

Part Six

Corporate Governance - INSPORTS

Executive Summary

Vision 2030 National Development Plan (NDP) recognises sports as one of the industries, which will contribute to Jamaica having an internationally competitive industry structure. The Institute of Sports (INSPORTS) is critical, given that its mandate is *“to unearth talent and facilitate the development of sport in schools and communities while channelling the talent into national sport development programmes in order to develop athletes to world class standards.”* INSPORTS focuses on development in six sporting disciplines, namely; track and field, football, netball, cricket, baseball and basketball.

In November 2011, I tabled in Parliament a special audit report on INSPORTS, which highlighted various corporate governance deficiencies, improper payment of emoluments and procurement breaches. However, a subsequent special audit review revealed that the concerns raised, have persisted. This report comprises the findings of the special audit, which revealed weaknesses in INSPORTS corporate governance, financial and operational practices, which contributed to a break down in internal controls, thereby increasing INSPORTS’ risk exposure. The audit covered the financial years 2012/13 to 2014/15. The audit revealed a number of deficiencies, which have since been brought to the attention of the management of INSPORTS, and the portfolio Ministry of Culture, Gender, Entertainment and Sport (MCGES).

The key findings are outlined below.

Key Findings

Corporate Governance

INSPORTS’ Governance Practices were inconsistent with the Public Bodies Management & Accountability (PBMA) Act, Corporate Governance and Accountability Frameworks and Ministry of Finance and the Public Service Circulars.

- 1. INSPORTS breached various sections of the PBMA Act, despite assurances given to the Public Accounts Committee (PAC) in July 2013, to comply with the requirements of the Act.** INSPORTS did not prepare and submit to the responsible Minister, the required quarterly, half-yearly and annual reports, in breach of Section 23 of the Public Bodies Management and Accountability (PBMA) Act. INSPORTS is yet to implement our recommendation to prepare and/or submit, without undue delay, to the portfolio Minister all outstanding annual reports and audited financial statements for tabling in

the Houses of Parliament. INSPORTS has never submitted Annual Reports, and the last audited financial statement prepared was for the financial year 1991/1992. INSPORTS, by its non-submission of the statutory Annual Report and Audited Financial Statements for 23 years, has deprived the portfolio Ministry and Parliament of its oversight function regarding the financial and operational performance. INSPORTS failure not only breached the Law, but is worrying from a fiduciary responsibility position, given that its accounting records showed that for the six-year period 2005-06 to 2010-11, total revenues amounted to \$1.4 billion, while expenditure totalled \$1.5 billion.

While INSPORTS' Board established a Finance and Audit Committee, it did not engage an Internal Auditor to undertake the necessary review of internal controls as part of its corporate governance responsibility. The lack of proper controls of financial management, including maintenance of accounting records also contributed to INSPORTS' inability to enable the preparation of financial statements for the last 23 years.

2. **INSPORTS Board did not develop “specific and measurable objectives and performance targets” as required by Section 6(1) (c) of the PBMA Act.** INSPORTS did not include any performance targets in the Operational Plan for 2012-13. INSPORTS outlined 27 performance targets, in its 2013-14 Operational Plan, for the promotion and development of seven sporting disciplines. However, there was no evidence such as minutes or annual reports, to indicate that INSPORTS assessed the achievement of targets set for sports promotion and development. Hence, we could not assess whether these targets were achieved or whether the outcomes informed its 2014-15 Operational plan. Therefore, we were unable to ascertain how INSPORTS satisfies itself that: it is fulfilling its mandate to develop sports in schools and communities; and contributing to the achievement of the Vision 2030 National Strategy for sports development in Jamaica.

3. **INSPORT's Board operated without a Charter³⁶, while its sub-committees did not have in place terms of reference (TOR) to define the roles and responsibilities of the directors, including their responsibilities for corporate governance, as required by the GoJ Corporate Governance Framework.** The oversight of INSPORTS operations was impaired by the failure of the Board and its sub-committees, to convene regular meetings to effectively direct and monitor the strategic and financial operations of INSPORTS. For example, during the financial year 2015-16, the Board only met twice, in May and October 2015 and the Board met seven times in each of the financial years 2013-14 and 2014-15 and six times in 2012-13. To its credit, INSPORTS Board established the Corporate Governance and Human Resource sub-committees in 2013 and a Finance and Audit Committee in 2012. However, we found no evidence that the Finance and Audit Committee met or took action to protect the financial assets and report on the effectiveness of the administrative and accounting controls despite its fiduciary duty to do so.

³⁶ Recommended Practice No. 1 (PRINCIPLE 2 -ROLES AND RESPONSIBILITIES OF THE BOARD)

4. **Between June 2013 and February 2015, INSPORTS re-engaged the services of nine retired officers without the prior approval of the Ministry of Finance and the Public Service (MoFPS) as required by Section 20 of the PBMA Act and MoFPS Guidelines.** The officers were engaged with annual salaries and travelling allowances totalling \$14.02 million. We observed that it was not until February 25, 2015 that the Administrative Director sought approval from the MoFPS for engagement of the officers. INSPORTS sought approval in February 2015 and MoFPS granted retroactive approval for four of the nine officers in March 2015.

The new Board to govern the operation of the Institute has been in place since July 2016. An official meeting with the Board was held in July 2016. Immediate training and capacity building will be delivered to the new Board of Directors in relation to the Corporate Governance Framework and other relevant GoJ legal frameworks, policies and procedures. Institution of Board Charter, establishment of requisite Sub Committee as well as terms of reference for all sub-committees will also be incorporated.

Source: Letter from MCGES (Portfolio Ministry) dated May 24, 2016 in response to AuGD draft report.

Weaknesses in Internal Controls

INSPORTS did not employ strong systems of internal controls over its accounting, financial and human resource practices.

5. **INSPORTS failed to develop and implement adequate standard operational procedures (SOPs) and procedural manuals to guide the administration of its financial and human resource management activities.** At the time of our audit, INSPORTS Financial Policies and Procedures Manual and the Human and Resource Manual were in draft. This may have contributed to a general lack of accountability and transparency over the purchase of goods and services whereas an approved document would have demanded the required level of enforcement. INSPORTS did not provide adequate documentation to support 116 cheque payments totalling \$2.03 million made during the period March 2013 to May 2014. Also, INSPORTS failed to present to us vouchers in relation to payments made during 2015-16. Further, weaknesses in the maintenance of accounting records at INSPORTS prevented us from analysing the Institute's outstanding payables and statutory returns. For example, INSPORTS failed to present a schedule of aged payables and outstanding statutory payments despite repeated requests.
6. **INSPORTS did not implement a proper inventory management system to account for the receipt and storage of sporting gears.** INSPORTS provided data, which showed that over the period, April 2012 and October 2015, the Institute purchased sporting gears valuing \$12 million for distribution to various sports clubs, schools and other community

organisations. INSPORTS noted that it also received sponsorship in the form of sporting gears from corporate Jamaica. However, INSPORTS was unable to state the level of inventory, as there was no inventory management system to account for the receipt, storage and distribution for items purchased and those received through donations. We also noted that INSPORTS did not have in place, a system to account for all tickets distributed to patrons for admission to sporting events held at the National Stadium.

A Corrective Action Plan is being developed to address the weaknesses identified. This included drafting manuals including a Human Resource Manual, Inventory Policies and Procedures Manual, Ticket Distribution and Gate Receipts Procedures Manual. The financial policies and procedures manual will be improved where appropriate. The current inventory management system has been improved in keeping with the AGD's recommendations and the distribution register has been amended to include the pertinent information recommended by the AGD. A form, which can act as a stores record is to be used to document all goods purchased or donated, and an officer of the Agency has been assigned responsibility to ensure these records are kept and management will periodically monitor them. Additionally, an update of the inventory was done of the sports gear bought by the entity and all donations since the audit have been issued. The draft Inventory Policies and Procedures Manual is awaiting approval.

Source: Source: Letter from MCGES dated May 24, 2016 (Portfolio Ministry) in response to AuGD draft report.

Recommendation

INSPORTS need to take immediate steps to comply with the requirements of the PBMA Act in accordance with the AuGD's earlier recommendations. INSPORTS should make every effort to implement internal controls in order to address the current financial and operational deficiencies and improve its Governance practices.

Introduction

Background

- 6.1** The Institute of Sports Limited (INSPORTS) was established on April 1, 1978 and falls under the portfolio responsibility of the Minister of Sports as such is now under the Ministry of Culture, Gender, Entertainment and Sport (MCGES). The operation of INSPORTS is managed by a 15-member Board of Directors and is guided by the Companies Act Jamaica, Financial Administrative and Audit (FAA) Act, the Public Bodies Management and Accountability Act (PBMA), GoJ Corporate Governance Framework for Public Bodies and other applicable laws and regulations governing the operations of Ministries Departments and Agencies (MDAs).

INSPORTS mandate

- 6.2** INSPORTS mandate *“is to unearth talent and facilitate the development of sport in schools and communities while channelling the talent into national sport development programmes in order to develop athletes to world class standards.”*

Governance at INSPORTS

- 6.3** The Board's role is to oversee the management and governance of INSPORTS in ensuring transparency and accountability in the operational and financial activities of the entity. Section 6 of the PBMA Act requires boards of public bodies to, ‘take such steps as are necessary, for the efficient and effective management of the public body; ensure the accountability of all persons who manage the resources of the public body; develop adequate information, control, evaluation and reporting systems within the body; and develop specific and measurable objectives and performance targets for that body.’

Poor Governance and Monitoring

INSPORTS failed to submit required reports to responsible Minister

- 6.4** We found that INSPORTS did not prepare and submit to the responsible Minister, the required quarterly, half-yearly and annual reports, in breach of the Public Bodies Management and Accountability (PBMA) Act. Section 23 of the PBMA Act as well as

Parts II and III of the Second Schedule, outline the detailed information to be provided to the responsible Minister to allow for proper oversight and accountability.

- 6.5** Further, INSPORTS has not caused to be prepared, audited financial statements for 23 years, in breach of Section 3 of the PBMA Act. The last audited financial statement was for the financial year 1991/1992. Audited financial statements are the main source of accountability of management's performance and provide reasonable assurance over the accuracy of financial statements.
- 6.6** INSPORTS' failure to prepare audited financial statements was the subject of our special audit report (dated November 2011), which recommended that INSPORTS should prepare and submit, without undue delay, to the portfolio Minister all outstanding annual reports and audited financial statements for tabling in the Houses of Parliament. INSPORTS has not engaged the service of an external auditor to be able to submit audited financial statements to ensure compliance with the PBMA Act. The inaction by INSPORTS management and the Board have deprived the portfolio Ministry and Parliament of its oversight function regarding the financial and operational performance. INSPORTS failure not only breached the Law, but is worrying from a fiduciary responsibility position, given that its accounting records showed that for the six-year period 2005-06 to 2010-11, total revenues amounted to \$1.4 billion, while expenditure totaled \$1.5 billion.

The Ministry is actively considering the reassignment of an officer from another Agency within the Portfolio of the Ministry who has the requisite skills and track record to act as a project manager to oversee the delivery of up to date financials and annual reports for INSPORTS.

Source: Letter from MCGES (Portfolio Ministry) dated May 24, 2016.in response to AuGD draft report.

- 6.7** The absence of the related plans and reports may impact the monitoring arrangements by the portfolio Ministry as outlined in the Cabinet-approved Corporate Governance Framework. Principle 15 states that:

The Permanent Secretaries as chief advisors to the Ministers are required to monitor performance against expected results, manage risks and advise/inform the Minister accordingly on Public Bodies, which operate within the portfolio responsibility of the Ministry. They also ensure coordination among Public Bodies within the Ministry's portfolio, which enhances policy coherence. They should know what is happening in the Public Bodies in order to assess whether the strategic objectives of the Ministry are being met through the Public Bodies.

Source: GoJ Corporate Governance Framework.

- 6.8** INSPORTS has not submitted any Board Minutes to the Permanent Secretary in compliance with Decision 17 of the Cabinet approved GoJ Accountability Framework for Senior Officers (January 2010).

INSPORTS Board’s failure to meet regularly denies the entity the benefit of efficiencies to be derived from proper oversight

- 6.9** The Board’s role is to oversee the management and governance of INSPORTS in ensuring transparency and accountability in its operational and financial activities, as required by the GoJ Corporate Governance Framework for Public Bodies and the PBMA Act. However, this oversight responsibility may be impaired as the Board failed to hold regular meetings. We found that since the start of the financial year 2015-16, the Board has only met twice in May and October 2015. The Board met seven times in each of the financial years 2013-14 and 2014-15 and six times in 2012-13. (Figure 13).

Figure 13 Number of Board and sub-committee meetings held (Mar-12 to Oct-15)

Year	Months	No.
2015-16	May, October	2
2014-15	April; May; June; July; October; November, March	7
2013-14	May; July; August; September; November; December; January.	7
2012-13	April; May; June; January; February, March	6
Total		22

Note: *INSPORTS did not provide the minutes for meetings reportedly held March, May and Oct. 2015

Source: AuGD’s analysis of board minutes and information provided by INSPORTS

- 6.10** In addition, the Board is operating without a Charter³⁷, while its sub-committees did not have terms of reference to define the roles and responsibilities of the directors, including their responsibilities for corporate governance, as required by the GoJ Corporate Governance Framework. We observed that the Board complied with the recommended practice of the Corporate Governance Framework to establish appropriately constituted sub-committees to give oversight of specialized functions. The Board established a finance and audit committee in 2012 and corporate governance and human resource committees in 2013. However, the Board did not develop the required Terms of References for the committees, as required by the Corporate

³⁷ Recommended Practice No. 1 (PRINCIPLE 2 -ROLES AND RESPONSIBILITIES OF THE BOARD)

Governance Framework³⁸. In addition, we found that the sub-committees did not convene regular meetings to provide effective oversight and strategic management to INSPORTS. INSPORTS did not provide the minutes of meetings of the sub-committees, for the period March 2012 to October 2015, despite request. We observed that the minutes of Board meetings³⁹ made references to only three meetings of the Corporate Governance Committee and one meeting of the Human Resource Committee.

- 6.11** We found no evidence that the committee, which is critical to providing effective oversight of INSPORTS' financial and internal control activities, has ever met.

Section 9(1) of the PBMA Act states among other things that the audit committee shall: *"advise the board on practices and procedures which will promote productivity and the quality and volume of service; the extent to which the objects of the public body are being achieved; and the adequacy, efficiency and effectiveness of the accounting and internal control structure and systems of the public body."* The inactivity of the Board and its sub-committees denied proper oversight and scrutiny of INSPORTS internal control activities and may have contributed to the inefficiencies in the maintenance of accounting records and absence of evidence of the achievement of key performance targets.

The new Board to govern the operation of the Institute has been in place since July 2016. Management also indicated that an official meeting with the Board was held in July 2016 but was not able to confirm whether other meetings have been held.

Source: Letter from MCGES (Portfolio Ministry) dated May 24, 2016 in response to AuGD draft report.

INSPORTS did not provide the necessary evidence to substantiate the achievement of sports development targets

- 6.12** INSPORTS Board did not develop specific and measurable objectives and performance targets, as required by Section 6(1) (c) of the PBMA Act. INSPORTS did not include any performance targets in the Operational Plan for 2012-13. INSPORTS outlined 27 performance targets, in its 2013-14 Operational Plan, for the promotion and development of seven sporting disciplines. However, there was no evidence such as minutes or annual reports, to indicate that INSPORTS assessed the achievement of targets set for sports promotion and development. Hence, we could not assess whether these targets were achieved or whether the outcomes informed its 2014-15 Operational plan. INSPORTS' inability to provide sufficient relevant data of its operational performance outcomes prevented us from assessing its achievement of the targets set for sports development for 2012-13 and 2013-14. In addition, we found no evidence

³⁸ Recommended Practice No. 4 (PRINCIPLE 8: BOARD COMPOSITION) states that: "A Terms of Reference should be developed for each Board Committee."

³⁹ Board Minutes: February 20, 2013, December 12, 2013, January 29, 2014 and March 12, 2014.

that individual sports officers were assigned specific sports development target in order to achieve the overall targets as outlined in the 2013-14 Operational Plan. Sporting officers are required to, among other things, evaluate and monitor activities and projects using performance indicators and maintain records and produce written reports. However, INSPORTS failed to ensure that sports officers periodically track, measure and report on the outcomes of sporting programmes. Therefore, we were not certain as to how INSPORTS satisfies itself that: it is fulfilling its mandate to develop sports in schools and communities; and contributing to the achievement of the Vision 2030 National Strategy for sports development in Jamaica.

INSPORTS engaged nine retired officers without prior approval of the MoFPS

6.13 Between June 2013 and February 2015, the Administrative Director re-engaged the services of nine retired officers. The officers were contracted on annual salaries and travelling allowances totalling approximately \$14 million (**Figure 14**). The prior approval of the MoFPS was not obtained for the engagement of the officers and the payment of the related emoluments, as required by section 20 of the Public Bodies Management and Accountability (PBMA) Act and Ministry of Finance and the Public Service Circular No. 1626 dated April 06, 2010.

6.14 We observed that it was not until February 25, 2015, that the Administrative Director sought approval from the MoFPS for the engagement of the officers. MoFPS approval was obtained via letter dated March 6, 2015, granted approval for four of the officers to be employed with effect from April 1, and September 1, 2015 (**Figure 14**).

Figure 14 Contract Officers engaged prior to Board and MoFPS approval

Employee Name	Date of Contract	Date MoFPS Approval w.e.f	Salary	Travelling
Sports Officer 1	2-Jun-13	none	724,992	514,500
Sports Officer 2	26-Jun-13	1-Sep-15	724,992	514,500
Sports Officer 3	26-Jun-13	none	724,992	514,500
Sports Officer 4	27-Jun-13	1-Sep-15	724,992	514,500
Sports Officer 5	2-Jan-14	none	861,788	514,500
Sports Officer 6	21-Jan-14	none	861,788	514,500
Sports Coordinator 7	16-Jun-14	1-Sep-15	1,631,171	514,500
International Relations Administrator	10-Feb-14	none	1,499,251	514,500
Sports Officer 8	16-Feb-15	1-Apr-15	1,631,171	514,500
Total remuneration per annum			9,385,137	4,630,500

Internal Control Weaknesses

Section 6(1)(b) of the PBMA Act requires that every board develop adequate information, control, evaluation and reporting systems within the body. Further, Section 6(1)(a)(i) of the PBMA Act require Boards to take such steps as are necessary for the efficient and effective management of the public body.

6.15 Consistent with the Law, we expect that the INSPORTS Board should provide strategic direction to ensure that adequate systems are in place for the efficient and effective management of government resources and ensure that management:

- i. Develop appropriate SOPs and procedural manuals to guide the management and efficient utilisation of financial, human and other resources;
- ii. Implement internal controls over all assets, such as fixed assets, inventory and cash;
- iii. Prepare Accounting records, such as Payment and Journal Vouchers, Receipt/Ticket Books, Cash Book, General Ledger and Accounts Receivables and Payables.

INSPORTS failed to implement strong internal controls over its operations

6.16 We found that INSPORTS failed to employ strong systems of internal controls over its accounting, financial and operational practices to safeguard the Institute's assets from misuse. The prolonged weaknesses in the control systems, opens the Institute to material errors and other irregularities, which may go undetected for a considerable period. In addition, these weaknesses in the control system also impaired the proper oversight by the Board and the portfolio Ministry.

Absence of appropriate SOPs and procedural manuals

6.17 INSPORTS failed to develop and implement adequate standard operational procedures (SOPs) and procedural manuals to guide the administration of its financial and human resource management activities.

The Financial Policies and Procedures Manual to aid in improving the controls processes at the Institute has since been updated. Further, the Human Resource Manual has been prepared and is awaiting review and approval.

Source: Letter from MCGES (Portfolio Ministry) in response to AuGD draft report dated May 24, 2016.

INSPORTS not maintaining proper accounting records for payables

- 6.18** INSPORTS has in place the requisite payment / journal voucher and receipt books to account for expenditure and income earned. Funds lodged into, and expenses made from, designated bank accounts, were reconciled on a monthly basis, with Cash Book maintained by INSPORTS. Ledgers should also be maintained detailing current and non-current assets, amounts owed (liabilities) and capital/reserves held by INSPORTS. However, weaknesses in the maintenance of accounting records at INSPORTS prevented us from analysing the Institute's outstanding payables and statutory returns. For example, INSPORTS failed to present a schedule of aged payables and outstanding statutory payments despite repeated requests. This information should be maintained by INSPORTS and form part of the standard accounting and financial records.
- 6.19** The lack of proper controls of financial management, including maintenance of accounting records has contributed to INSPORTS inability to prepare financial reports to enable preparation of audited financial statements for the last 23 years. The absence of audited financial statements prevented the Board from benefiting from a formal review to provide assurance of the accuracy of the reported revenues and expenditure.

Supporting documentation for payments was insufficient

- 6.20** We reviewed a sample of 321 payment vouchers for the purchase of goods and services over the three-year period March 2013 to May 2014 totalling \$7.5 million. We were unable to sufficiently verify 116 payments totalling \$2.03 million, which underscores the deficiencies in controls previously identified. We observed that 79 of these payments, totalling \$1.2 million, were reportedly made to individuals for services provided at sporting events, such as security, rental of equipment, work at sports programme and field maintenance. However, these payments were only supported either by personal bills or letters signed by the sports coordinators/officers requesting payments. We were unable to determine the validity of the payments as the letters and bills were not presented with requisite information .
- 6.21** For example, a payment of \$35,000 was made to an individual to provide security services at INSPORTS Primary School Championships. However, the personal bill, supporting the payment described the nature of the service as, *"to provide security service for seven (7) games at different venues at \$5,000 five thousand each."* Details of the date, time and venues of the seven games were not provided. The payment was not supported with evidence of an attendance schedule to verify that the service was provided on a given date. Therefore, we were not able to determine the seven games for which the payments were made.
- 6.22** We also found that payments of \$7,500 were being made to three employees of INSPORTS on a weekly basis for the production of identification cards for sporting

events. Evidence of formal arrangements for this additional remuneration for the production of identification cards was not presented for review. The payments were made on the basis of letters from an Officer, which stated the nature of the payment as, *“assistance with the ID production for ALL INSPORTS related activities.”* The three individuals were paid sums totalling \$180,000 between March and April 2013. Our sample did not include a review of payments made during 2015-16, as INSPORTS did not present the requested vouchers.

Poor inventory management over purchased and donated sporting gears

- 6.23** INSPORTS provided data, which shows that over the period, April 2012 and October 2015, the Institute purchased sporting gears valuing \$12 million for distribution to various sports clubs, schools and other community organisations. The Institute noted that it also received sponsorship in the form of sporting gears from corporate Jamaica. However, INSPORTS was unable to state the quantum of donated items, as there was no inventory management system to account for the receipt, storage and distribution of these items. This is in breach of MoFPS Circular No. 12 dated August 7, 2001, which requires the maintenance of proper stores records for recording the purchase and issuing of all stock.
- 6.24** We also observed that sporting items such as baseball and sports gears were haphazardly stored in a room referred to as ‘the stores’. INSPORTS did not provide details of the type, amount and value of the sporting gears stored in the room. The manner in which the sporting gears were stored prevented us from conducting a complete count. The absence of proper records may prevent INSPORTS from identifying incidents of theft or misappropriation. We also noted that INSPORTS did not have in place, a system to account for all tickets distributed to patrons for admission to sporting events held at the National Stadium.