calculation in agreements: (a) $2.3 million in interest was excluded from 11 of 16 agreements examined (b) Entity X paid outstanding contribution of $9 million for May – Dec 2011 however interest of $1.8 million was not included in the computation (iv) Employer X with outstanding contribution of $7.5 million and no payment arrangement was issued with clearance letter issued explicitly indicating the existence of payment arrangement.	Outstanding

Source: *Extract from MLSS's Audit Committee Report October 10, 2015*

2.5 MLSS subsequently indicated that draft responses were submitted to the Permanent Secretary in September 2015 and were submitted to the Chief Internal Auditor and the Chairman of the Audit Committee in November 2015. However, the timeline for implementation of the internal auditor's recommendations remain outstanding.

Inadequate controls over pension process

2.6 We found major weaknesses in the control exercised over returned and blank pension books. Despite discovering fraudulent practices and our previous reports[4] on weaknesses in this area, MLSS still did not implement a proactive strategy to mitigate the pension process against fraud risk. For example, MLSS did not maintain a perpetual inventory of pension vouchers to represent the number of pension books issued and balance on hand. Further, the requisite formal handing over procedures were not conducted at the time the officer with responsibility for custody of the blank vouchers was changed in June 2015. We also found that MLSS did not conduct any reconciliation to verify the returned pension books and those identified by its Management Information System (MIS) Unit as being cancelled. In one instance, a pension book valued at $61,984 originally identified as being cancelled on the log sheet we identified as active on the system; yet despite our requests MLSS was unable to present the purportedly cancelled book for audit scrutiny.

Absence of Monitoring System for vouchers encashed at the Post Offices

2.7 Our review of the audited financial statements of the National Insurance Fund (NIF) and Post and Telecommunications Department's (PTD) final statements for the financial years 2011/12 to 2014/15 revealed that approximately 52 percent of the funds paid out by NIF were paid to the PTD to facilitate the encashment of pension vouchers at Post Offices. The remaining pension payments were made directly to a local bank or designated overseas bank. Our audit revealed that for the financial years 2010/11 to 2014/15, the NIF advanced $32.5 billion to the PTD for encashment of pension vouchers. The MLSS carried out no reconciliation that would allow them to verify the accuracy of the amounts paid out as reported by the PTD. Further, the final report of PTD at March 2015 showed a balance of $98 million due to NIF. Also, MLSS is required to pay a service charge for each pension voucher encashed. The accuracy could not be determined as MLSS did not carry out the required reconciliations or present a formal contract outlining the terms and conditions of the arrangement. Therefore we could not determine the conditions under which MLSS paid $239.6 million as service charge to the PTD for the financial years 2011/12 to 2014/15.

Weaknesses in the internal controls over the Pension Bank Reconciliation Process

2.8 MLSS operates ten bank accounts for pension payments. We found that despite being a key control tool to detect payment irregularities, bank accounts were not being reconciled on a timely basis. At the time of this report, seven auxiliary and three foreign currency accounts had been reconciled up to August 2015. The audit also noted that there was no segregation of duties in the reconciliation process and there was no evidence of the bank reconciliations being reviewed by a senior officer. Whilst, we note an improvement in the status of the arrears when compared to previous years, the NIS, based on the nature of its activities, is exposed to a high risk of errors and irregularities. Therefore, MLSS should take steps to ensure that bank reconciliations are prepared in a timely manner and kept current.

[4] Paragraph 50.3 of the Auditor General's 2008-09 Annual Report and Performance audit report dated June 2011 - Strategy in Preventing, Detecting and Investigation Benefit Fraud.

Significant deficiencies in the control over returned pension vouchers

2.9 The matter regarding returned pension cheques was previously reported in the Report of the Auditor General for the financial year ended March 31, 1993 outlining a litany of weaknesses associated with the management of the NIS. Among the weaknesses reported was the inadequacy of the internal controls over returned pension cheques. Though assurances were given by the Ministry at that time that steps were taken to address the issues, 22 years later, our audit revealed that the weaknesses persist. We observed that MLSS does not have any documented procedure to guide the process of accounting for and cancelling returned pension vouchers. We found no evidence that MLSS monitors the process to detect and minimise the risks involved. As at September 2015, the Registry Unit within the MLSS had in its possession 513 returned pension books, 318 of which valued $11.8 million and 277 returned bank drafts and cheques valuing over $22.7 million that had not been passed on to the relevant department for cancellation.

Pension vouchers may be returned to the MLSS if a pensioner dies, fails to collect pension books, cheques or drafts, where the pension book has the incorrect rate, stale-dated or if the pensioner becomes ineligible to receive the benefit. The MLSS's registry is responsible for logging the returned pension books, bank drafts and cheques. Pension books are sent to the Management Information System Unit for cancellation, while bank drafts and cheques are returned to the Fund Account Unit.

2.10 Additionally, MLSS did not record cheques and bank drafts totalling $16 million that had been returned for the months of July to September 2015. Weaknesses in oversight resulted in the inability of MLSS to account for 334 pension vouchers valued at $1.3 million that were returned from one parish office.

Life certificate not being faithfully used to verify the existence of local pensioners

2.11 According to MLSS, pensioners are required to submit proof of existence by completing a life certificate every six months. These certificates are used to update monthly the Validation Listing[5] on the status of the pensioner. Approximately 75,000 pensioners benefit from "old age pension". We found no evidence that MLSS verifies life certificates submitted against the Validation Listing for the local pensioners. We also did not see where the most recent life certificate for a sample of 228 local pensioners were updated to the National Insurance Management System (NIMS) or included on the pensioners' files. MLSS advised that they have challenges in maintaining life certificates due to the lack of manpower to update the System and file life certificates. We found that although MLSS was advised in two instances of the death of a pensioner in 2014, payments were still being made. The MLSS's failure to update the NIMS and indicate on the Validation Listing which certificates were checked, limited our ability to assess how MLSS ensured that pensioners who were being paid were in fact alive. MLSS indicated that in the interim, life certificates are logged using excel spreadsheet and thereafter the information cross matched with the database.

[5] The Validation Listing is a control mechanism used to determine whether a pensioner should be paid.

Lack of control over Pension Payment process resulted in overpayments totalling $10.1 million

2.12 Section 12 (2) of the National Insurance Act states that:

> *Where the spouse was in receipt of old age or invalidity pension immediately prior to death or would have been entitled so to receive such pension… "his or her claim had been undertaken or completed, the relevant contribution conditions for widow's or widower's pension shall be deemed to be satisfied.*

2.13 We found that contrary to the Law, MLSS continued to pay over pension benefits without conducting the requisite due diligence. This resulted in improper payments of $10.1 million to 152 pensioners for the period 1999 to 2015. Included in the amount were duplicate payments made to 68 pensioners totalling $5.5 million and overpayments totalling $2.7 million were made due to change of the Date Awarded Benefit.[6] The remaining overpayments totalling $1.5 million were made for varying reasons. While the MLSS has made some recoveries, there is no evidence that the MLSS has implemented a robust system to prevent the overpayment.

Weakness in leave management resulting in vacation leave not taken for up to 17 years

2.14 Section 7.3 (viii) of the Staff Orders for the Public Service states:

> Permanent Secretaries and Heads of Departments are required to administer the granting of leave in a manner which balances employee well-being with the provision of quality of service to the public.

2.15 Our review of the vacation leave records for 30 officers involved in the pension process showed that five officers in key positions did not proceed on vacation leave for between five and 17 years **(Figure 4).** Instead, MLSS repeatedly denied the officers' request to proceed on vacation leave and either allowed them to accumulate or paid them salary in lieu of vacation leave during the period. We found that four of the five officers were from the NIS Fund Account Unit which has responsibility for the payment of pension benefits. MLSS reported that this policy has since been changed and that vacation leave applications for three officers have since been approved.

[6] Change of Date: this occurs when pensioners are initially awarded a pension based Contribution as at date of processing, claims, but subsequently, additional information regarding additional contributions are obtained

Figure 4 Vacation Leave not taken for over 17 years

Names	Position	No. of Years
Employee 1	Fund Accountant	5 years 7 months
Employee 2	Parish Manager	15 years 3 months
Employee 3	Reconciliation Officer	17 years 3 months
Employee 4	Accountant	5 years 8 months
Employee 5	Accountant	7 years 3 months

Source: AuGD analyses of MLSS vacation leave records

Part Three

Compliance

3.1 In this section of the report, we evaluate whether:

- The compliance strategies employed by the MLSS are effective;
- There are procedures in place to guide the compliance process; and
- There is effective oversight of the compliance process.

3.2 Non-compliance occurs when a contributor fails to file Annual Return and remit NIS Contributions on the prescribed due dates. MLSS is mandated under Section 45 of the NI Act to monitor and enforce penalty where employers are delinquent in the remittance of NIS Contributions. We expect MLSS to have in place an effective system to promptly identify and monitor non-compliant contributors. Section 39 of the National Insurance (NI) Act provides for all contributions to be paid into the National Insurance Fund.

Status of Non-Compliance Unknown

3.3 MLSS does not have a complete list of total outstanding NIS contributions owed by employers. MLSS indicated that each parish office maintains a list of delinquent employers and the value of arrears and the parish offices are required to submit this information in the quarterly reports. Whereas parish officers are required to submit quarterly reports, which should include the level of delinquency, this list was not faithfully submitted to the MLSS and therefore MLSS could not readily state the total outstanding contributions. Consequently, we were unable to determine the level of indebtedness to the Fund. The lack of comprehensive knowledge of the extent of delinquency by employers inhibits MLSS's ability to develop appropriate mechanisms that would improve the rate of compliance and provide a more structured framework for the sustenance of the scheme.

3.4 The Compliance Unit has island-wide jurisdiction in ensuring employers comply with the NI Act. MLSS currently has six compliance officers that are assigned island- wide. However, we found that compliance activities were only being carried out for employers located within the Kingston and St. Andrew area. MLSS indicated that the restriction on mileage allowance impacted the level of compliance activities undertaken outside of the Kingston and St. Andrew area. This deficiency was compounded by the Parish Offices' tardiness in submitting the quarterly reports to the MLSS.

3.5 We were able to glean from reports submitted by four of the 13 Parish Offices that the outstanding contributions as at March 2015 amounted to $137.2 million for 409 delinquent employers.

3.6 The MLSS subsequently advised us that compliance activities were now being conducted island-wide. MLSS also stated that among other corrective measures, it had deployed compliance officers from the Compliance Unit to parish teams, established the compliance network and assigned an officer to execute specific compliance duties in each parish. We attempted to test the veracity of the representations by reviewing Itineraries, Compliance Reports and travelling claims. These reviews revealed that compliance duties were still only being undertaken in the parishes of Kingston and St. Andrew.

Absence of Payment Agreements

3.7 One of the first tasks that the compliance officer should perform after being referred a non-compliant employer is to determine the existence of a payment agreement and whether there is compliance with the agreement or to establish an agreement. The agreement would require the employer to make payment over a specified period. We found that MLSS did not enter into payment arrangement with 19 non-compliant employers whose arrears totalled $1.9 billion.

Payments not in keeping with payment agreements resulting in shortfall totalling $39.5 million

3.8 We noted that for 30 employers for which there were payment agreements, 14 were not honouring the agreement resulting in the MLSS not collecting the expected $32 million as at August 2015. Though the MLSS noted that eight of the cases were the subject of court action, the files presented only confirmed five.

3.9 Inspectors are appointed public officers of the MLSS tasked with the responsibility of giving effect to the provisions under Section 4 of the NI Act which states:

> Contributions shall be payable by insured persons and by employers." Section 38 (1) (b) and (c) of the NI Act also stipulate: "the Inspector shall have power to make such examination and inquiry as may be necessary for ascertaining whether the provisions of this act or the regulations are being or have been complied with and to exercise such other powers as may be necessary for carrying out this act and the regulations into effect."

3.10 Since January 2015, MLSS has assigned non-compliant employers cases to the Inspectors from the Kingston and St Andrew (KSA) Parish Office. Consequently, Inspectors entered into payment agreements with 24 non-compliant employers. We reviewed all 24 case files and found that 15 employers did not honour the terms of the payment agreement resulting in payment shortfall to the MLSS amounting to $7.4 million as at August 2015. Further, MLSS did not add the stipulated 20 per cent interest to the principal balance of $3.6 million for six of the non-compliant employers. MLSS indicated that three employers have since settled their arrears; however documents submitted reflected clearance of arrears for only one employer.

Temporary receipts not issued for monies collected from Non-Compliant Employers totalling $31.9 million

3.11 Section 32 of the Financial Regulations stipulates that:

> Except where otherwise provided, officers collecting public funds shall issue official receipts on the form prescribed or approved by the Financial Secretary for all sums collected.

We noted that during their investigations, MLSS Inspectors would collect payment from employers for NIS arrears. MLSS would then submit these amounts to the TAJ who would issue the official receipt. However, we found that MLSS did not provide the Inspectors with pre-numbered temporary receipt books. Instead, the Inspectors would issue internally produced receipts to employers that were not pre-numbered and approved by the Financial Secretary. We found that MLSS did not issue temporary receipts to 31 employers who made payments totalling $31.9 million of which $58,300 was in cash. In its' response, MLSS stated "temporary receipts were created by the Compliance Unit and issued to employers as an interim measure to acknowledge contributions paid pending the official receipt from TAJ." However, we found no evidence to support this representation.

Inadequate maintenance of records

3.12 Inspection Cards (IS1) are prepared for each employer detailing information such as the result of the Inspectors' visit(s), payment made, referral to Compliance Unit and supervisors review. We attempted to examine the work carried out by Inspectors for the 50. However, MLSS did not submit Inspection cards for 33 employers or 66 per cent and indicated that it was unable to locate them. Of the 17 employers for which IS Cards were submitted, we could not obtain reasonable assurance of the quality of the work conducted by the Inspectors as MLSS indicated an inability to confirm whether all cards relating to each contributor was provided for review as some could not be located due to improper filing and misplacement. MLSS accepted the finding and pledged to improve maintenance of same.

> MLSS is required to log all cases referred to the Compliance Unit. Information regarding the referral should first be documented on the IS1 Cards, then entered in the Inspector Referral Log Book followed by the Compliance Log Book when cases are transferred.

3.13 We found that MLSS did not consistently maintain these records. For example, we noted that neither the Inspector Log book nor the IS1 Cards were updated for ten and eight employers, respectively. Additionally, the Compliance Log Book did not contain records for six employers that were referred to the Unit. We found that the last entry made in the Inspector Log Book was on September 25, 2012. As result, we were not able to ascertain the time lapse between when files were referred and commencement of work. MLSS accepted the finding and advised that the updates would be completed by December 2015.

Missing itineraries and reports for Inspectors

3.14 Inspectors assigned to the KSA Parish Office are required to submit weekly itineraries (proposed plans and actions) and a report of work done each week for approval and review. We requested the Itinerary Reports file for each of the 25 Inspectors and selected one report per Inspector. We found that of the 25 reports reviewed 17 (68 per cent) did not contain the itineraries relating to the work carried out. Consequently, we could not determine how MLSS satisfied itself that the assigned investigations were conducted by the Inspectors and in accordance with the required standard. Further, we could not assess the level of work carried out by the Inspectors or the method used to assess their performance. Whilst MLSS indicated that memoranda were issued reminding Inspectors of the requirement to submit Itineraries and that travelling claims would not be approved if these were not submitted, our review revealed that there was no improvement.

Absence of documentation to verify approval process for Waivers on Interest totalling $8.2 million

3.15 In 2013, MLSS established a Waiver Committee to examine applications for waivers on interest. The Terms of Reference for the Waiver Committee states that the Committee should meet every other month, or as deemed necessary to discuss requests for waivers and make recommendations for waiver to the Permanent Secretary. Non-compliant employers can apply for a waiver of the 20 percent interest levied on their NIS arrears per annum. We requested the schedule of waivers approved for the financial years 2011/12 to 2014/15. MLSS submitted a list of 15 employers who were granted waiver on interest totalling $23.7 million.

3.16 We also requested the minutes of all meetings held by the Waiver Committee. However, MLSS indicated that only four sets of minutes could be located. MLSS also advised that they did not have the minutes of meetings at which applications for $8.2 million were recommended for approval. Consequently, we could not determine whether waivers submitted to and subsequently approved by the Permanent Secretary on behalf of seven employers totalling $8.2 million were subjected to the review of the Waiver Committee. Additionally, we found that included in the waiver approvals of $8.2 million were two employers who did not submit the requisite audited financial statement or bank statements as required by the Terms of Reference of the Waiver Committee.