



**REPORT
OF THE
AUDITOR GENERAL
ON THE
APPROPRIATION AND OTHER
ACCOUNTS
OF JAMAICA**



For the Financial Year ended 31st March 2007

Auditor General's Department

VISION STATEMENT

Our Vision is to, on behalf of the Parliament and people of Jamaica, enhance accountability, integrity, economy, efficiency and effectiveness in Government operations.

MISSION STATEMENT

Our mission is to:

- *Promote transparency, accountability, and best practices in Government operations;*
- *Conduct independent audits and make reports to improve the use of public resources;*
- *Ensure that public sector financial transactions comply with the wishes of Parliament, relevant laws and regulations and are conducted with due regard to the avoidance of fraud, waste and extravagance; and*
- *Develop and maintain the professional competence of our staff.*



AUDITOR GENERAL'S DEPARTMENT

P.O. BOX 455,

KINGSTON 10,

JAMAICA

ANY REPLY OR SUBSEQUENT REFERENCE
TO THIS COMMUNICATION SHOULD BE
ADDRESSED TO THE AUDITOR GENERAL
AND NOT TO ANY OFFICER BY NAME
AND THE FOLLOWING REFERENCE
QUOTED:—

December 14, 2007

*The Honourable Speaker
House of Representatives
Kingston
Jamaica*

Dear Sir,

Pursuant to the provision of Section 122(2) of the Jamaica Constitution, I have the honour to submit my report on the results of the examination of the accounts of the Island for the year ended 31st March, 2007 for tabling in the House of Representatives.

Yours faithfully,

*A.P. Strachan
Auditor General*

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REPORT
OF THE
AUDITOR GENERAL
ON THE
FINANCIAL TRANSACTIONS, ACCOUNTING RECORDS
AND FINANCIAL STATEMENTS OF THE
GOVERNMENT OF JAMAICA
FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2007

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, 2007. 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, executive agencies and public bodies for the 2006/2007 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, new programmes and areas of general public interest. Follow-up work was also done to ascertain what action had been taken on previous audit observations and recommendations. Several programmes and projects were selected for special audits aimed at assessing if adequate planning had been done, proper management control systems instituted and whether the programmes and projects were achieving their intended objectives. A number of computer systems were also audited to determine whether they were proving to be effective management tools. The overriding intent of the audits was to contribute to improvement in the management of the public sector and to prompt savings for the taxpayers.

Contents of this Report

4. This report summarizes the more important observations arising from the various audits conducted for the period under review. 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 this 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.

5. 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 Constitution, 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.

Public Accounts Committee

6. The Public Accounts Committee of the House of Representatives is a standing bi-partisan committee chaired by the opposition spokesman on Finance. Under the standing orders of the House all accounts of government agencies and annual reports of the Auditor General tabled in the House are automatically referred to the Committee. In examining the reports of the Auditor General, the Committee calls upon accounting officers, other heads of agencies and their support staff to explain their stewardship of the public affairs and resources assigned to them. It seeks to identify the causes for weaknesses mentioned in the Auditor General's reports, obtain information on what is being done to rectify the situation, and makes its own recommendations as to the corrective measures which should be pursued. The Committee therefore plays a critical role in helping to ensure that appropriate action is taken on the findings of the Auditor General. During the period under review the Committee focussed its attention primarily on reports done by the Contractor General and a Forensic Audit Team on the Sandals Whitehouse project, which were referred to it. At the time of this report the Committee had not commenced examination of the Auditor General's Annual Reports for 2004/2005 and 2005/2006.

Summary of the Major Findings of the Audits

7. A summary of the major findings of the audits conducted for the period under review is provided at paragraphs 8 to 14 below.

Generally Satisfactory Audit Findings

8. The audits for the period under review again disclosed that the financial affairs of several ministries, departments and other Government entities were conducted in a generally satisfactory manner with only minor breaches of the Government's financial and accounting rules observed.

Arrears of Annual Financial Statements

9. Government entities are required under relevant Acts of Parliament to submit for audit annual financial statements within four months after the end of each financial year. However, many of them were in varying degrees of arrears in meeting this requirement. In the case of ministries and departments, which

should submit Appropriation Accounts, up to December 10, 2007, I had not received 55 accounts for 2006/2007 and 6 for 2005/2006. A schedule of the outstanding Appropriation Accounts is shown at Appendix "A" to this report. Delay in the submission of the annual financial statements undermined the public accountability process and prevented a proper assessment of the entities financial performance and their state of affairs.

Improper Payments

10. The audits identified a number of instances in which payments amounting to \$52.8M were made in breach of the stipulated rules and guidelines or without the requisite approval. Overpayments totalling \$20.3M were also observed or reported to me based on the findings of internal auditors. The implicated agencies were told to bring themselves in compliance with the governmental regulations, to cease unauthorised payments and effect recovery of overpayments.

Losses, Irregularities and Unverified Transactions

11. The audits at several entities disclosed instances in which vouchers and supporting invoices were not presented for expenditure totalling \$22.1M. I was therefore unable to verify their authenticity. Information was not made available as to how assets and other resources valued at \$8M were accounted for. Six (6) entities also reported losses and irregularities involving \$9.8M. Most of these cases of losses and irregularities were reported to the police.

Unpaid Statutory Deductions

12. The audits disclosed that five (5) agencies of Government had not remitted to the relevant institutions statutory deductions of approximately \$1.8B which had been made from employees' emoluments over protracted periods. This breached the requirements of the relevant Acts of Parliament and could expose the delinquent agencies to legal sanctions. Employees entitlement to certain benefits could also be compromised.

Internal Control weaknesses

13. It is the responsibility of the management of each Government entity to ensure that an effective system of internal control is in place. Internal control incorporates all systems of control instituted to ensure that an organization achieves its objectives in an economical and efficient manner, that it is provided with prompt and reliable accounts and other relevant information, its assets are properly safeguarded and the necessary checks and balances exist to prevent and detect errors and fraud. Failure by several entities to comply with the Government's financial rules continued to result in inadequate control over stores, furniture and equipment, the custody of blank cheques, the preparation and payment of salaries and the purchase of petrol. Reconciliation of several

bank accounts also remained in serious arrears, thereby creating an environment which facilitated the concealment of errors and fraud.

Breaches of Procurement Requirements

14. Many breaches of the Government's prescribed rules for the procurement of goods and services were again noted. These included failure to obtain the required recommendation of the National Contracts Commission for contracts for \$4M and over as well as to invite the required competitive price quotations before awarding contracts for less than \$4M. I was therefore often unable to determine how those organizations satisfied themselves that the prices paid were fair and reasonable. Other frequent violations were that business was done with suppliers who were not on the National Contracts Commission's approved list or who did not submit the necessary Tax Compliance Certificates.

HEAD 0100 – HIS EXCELLENCY THE GOVERNOR GENERAL AND STAFF

15. The audit of the captioned entity revealed a general satisfactory state of affairs. However, up to the date of this report, the Appropriation Account for 2006/2007 was not presented for examination.

HEAD 0200 – HOUSES OF PARLIAMENT

16. The audit of the Houses of Parliament for the year under review disclosed a generally satisfactory state of affairs. However, there was need for improvement in the entity's maintenance of its furniture and equipment records and its control over the use of telephones. I was subsequently advised that corrective measures were being implemented.

HEAD 0300 – OFFICE OF THE PUBLIC DEFENDER

17. The audit of the financial transactions and accounting records for the Office of the Public Defender for the year under review revealed a generally satisfactory state of affairs.

HEAD 0400 - OFFICE OF THE CONTRACTOR GENERAL

18. The audit of the financial transactions and accounting records of the captioned entity for the year under review disclosed a generally satisfactory state of affairs. The few accounting weaknesses observed were subsequently addressed.

HEAD 0600 – OFFICE OF THE SERVICES COMMISSIONS

19. The financial transactions and accounting records of the Office of the Services Commissions for the year under review were found to be generally satisfactory. However, the Appropriation Account for 2006/2007 was not presented for audit up to the time of this report. There was also need for improvement in the disbursement and bank reconciliation processes, and in the control over blank cheques and the recovery of the cost of private telephone calls.

HEAD 0700 –OFFICE OF THE CHILDREN'S ADVOCATE

20. The audit of the captioned entity for the financial year 2006/2007 revealed a generally satisfactory state of affairs. The few internal control weaknesses noted were being addressed.

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

21. The audit of the Office of the Prime Minister for the year under review disclosed a generally satisfactory state of affairs.

BROADCASTING COMMISSION

22. The audit of the financial transactions and accounting records of the captioned agency for the year 2006/2007 disclosed a generally satisfactory state of affairs; however it was noted that income tax totalling \$247,500 was not deducted from fees paid to nine (9) Board Members, as required by the Income Tax Act. The Commission subsequently advised that recovery of the tax due had commenced.

CULTURE, HEALTH, SPORTS AND EDUCATION (CHASE) FUND

23. A review of the financial transactions and accounting records of the captioned entity for the period under review disclosed a generally satisfactory state of affairs.

SOCIAL DEVELOPMENT COMMISSION

Control Weaknesses

24. The audit of the financial transactions and accounting records of the captioned entity for the year under review disclosed control weaknesses in the procurement process, maintenance of the fixed asset records and advance debit cards for fuel records, which if not corrected may undermine management's

ability to properly safeguard its assets. The Commission has promised corrective action.

Gratuity on Acting Allowances

25. Gratuity on acting allowances was paid to 21 employees contrary to the terms of their contracts which stated that gratuity would only be paid on basic salary. These improper payments should be recovered.

CREATIVE PRODUCTION & TRAINING CENTRE

26. The audit of the Creative Production and Training Centre for the year under review revealed the following deficiencies:

(i) **Unauthorised Salary Payments**

Employees were granted salary increases with effect from April 1, 2006 despite directive from the Ministry of Finance to freeze all salaries. This resulted in improper payments totalling \$1,717,705 which should be recovered, failing which the Ministry should seek to invoke the sanctions provisions of the Public Bodies Management and Accountability Act.

(ii) **Procurement Breaches**

Several instances were observed in which there was no evidence that the Government's procurement guidelines were adhered to in the acquisition of goods and services. The Centre subsequently advised that this problem was corrected.

(iii) **Control Weaknesses**

Improvements were needed in the record keeping and control exercised over fixed assets, investments, advances and loans, blank cheques and cash management. The Centre was advised that the weaknesses identified could increase the possibility of errors and misuse of resources. I was since informed that my recommendations had been implemented.

JAMAICA CULTURAL DEVELOPMENT COMMISSION

27. The audit of the financial transactions and accounting records of the Jamaica Cultural Development Commission for the year under review revealed the following deficiencies:

(i) Consultant

Income Tax amounting to \$2,057,254 was not deducted from monthly payments made to a consultant engaged during the period February 2002 to October 2006 as required by the relevant Act. Additionally, the consultant was overpaid amounts totalling \$145,460. The Commission was advised to recover both amounts.

(ii) Salary Overpayments

Three officers were overpaid salaries amounting to \$64,211 because of incorrect computations. Up to the date of this report no recovery was made.

(iii) Outstanding Financial Statements

There was no indication that audited financial statements for the years 1998/1999 to 2005/2006 were submitted to Parliament as required by Section 6 of the Commission's Act and Section 3 of the Public Bodies Management and Accountability Act. It was recommended that action be taken to comply with the Acts.

(iv) Overdraft Charges

The Commission continued to operate an unapproved bank overdraft facility and incurred overdraft charges totalling \$872,537 during the financial years 2003/2004 to 2006/2007. The entity was advised to improve the cash management function.

(v) Internal Audit

Improvements were noted in the operation of the Internal Audit Unit, however, it still needed to enhance its effectiveness by the further adoption of generally accepted auditing standards and procedures.

(vi) Control Weaknesses

General improvement was needed in the record keeping and control exercised over fixed assets, the procurement process, expenditure vouchers, motor vehicles, blank cheques, fuel advance cards and in the reconciliation of bank accounts. The Commission was advised that the weaknesses identified could increase the possibility of errors and misuse of resources.

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

Outstanding Appropriation Accounts

28. The Appropriation Accounts for 2005/2006 and 2006/2007 were not received for audit up to the date of this report.

Unauthorised Advances

29. Amounts totalling \$20.4M advanced from Head 7200A to Head 2000A during the 2005/2006 and 2006/2007 financial years remained uncleared. These advances breached Section 9(8) of the Financial Administration and Audit Act which requires Parliamentary Approval for the use of appropriated funds.

Inadequate Control of Fixed Assets

30. There continued to be need for stricter control over the Ministry's fixed assets as the requisite inventory records were not maintained up to date and many items were not given suitable identification marks. These shortcomings could undermine management's ability to adequately safeguard its fixed assets.

Overpayment of Salary

31. Three persons were overpaid salaries amounting to \$144,639. The Ministry was advised to effect recovery.

Fuel Advance Cards

32. The supporting receipts for the purchase of fuel costing \$38,908 were not presented for audit thereby preventing verification.

Payment Vouchers

33. Payments amounting to \$1.1M were made in contravention of the Financial Instructions as they were supported by estimates or proforma invoices instead of on the required suppliers' original bills or invoices. This practice could contribute to improper payments. Supporting documents were also not submitted by the various Parish Councils to substantiate payments totalling \$198.5M made under the Emergency Flood Damage repairs programme. In the absence of such documentation it could not be determined whether the funds were used for the intended projects.

PARISH INFRASTRUCTURE DEVELOPMENT PROGRAMME
GOJ/IDB LOAN NO. 1197/OC-JA

34. The Parish Infrastructure Development Programme which is jointly funded by the Government of Jamaica and the Inter-American Development Bank, seeks to (a) promote changes in the legal and institutional framework that will strengthen Local Government; (b) strengthen the financial viability and institutional capacity of parishes to carry out their responsibilities; (c) strengthen the capacity of the Ministry of Local Government to support and promote Parish Councils; (d) encourage community participation in local decision-making; and (e) finance the rehabilitation of basic priority infrastructure in the parishes, thereby fostering their economic development. The audit of the financial transactions and accounting records of the Programme for the financial year 2006/2007 disclosed a generally satisfactory state of affairs. It was noted however, that delivery of the intended outputs by the Programme was seriously constrained due to inadequate cash flow allocation. This led to a US\$23.4M cancellation of loan proceeds by the Bank. In addition, J\$593M received by the Programme as benefits-in-kind were not paid into the Consolidated Fund as required by law. This resulted in the understatement of Government's expenditure and revenue over the life of the Programme.

OFFICE OF DISASTER PREPAREDNESS AND
EMERGENCY MANAGEMENT (ODPEM)

35. An audit of the captioned entity for the year under review disclosed the following unsatisfactory features:

(i) Financial Statements

Up to the date of this report, the audited financial statements for the years 2005/2006 and 2006/2007 were not submitted to Parliament as required by the Public Bodies Management and Accountability Act.

(ii) Internal Control Weaknesses

Improvements were needed in the control over the use of motor vehicles, furniture and equipment and fuel advance debit cards. Payments totalling \$77,018 were also not supported by the required original supplier's bills. The Office advised that these problems were being addressed.

(iii) Disaster Relief Supplies

The control over disaster relief items was unsatisfactory as the maintenance of related inventory records was in serious arrears and duties were not adequately segregated. Checks undertaken

revealed that 154 items valued at \$184,800 were not accounted for. The ODPEM advised that these weaknesses were due to inadequate storage space and human resources.

(iv) Directors' Fees

Income tax amounting to \$66,750 was not deducted from fees paid to Directors during the period June 2004 to February 2007 as required by the Income Tax Act. Two Board members who were also officers employed to the entity in executive positions were paid fees of \$73,500 in contravention of Government's regulations. The entity was advised to recover the amounts.

(v) Rental of Equipment (Income)

The level of control exercised over the rental of equipment was unsatisfactory due to the absence of documented policy guidelines and inadequate separation of duties and maintenance of inventory records. As at 1st February, 2007 there were arrears of rental owed totalling \$981,031. The ODPEM subsequently indicated that the arrears were reduced to \$333,000.

JAMAICA FIRE BRIGADE

Outstanding Financial Statements

36. Up to the date of this report audited financial statements for the years 2001/2002 to 2006/2007 were not available for review. This breached the Public Bodies Management and Accountability Act and continued to prevent a proper assessment of the entity's financial state of affairs.

Telephone Facilities

37. Despite being highlighted at paragraph 251 of my 2005/2006 annual report, the Brigade continued to pay rental during the year under review for three telephone lines which had been out of service for approximately three years. The rental paid between March 2004 and April 2007 amounted to \$165,725. The Brigade subsequently advised that the lines have since been disconnected and an agreement to refund amounts paid entered into.

Fixed Assets Control

38. The controls exercised over furniture and equipment continued to be inadequate as assets acquired at a cost of \$8.19M were not recorded in the stipulated inventory records which were not being properly maintained. The assets were also not appropriately marked. The management was reminded that

these weaknesses could result in losses or misuse of the entity's fixed assets and should be corrected.

Expenditure Vouchers

39. Payments totalling \$2.6M were made using estimates or proforma invoices but the required original suppliers' invoices were not presented. The entity was reminded that this omission could lead to improper payments.

Overpayments

40. Nine (9) employees were overpaid salaries amounting to \$173,151 as a result of inadequate internal check. The Department was advised to improve the system of internal check and recover the overpayments. The Brigade subsequently advised that the controls had been improved and the overpayments almost fully recovered.

Irregularities Reported by Internal Audit

41. The following irregularities were reported by the Brigade's internal auditors:

- (i) Questionable payments of \$237,548 for motor vehicle allowances to an officer.
- (ii) Five chain saws costing approximately \$184,000 and forty-six fuel coupons valued at \$53,406 were not properly accounted for.

The Brigade subsequently indicated that the motor vehicle allowances paid had been recovered but internal investigations had failed to resolve the matters of the missing chain saws and gas coupons.

GOLDEN AGE HOME

42. The audit of the captioned entity for the year under review disclosed the following deficiencies:

- (i) Overpayments

Seven (7) officers were overpaid salaries totalling \$50,158 during 2006/2007. Overpayments amounting to \$333,630 made to two (2) officers and which was mentioned in my 2005/2006 Annual Report remained un-recovered up to the time of this report.

(ii) Travelling Allowance

I was unable to verify an officer's entitlement to \$159,000 paid for motor vehicle upkeep allowance as the relevant motor vehicle documents, required by Ministry of Finance and Planning's Circular No. 40 dated September 25, 2006 were not presented for inspection.

(iii) Procurement Breaches

Several procurements were not made in keeping with Government's guidelines. The breaches included the failure to obtain competitive price quotes, non-production of Tax Compliance Certificates (TCC) or Tax Registration Numbers (TRN), and suppliers of goods and services not included on the National Contracts Commission's approval list. In addition, a required written agreement was not seen for a contract awarded for \$373,478 to provide architectural and engineering drawing for a proposed Medical Complex at the Home. This contractor was also paid a mobilization advance in excess of Government's stipulated limit of 10% of the contract sum.

(iv) Payments to Concessionaire

As reported in the 2005/2006 annual report, the Home's concessionaire continued to operate without a formal written contract. The amount paid for the period April to December 2006 was \$15,110,731. There was no evidence that Cabinet's approval was sought for this arrangement.

(v) Staff Loans

There was still no evidence that the approval by the Ministry of Finance of the staff loan policy had been obtained, despite the recommendation made in the prior year's audit report on this matter. Among the shortcomings of the present arrangements is the absence of appropriate collateral or sureties.

(vi) Internal Control Weaknesses

As mentioned in the last two annual reports, improvement was needed in the maintenance of the fixed assets and stores control records.

HEAD 1510 – JAMAICA INFORMATION SERVICE

43. The audit of the financial transactions and accounting records of the captioned Agency for the year 2006/2007 disclosed a generally satisfactory state of affairs. However, an internal audit report disclosed that items of equipment costing \$511,733 were stolen. Recovery of \$137,455 was made by way of insurance proceeds. The Agency has since advised that tighter security measures have been implemented.

HEADS 1600, 1600A AND 1600B – OFFICE OF THE CABINET

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

OFFICE OF NATIONAL RECONSTRUCTION (ONR) DISASTER MANAGEMENT REHABILITATION WORKS

45. The captioned Office was established to undertake infrastructure works arising from the damage caused by Hurricane Ivan in 2004. The works included the provision of roads, water, electricity and sewage systems in Portland Cottage, Rocky Point in Clarendon and Bourkesfield in St. Catherine. The audit of the financial transactions and accounting records of the ONR for the year under review disclosed a generally satisfactory state of affairs. The weaknesses identified were subsequently corrected and management advised that a contract was signed for water to be supplied through the pipes to correct the unsanitary condition of the sewage system at Portland Cottage, which was observed during a site visit.

HEAD 1649 – MANAGEMENT INSTITUTE FOR NATIONAL DEVELOPMENT

Non-Taxing of Lecture Fees

46. Non-full time lecturers were paid fees totalling approximately \$19.3M for the period April 2006 to July 2007 without deduction of Income Tax as required by the Income Tax Act. The Agency needs to ensure that the Taxpayers Audit and Assessment Department is advised of the payments made, and that such future payments are subjected to PAYE deductions. I was subsequently advised that corrective action was being taken.

HEADS 1700 AND 1700A –
MINISTRY OF TOURISM, ENTERTAINMENT AND CULTURE

47. The audit of the captioned Ministry for the year under review disclosed a generally satisfactory state of affairs. However, up to the date of this report, the Appropriation Accounts for 2006/2007 were not submitted for examination.

JAMAICA TOURIST BOARD

48. An audit of the Jamaica Tourist Board disclosed the need for improved maintenance of its fixed assets control records. It was noted that payment of £41,125 was made to a company for promotional services without evidence of the required prior signed agreement. In addition, the records disclosed long outstanding receivables totalling \$2,110,633.

MILK RIVER MINERAL BATH

Internal Control Weaknesses

49. The audit of the captioned entity for the year under review disclosed control weaknesses in the procurement process, storage of blank cheques and receipt books, and the lodgement of cash receipts, which if not addressed may lead to the Bath incurring losses.

Acting Allowance

50. The requisite authorization for an acting allowance of \$16,003 paid to an employee of the Bath was not presented for verification.

Personal Files

51. The personal files of employees of the Bath did not contain certain pertinent information relating to their employment history and emoluments. This made it difficult to assess whether persons were being paid at the correct rates and whether employees were entitled to certain benefits granted.

Vacation Leave

52. (a) There was no evidence that the Bath had a clear policy for the payment of salary in lieu of leave. A senior officer proceeded on 35 days vacation leave and in addition was paid for 70 days leave in the same year in contravention of section 7.17.1 of the Staff Orders. It was also noted that the leave register was not adequately maintained and the records revealed that persons were

earning vacation leave while on leave and for the periods for which they received salary in lieu of leave.

- (b) There was no maximum limit to which leave could be accumulated and the Leave Register revealed that a member of staff had not been on leave for over 6 years. This was in breach of Section 7.4.8 of the Staff Orders.

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

Outstanding Miscellaneous Revenue

53. The records disclosed that approximately \$1.6M was owing to the Ministry by a printing company for the sale of the Jamaica Gazettes over the period April 2005 to March 2007. The Ministry was advised to effect prompt collection.

Outstanding Debt

54. An officer who resigned from the service in November 2006 remained indebted to the Government in the amount of \$599,887 for outstanding loans and duty concession on a motor vehicle. The Ministry was advised to utilize all the measures available to collect the outstanding amounts.

SPECIAL BENEFITS PROGRAMME – EDUCATIONAL LOANS

55. Ministry of Finance & Planning's Circular No. 34 dated August 8, 2006 stipulated that Educational Loans granted would be disbursed per semester or annually to the relevant tertiary institutions. However, approximately \$16.1M was noted to have been paid to twenty-nine (29) public sector employees instead of the institutions. One officer was granted a loan of \$1,320,000 which was paid directly to her to cover the full cost of tuition for a four (4) year course, instead of the payment being made per semester or annually. The audit was not able to ascertain how the Ministry satisfied itself that the amounts paid to employees were used for the intended purposes.

PETRO CARIBE FUND

- 56. The audit of the captioned Fund revealed the under-mentioned matters of concern:

(i) Absence of Loan Agreements

Un-audited financial statements presented reflected that up to October 31, 2007 loans and advances totalling approximately \$23.279B were made to thirteen (13) entities. Related written agreements indicating such terms as interest rates and repayment schedules were however only seen for loans totalling approximately \$9.4B.

(ii) Budgetary Provision

No indication was seen that appropriate budgetary provision was made to accommodate the public expenditure related to loans of \$314M, \$234.8M and \$515.7M made to the Office of the Prime Minister, the Ministry of Finance and the Ministry of Transport and Works, respectively.

PLANNING INSTITUTE OF JAMAICA

57. The audit of the accounting records and financial transactions of the captioned entity for financial year 2006/2007 revealed the following shortcomings:

(i) Advance Debit Cards

An appropriate control register was not maintained to record the receipts and issues of Advance Debit Cards used to purchase fuel for the Institute's motor vehicles. This constituted a breach of the Government's guidelines.

(ii) Motor Vehicle Operational Efficiency Records

There was no indication that operational efficiency records were being maintained to properly assess whether the fuel consumption by the Institute's fleet vehicles was reasonable.

STATISTICAL INSTITUTE OF JAMAICA

58. The audit of the Statistical Institute disclosed the following areas of concern:

(i) Audited Financial Statements

Up to the time of this report audited financial statements for the years 2003/2004 to 2005/2006 were not submitted to Parliament in

accordance with the requirements of the Public Bodies Management and Accountability Act.

(ii) Engagement of Consultant

No evidence was presented that the required competitive process was used to engage the services of a consultant at a cost of \$3M. There was also no indication that a valid Tax Compliance Certificate was presented by the consultant.

(iii) Mobilization Advances

Advances totalling \$8,500,040 were made to three (3) contractors without any indication of such provision being included in their contracts. The required securities from financial institutions to protect the Government's interest were not presented for verification.

(iv) Operational Efficiency Records

Quarterly motor vehicle operational efficiency records were not being maintained and prevented a proper assessment as to whether fuel consumption by the Institute's vehicles was reasonable.

(v) Accounts Receivable

At March 31, 2007 the Accounts Receivable Records reflected long outstanding balances totalling \$992,391. Some of these have been on the books since 2002. The Institute was advised to use all means available to collect these outstanding amounts.

AIR JAMAICA LIMITED

59. An audit of the captioned entity revealed the following shortcomings:

(i) Breaches of the Government's Procurement Guidelines

There was no indication that competitive price quotations or tenders were used in the procurement of goods and services costing \$461.2M. There was also no evidence that valid Tax Compliance Certificates were presented by nine (9) of the service providers.

(ii) Contracts of Employment

Written contracts detailing the terms and conditions of employment of three (3) officers were not presented for inspection. I was

therefore unable to verify their entitlement to emoluments and other benefits. A properly executed contract was not seen for an officer who has been employed to the Company since 1997, while another continued to perform duties under a contract that had expired in October 2006.

(iii) Income Tax Deductions

Income Tax deductions made from the salaries of two (2) officers stationed at the Norman Manley Airport were remitted to a foreign government instead of to the local tax authorities. The authority for this arrangement was not presented.

(iv) Taxable Benefits

Income Tax totalling approximately \$4.9M was not deducted from certain benefits provided to members of staff, as required by the Income Tax Act.

(v) Motor Vehicle Upkeep Allowances

A senior officer was in receipt of motor vehicle upkeep allowances of J\$480,000 plus US\$20,000 per annum or a total of approximately J\$1,820,000 per annum which exceeded the government's approved rate by \$1,342,292, without evidence of the necessary approval of the Ministry of Finance; neither was the excess amount subjected to income tax.

(vi) Complimentary Airline Tickets

Information seen indicated that certain complimentary air travel was afforded to non-employees. This arrangement was said to be long standing but neither the related Board and/or Ministry of Finance approval was presented.

PROVIDENT FUND

60. The audit of the captioned Fund for the year under review disclosed a generally satisfactory state of affairs. However, despite instructions given to the brokers in 2002 to sell the Fund's Cable and Wireless shares, a balance of 338,690 remained unsold at the date of this report. There was also no evidence that dividends had been received on these shares since 2003. It was recommended that the Fund's administrators investigate the non-payment of dividends and advise on the action to be taken regarding the disposal of the shares.

HEAD 2011 –
ACCOUNTANT GENERAL'S DEPARTMENT

Outstanding Financial Statements

61. The Appropriation Account for the financial year 2006/2007 was not submitted for audit up to the date of this report. The under-mentioned financial statements, which are required by section 24H of the Financial Administration and Audit Act, to be presented within four (4) months after the end of the financial year, were also outstanding:

<u>STATEMENT</u>	<u>OUTSTANDING PERIOD</u>
A CURRENT ASSETS & LIABILITIES	2004/2005
OF THE CONSOLIDATED FUND	2005/2006
	2006/2007
E ADVANCES AND LOANS FROM THE	2005/2006
CONSOLIDATED FUND	2006/2007
(MISC. LOAN AND COMPUTER LOAN	
COMPONENTS)	
G BALANCES HELD BY THE ACCOUNTANT	2004/2005
GENERAL ON DEPOSIT AT THE END OF	2005/2006
THE FINANCIAL YEAR AND THE	2006/2007
OUTSTANDING ADVANCES THEREFROM	
I OUTSTANDING LOANS OR CREDITS	2005/2006
GUARANTEED BY THE GOVERNMENT	2006/2007

Nugatory Expenditure

62. As a result of late payment on two loans, penal charges of US\$1,811 were incurred. This represented expenditure which should have been avoided.

Deferred Financing Transaction

63. The required Cabinet approval was not seen for a project with a contract value of \$12.388M, which appeared in the Revenue Estimates as a deferred financing transaction. The Department was asked to have the situation regularized.

64. Outstanding Miscellaneous Loans

- (i) The records reflected long outstanding balances totalling \$313,887 on ten (10) loans which were made to officers between 2001 and 2003. The Department was asked to use more effective means to recover these amounts.
- (ii) In several instances loan repayments did not commence as stipulated on the related deduction orders, but as long as 4 months after.

Non-Repayment of Loans

65. The audit of the Statements of Advances and Loans made from the Consolidated Fund, disclosed no evidence of repayment during the financial years 2004/2005 and 2005/2006 on loans made to a number of public sector entities in amounts of J\$2.15B; US\$183.97M; £19.3M; E7.1M (Euros); and Dutch Guilder NLG1.9M. The Department was asked to take steps to collect the outstanding amounts.

Motor Vehicle Delinquency

66. There was no evidence that efforts were being made to recover an outstanding loan balance of \$134,782 from an officer and accrued interest totalling \$141,385 from five others. This could result in loss of public funds and the Department was asked to take effective steps to collect these amounts. The Department advised that recovery was being actively pursued.

67. Pension Payments

- (i) Short deduction of income tax from pension payments amounting to \$368,417 was noted. The Department was asked to recover these amounts.
- (ii) Inadequate control was noted over the numerous uncollected pension cheques which were returned to the Department. Up to the date of this report, four hundred and fifty three (453) stale dated

cheques were seen in the possession of officers and not satisfactorily brought to account.

HEAD 2012 – JAMAICA CUSTOMS

68. *Internal Control Weaknesses*

- (i) Furniture and equipment costing \$25,795,819 which were acquired during the financial year under review were not recorded in the relevant inventory record. Further investigations revealed that items purchased from as far back as the year 2002 were also not taken on inventory.
- (ii) The Operational Efficiency Records which would assist in determining the cost effectiveness of retaining the Department's motor vehicles were approximately nine months in arrears.
- (iii) Two companies whose contracts had expired continued to perform services under the old contracts.

Employment Information

69. Despite being the subject of a previous audit query, employees' personal records continued to omit vital information such as letters of employment, promotions, vacation leave, etc. This is in contravention of sections 2.1 and 2.2 of the Staff Orders for the Public Service. The Department was advised to have the records updated.

Ex-employee's Indebtedness

70. An officer who resigned with effect from May 31, 2006 remained indebted to the Government in the sum of \$585,008 being overpayment of emoluments; as well as a 20% motor vehicle duty concession of \$571,598 since she did not complete the stipulated three year period. The Department was advised to pursue all measures available to recover the amounts owing.

Breach of Procurement Procedure

71. There was no indication that the competitive price quotations required by the Government's Procurement Guidelines were obtained for the purchase of 2,129 litres of LPG bulk propane gas costing \$85,160. The same product could have been acquired from an alternative supplier at a cost of \$61,741 thereby resulting in a saving of \$23,419. The Department was reminded to ensure strict compliance with Government's procurement rules and the matter has been reported to the Ministry of Finance and the Public Service with a view to surcharge being preferred against the officer responsible for the breach.

HEAD 2015 – INLAND REVENUE

Outstanding Appropriation Account

72. The Appropriation Account for the financial year 2006/2007 was not presented for examination up to the date of this report.

Lodgement of Revenue

73. The in-transit lodgement registers which record revenue collected but not yet credited to the Department's main bank account reflected outstanding amounts of approximately \$20M. This information was however extremely outdated as the records were nine months in arrears. The Department was advised to update the control system intended to ensure that all lodgements are credited to the Department's bank account on a timely basis.

Bank Reconciliation

74. Reconciliation of the two bank accounts to which electronic payments are credited was nine months in arrears at the time of this report.

Tax Arrears

75. The records at three collectorates disclosed tax arrears amounting to approximately \$16B. I was subsequently advised that the arrears had been reduced to \$7.9B.

Unsubstantiated Employment

76. Documentary evidence was not presented to substantiate the employment of the twenty-three (23) part-time cleaners whose name appeared on the Department's payroll. Similarly, personal files to verify the employment of three other persons were not presented for examination. I was therefore unable to ascertain whether these persons were properly employed. The Department subsequently advised that steps were being taken to regularize the situation.

Overpayment

77. An officer was overpaid salaries amounting to \$30,651 because she was paid for leave to which she was not entitled. The Department was advised to recover this amount.

AUTOMATED MOTOR VEHICLE SYSTEM (AMVS) ONLINE

General Comments

78. The AMVS Online was designed to improve the integrity and speed of processing transactions related to motor vehicles. An audit of the system was conducted to determine whether adequate controls were in place and were operating effectively and efficiently to achieve the organization's objectives. The audit noted that the system was capable of uniquely identifying each motor vehicle when processing transactions. It also produced a computer generated Motor Vehicle Registration Certificate (MVRC) to facilitate a reduction in transcription errors unlike the previous system in which certificates were hand written. The audit however, revealed certain deficiencies in the recording and management of demonstration plates and locally manufactured vehicles, and inadequate monitoring of stolen vehicles updates and the processing of titles. The audit also disclosed concerns in relation to super user privileges, unidentified system users, duplicated MVRCs and certificates of fitness, inadequate segregation of duties and verification of cancelled receipts with the related MVRC. The following paragraphs contain a summary of the observations made.

Locally Manufactured Vehicles

79. The locally manufactured vehicles module of the system allowed for the registration of locally manufactured vehicles and trucks by authorized manufacturers. It was noted that there was no policy or guidelines for the registration of such vehicles/trucks (LMV/T). The qualifying criteria for the classification of local manufacturer of vehicles/trucks were not clearly defined. The INCRS/AMVS Business Design Document states that the AMVS Online should verify each manufacturer by matching the manufacturer's name against a list of approved local manufacturers programmed in the system. Investigations revealed that this requirement was not being adhered to. There was therefore no validation of the authenticity of locally manufactured vehicle/truck transactions by the system. It was recommended that a policy for the registration of LMV/T be developed and a schedule of authorized local manufacturers should also be established. The Department subsequently advised that the problem is being addressed.

Demonstration Plates

80. Holders of demonstration plates were required to purchase a pair of plates for \$1,250 and pay an annual renewal fee of \$500 for cars and \$1,000 for trucks. The distribution of demonstration plates was recorded manually listing the name of the car dealer, number of plates issued, plate numbers and amount paid. There was no limit on the number of plates that could be supplied to a dealer. The number of plates approved for each dealership was based on the discretion of the compliance officer who inspected the dealership when the initial application for plates was made. An examination of the INCRS/AMVS Integration Business Design document disclosed that it had become increasingly

difficult to monitor demonstration plates and as a result renewal fees were not being collected. In addition, there was no central database or record of all plates issued to car dealers and the related payments. I was therefore unable to determine the total number of demonstration plates distributed and the total arrears, in annual renewal fees. It was recommended that a central record of all plates issued and annual payments received should be implemented in order to effectively monitor distribution of plates and related payments. There should also be regular periodic checks of car dealerships by compliance officers to determine whether there is misuse of these plates. The Department indicated that corrective action would be taken.

Stolen Vehicles

81. The maintenance of stolen vehicle information was done at the National Motor Vehicle Registry (NMVR) at the Inland Revenue Department and the Fraud Investigation Division (FID) of the Ministry of Finance and the Public Service. The NMVR was responsible for recording vehicles that were stolen locally and the FID was to determine whether vehicles were legitimately imported. Both divisions maintained files on each vehicle to substantiate the basis for "marking/unmarking" stolen vehicles under their responsibility. Investigations revealed that although NMVR and FID had separate responsibilities, there was no restriction in the system to prevent FID from marking/unmarking vehicles stolen locally and the NMVR from marking/unmarking vehicles that were stolen overseas. It was also observed that the activities of officers responsible for placing, updating and deleting stolen vehicles on the system were not subjected to independent checks to verify whether the activities undertaken were legitimate and supported by the required documents. It was also revealed that the system did not capture all stolen vehicles. The Department reported that this may be due to owners of vehicles not being aware that it was their responsibility to report such losses to the Inland Revenue Department (IRD). It was recommended that the information for local and overseas stolen vehicles be separated and access restricted to the respective authorized sections. There should be regular checks by a senior officer independent of the AMVS system at NMVR and FID to ensure that the process was authentic and supported by the requisite documents. In addition, there should be increased public awareness of the need for owners of stolen vehicles to report such losses to the IRD. I was subsequently informed that this problem was being addressed.

National Motor Vehicle Registry

82. The National Motor Vehicle Registry in addition to maintaining stolen vehicle information prepares titles for motor vehicles island-wide. Copies of motor vehicle documents along with advices from the Collectorates are submitted to the registry to prepare titles for new, transferred and modified vehicles and also substitute titles. Information received from the Collectorates for title processing is entered in a logbook and thereafter each stage of the process is logged. The system generates a Control and a Collectorate Report. The Control

Report lists the number and name of Collectorates, the title range (series) printed, and title count (amount). The Collectorate report is generated for each collectorate listing the taxpayer name, motor vehicle ID and title number assigned. Investigations revealed that these reports were not cross-referenced with the log books to ensure that all titles were accounted for and to verify whether titles printed were authentic. It was recommended that verification of titles printed against the logbook entries be done. Investigations also revealed that there was no receipt number or unique code on the system to identify those titles that were paid for. The amounts paid were written on the application forms and there was no control in the system to prevent the officers at NMVR from retrieving transactions from the system for the printing of titles that were not paid for. It was recommended that a control be implemented to ensure that transactions are paid for before titles are processed and printed. The Department informed that an enhancement to the system will be requested to correct this problem.

Super Users

83. Investigations revealed that certain senior officers were given super user privileges to the system. Consequently, it was possible for such users to add, delete, query, modify, verify, update, and generate reports for transactions which included motor vehicle insurance renewal, registration, transfer, stolen titles, liens on vehicles and stolen vehicle information. In addition to these functions senior officers at the NMVR could also print and amend motor vehicle titles. Investigations also revealed that an AMVS supervisor also had the functions of a cashier in the Integrated Cashiering Remittance System (INCRS), and could therefore process the payment of transactions generated from the AMVS, for which a fee was charged. Poor segregation of duties compromises the various controls that were intended to ensure independent verification of transactions processed by the system. It was also observed that there were no periodic checks by an independent officer of the system generated activity log to determine whether activities done were authorized and did not result in manipulation of the system. It was recommended that the system should be configured to prevent a user from being able to process all aspects of a transaction without being subject to independent checks and that user access to the system be limited to prevent officers from having super user privileges. In addition, there should be regular checks of the system generated activity log to ensure that there was no abuse of the system. The Department advised that corrective action would be taken.

Unidentified Users

84. A comparison of the list of authorized users of the system and the Inland Revenue Department staff list revealed that 75 users who had access to the system were not seen on the IRD staff list. There were also 7 usernames that could not be identified to specific users. It was recommended that a thorough investigation be conducted into the access privilege granted to these users and to determine whether the system was subject to abuse. The Department

reported that a verification process was underway to ensure that only current staff members are on the system.

System Administrators

85. The System Administrators' responsibilities included creating users, maintaining and monitoring the computer system. Investigations revealed that certain system administrators also had access to the system to perform operational functions. The combination of these duties poses a significant control weakness, as it is possible that the system could be manipulated to perform unauthorized transactions. Poor segregation of duties compromises the intended controls that would ensure independent checks of the transactions processed on the system by various users. In addition, there was no evidence that the activity log was checked to determine whether users' activities were authorized. It was recommended that the system administrators should be denied all operational functions forthwith and that the activity log be checked by a senior independent officer, to ensure that all anomalies are identified and reported. The Department has since indicated that corrective actions were being taken.

Cancelled Receipts

86. A random selection of cancelled transactions for the period October 2006 to January 2007 were cross-referenced with the corresponding cancelled receipts and Motor Vehicle Registration Certificates (MVRCs). Investigations revealed that there was no evidence of periodic independent examination of the cancelled receipts report, receipts and MVRCs to ensure that transactions were actually cancelled. Further investigations revealed no evidence to substantiate that 24 receipts and 11 MVRCs were actually cancelled, as the original receipts and certificates were not presented for audit and the duplicate copies were not mutilated. It was also observed at the Spanish Town Collectorate that there were four situations in which the amounts and transaction details on the cancelled receipts report did not correspond with that on the receipts. It was recommended that periodic independent verification of the cancellation reports be undertaken to ensure their authenticity.

Verification of Receipts

87. The system generated a receipt number that corresponded with the pre-printed number of the receipt being processed. Information seen revealed 34 cases in which the pre-printed receipt numbers and the system generated numbers were different. Investigations disclosed that such differences resulted from a failure to re-set the computer numbering system in cases of printing errors. There was no evidence that regular reconciliations were undertaken between the physical stock of receipts with information on the system. The absence of such reconciliations could lead to irregularities going undetected for protracted period. It was recommended that regular reconciliation of the physical

stock of receipts and receipts issued by the system be done. The Department subsequently reported that reconciliation is now being done daily.

Interrogation of Data

88. Data extracted from the AMVS database hosted at Fiscal Services Ltd. was interrogated by the use of an auditing software. This revealed that for the period October 2003 to March 2007 there were 13,288 instances of duplicated certificate of fitness numbers. For the period February 2004 to April 2007, 127,950 instances of duplicated motor vehicle registration certificate numbers were seen and 8 cases in which vehicle registration numbers were reflected as '0' or the space was left blank. On January 8, 2007, there were 146 motor vehicle titles unaccounted for on the system. In addition, investigations revealed that at the Kingston, May Pen, Spanish Town, Cross Roads and Constant Spring Collectrates there were 16 cases in which motor vehicles were licensed in excess of the one year limit. Vehicles assigned diplomatic plates were not required to pay motor vehicle licence fees. However, 71 cases were seen where no payments were recorded for motor vehicle licence fees for vehicles which were not assigned such plates. These concerns were communicated to the Inland Revenue Department for an explanation however, up to the date of this report there had been no response.

HEAD 2041 – TAXPAYER AUDIT AND ASSESSMENT DEPARTMENT

Outstanding Appropriation Account

89. The Appropriation Account for 2006/2007 was not received for examination up to the date of this report. This contravened the requirements of the Financial Administration and Audit Act.

Procurement Breaches

90. A contract was not presented for the engagement of an overseas firm at a cost of \$1,190,406 for provision of consultancy services with respect to tax audits. I was therefore unable to determine the rights and obligations of both parties and whether the Government's interest was protected.

Contractors' Levy

91. There was no indication that Contractors' Levy amounting to \$10,538 was deducted from payments made to a contractor and remitted to the relevant collecting agency as required by the Contractors' Levy Act. It was recommended that appropriate corrective action should be taken.

Salary Overpayment

92 Ten (10) employees were overpaid emoluments totalling \$74,823 mainly as a result of inadequate internal check. The Department was advised to improve the system of internal check over the payment of salaries and to effect recovery.

Income Tax Assessments

93. Of a sample of one hundred and fifty-one (151) taxpayers who were assessed tax of approximately \$482.9M during the calendar year 2006, sixty (60) of the related taxpayers' accounts were not seen entered on the computerized system for tax collectible totalling \$284.2M. There was also no indication of any action taken to effect collection on fifty-four (54) of the taxpayers' accounts posted to the system involving \$83.7M. Up to the date of this report, only \$44.8M or 9% of total assessments raised in the sample was collected.

Income Tax Refund

94. A sample of one hundred (100) files was requested to ascertain whether refunds made were properly computed. Ninety-seven (97) files were received and examined. Over refunds amounting to \$238,982 were identified. These resulted from inadequate internal checks. It was recommended that more effective verification be instituted to prevent overpayments and that the amounts over refunded be recovered. The Department was also told to make the remaining three files available for audit.

Income Tax Returns

95. Of a sample of one hundred and eight (108) taxpayers' files requested for inspection, thirty-three (33) had not been presented up to the date of this report. The files examined revealed forty-one (41) instances in which returns were not made in accordance with the Income Tax Act, but instead remained outstanding for periods up to six years. In other cases, tax due amounting to \$19,437,309 remained outstanding on taxpayers' accounts up to the date of this report. The Department was asked to make available the un-presented files and to take appropriate action to bring the delinquent taxpayers in compliance with the Income Tax Act.

GCT Assessments

96. A sample of one hundred and fifty-one (151) assessments totalling approximately \$881.1M made during the year 2006 was selected with a view to ascertain whether they were posted to the taxpayers' accounts and the respective amounts collected. Only approximately 79% of these involving \$693.55M were posted to taxpayers' accounts and collections of \$152M effected. The Department was advised to have all the amounts assessed posted to the taxpayers accounts at an early date.

Registration of GCT Taxpayers

97. A sample of 200 businesses was selected to ascertain their enrolment in the Register of Taxpayers. There was no indication that forty-three (43) of these entities were so registered. It was recommended that steps be taken to investigate these cases and where applicable have them registered in compliance with the General Consumption Tax Act.

HEAD 2042 – TAXPAYER APPEALS DEPARTMENT

98. The audit of the Taxpayer Appeals Department for the year under review disclosed a generally satisfactory state of affairs, except that furniture and equipment acquired at a cost of \$140,936 were not recorded in the inventory records or given appropriate identification marks. This could undermine management's control over these assets.

HEAD 2044 - TAX ADMINISTRATION SERVICES DEPARTMENT

Rental Arrears

99. The records disclosed that as at December 31, 2006 an amount of \$9,579,618 was owed for rental and maintenance of premises occupied by the Department although budgeted provision was made for this expenditure.

Toll Calls

100. There was need for improvement in the control exercised over the use of telephones to ensure that only the cost of official calls was met from public funds.

101. Procurement of Goods and Services

(i) Authority for Approval

The Government's Procurement Rules stipulate that contracts valuing \$4M or more, but less than \$15M must be approved by the appropriate Minister on the recommendation of the National Contracts Commission. There was however no evidence of approval by the Minister or his delegated Agent for six (6) contracts totalling US\$610,557.

(ii) Non-Presentation of Contract Agreements

Required written agreements for work costing \$54.2M done by twelve (12) contractors were not presented for audit.

(iii) Compliance and Registration Certificates

Tax Compliance Certificates and/or National Contracts Commission Registration Certificates which are pre-requisites for the awarding of Government contracts of \$275,000 and above were not presented for 37 such contracts awarded.

(iv) Competitive Procurement Process

There was no evidence presented that the required competitive price quotations were obtained in the selection of three (3) suppliers to whom contracts valued at approximately \$1.1M were awarded.

(v) Contractors Levy

Contrary to the requirements of the Contractors Levy Act, the two percent (2%) Contractors Levy was not deducted from payments of approximately \$2.7M made to two contractors.

(vi) Fixed Assets Control

The furniture and equipment inventory records were not presented for inspection. This prevented verification of whether fixed assets costing approximately \$22.6M acquired during the period under review were recorded therein and properly accounted for.

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

102. The Appropriation Accounts for the financial year 2006/2007 were not received for audit up to the date of this report.

Procurement Breaches

103. There was no evidence that the required competitive price quotations were used to procure motor vehicles costing \$82.56M. This breached the Government's Procurement guidelines and could have denied the Government obtaining the most economical prices.

Motor Vehicle Accident

104. In April, 2005 the Attorney General's Department handed down a ruling that the Ministry's driver who was involved in an accident with one of its vehicles was negligent and should pay 50% of the cost of repairs. However, up to the time of this report there was no indication that any recovery had been made from

the driver. The Ministry advised that the matter was being pursued by the Attorney General's Department.

Overpayments

105. Nine (9) officers were overpaid salaries amounting to \$119,740 due to errors in computation and inadequate internal check. The Ministry was advised to effect recovery and strengthen the internal check over the preparation of salaries. Up to the date of this report \$88,058 had been repaid.

JAMAICA DEFENCE FORCE

Internal Control Weaknesses

106. Deficiencies were noted in the controls exercised over the stores and the payment of salaries. Bank reconciliations continued to be in serious arrears and several unresolved banking discrepancies remained for protracted periods dating back to 2004. It was again recommended that early corrective measures be instituted as these weaknesses could contribute to the loss of public funds.

Procurement Breaches

107. Procurement of goods and services costing \$15.98M was done without evidence that the required competitive price quotations were obtained. There was also no indication that sixteen (16) of the suppliers with whom the JDF conducted business were registered with the National Contracts Commission at the time of their engagement. Management was advised to comply with the Government's Procurement Guidelines to safeguard against uneconomical expenditure and to facilitate fairness and transparency in the use of public funds. A subsequent response indicated that the JDF was now in compliance with the procurement rules.

Unauthorized Payment

108. Cabinet approval was not seen for the payment of US\$140,762 (J\$9,248,517) in respect of an officer who underwent medical treatment overseas.

Outstanding Commitments

109. Information presented indicated that at 31st May, 2007 the total unpaid obligations, thirty (30) days and over, stood at approximately \$318.69M. It was reported that this state of affairs was due mainly to inadequate funding from the Ministry of Finance. These arrears contravened Section 36(1) of the Financial Regulations and could adversely affect the entity's relationship with its suppliers.

IMMIGRATION AND PASSPORT OFFICE

Passports

110. I was unable to determine how 258 old format passports returned from foreign missions were accounted for. During the period June to November 2006, 196 passports were returned due to various errors, of which 191 occurred at the data entry stage. Management was advised to implement corrective measures to reduce the incidence of these errors.

Outstanding Matter

111. Seven passports said to have been damaged in production during 2005/2006 were still not presented for verification.

PRIVATE SECURITY REGULATION AUTHORITY

112. The audit of the captioned entity for the year under review disclosed the following areas of concern:

(i) Seniority Allowances

Two senior officers were paid two seniority allowances; one from the first day of employment and the other approximately one (1) year after being employed to the entity, contrary to the established Government guidelines.

(ii) Emolument Package

There was no evidence that the approval of the Ministry responsible for the Public Service was obtained for the emolument package of a senior officer as required by Section 20 of the Public Bodies Management and Accountability Act 2001, and Section 2.02 of the Guidelines to Financial Management in Public Sector Entities

POLICE PUBLIC COMPLAINTS AUTHORITY

113. The audit of the financial transactions and accounting records of the captioned entity for the year under review disclosed a generally satisfactory state of affairs. The Authority advised that the shortcomings identified had since been corrected.

HEAD 2622 – POLICE DEPARTMENT

Outstanding Appropriation Account

114. The Appropriation Account for the financial year 2006/2007 was not received for examination up to the date of this report.

Inadequate Stock Controls

115. At the time of the audit, goods purchased for approximately \$3.5M were not posted to the stock records. The traffic tickets register was not maintained on the perpetual inventory basis, which prevented the verification of stock balances at any given time. Management was advised to correct these inadequacies.

Breach of Procurement Procedures

116. The procurement of goods and services costing \$2.93M was done without evidence that the required number of competitive price quotations were obtained. The Department was encouraged to comply with the Procurement Guidelines as failure to do so could deny the Government obtaining the most economical prices.

Unrecorded Assets

117. Furniture and equipment costing approximately \$20.9M acquired during the year under review were not recorded in the Department's inventory records. Identification codes assigned to computers and other equipment did not conform to the recommended coding system. Recommendations were made for corrective action as these deficiencies could reduce the Department's ability to safeguard and properly account for its assets.

Rental of Motor Vehicles

118. Payments totalling \$7.73M were made to a Rent-A-Car Company for the rental of motor vehicles for use by sections of the force, without evidence that the required approval was sought from the Ministry of Finance. The audit was also unable to determine the basis on which the supplier was selected, as the requisite competitive quotes and the recommendation of the National Contracts Commission were not presented.

Absence of Contracts

119. Payments totalling approximately \$43.64M were made to six suppliers without evidence of the execution of written contracts. Lease payments amounting to \$48.34M were made on expired lease agreements. Management was advised to regularize the situation at the earliest possible time as it could lead to controversy in the event of any dispute.

JAMAICA CONSTABULARY FORCE CASHIERING SYSTEM

General Comment

120. The Jamaica Constabulary Force Cashiering System (JCFCFS) was implemented in April 2006 with the aim of addressing operational inefficiencies and improving controls over cashier operations. The computerized system is intended to enhance the collection of fees for services such as Police Fingerprint Searches, Police Certificates, Accident Reports and other miscellaneous activities. Features of the system included the provision of improved security controls for the collection of money, and the generation of receipts and management reports. An audit of the system was conducted to determine whether adequate controls were implemented to ensure that transactions were accurately processed and recorded. The audit revealed inadequate segregation of duties, poor maintenance of user accounts and management of users' names and passwords, inadequate verification of receipts issued, and system error. The following paragraphs contain a summary of the observations noted.

User Identification

121. Investigations revealed that supervisors sometimes shared their usernames and passwords with cashiers to enable the latter to perform certain supervisory functions. This practice negated the intended benefit of the controls within the system and may lead to the processing of unauthorized transactions as well as difficulty in identifying actual users of the system. I recommended that the sharing of user identification should be discontinued immediately, and usernames and passwords should remain unique and confidential to each user.

System Error

122. The system generates an End-Of-Day (EOD) report listing all the transactions for the day. Investigations revealed three instances in which transactions amounts on the End-Of-Day (EOD) Report differed from the amounts indicated on the related receipts. Investigation disclosed that in cases where amounts were incorrectly entered or where cash tendered was in excess of the amounts payable, the system would produce erroneous reports. Fiscal Services Limited was informed of the error but up to the date of this report it had not been corrected. This system error could result in the production of inaccurate reports. The audit recommended that every effort should be made to have the error corrected as early as possible.

Maintenance of User Accounts

123. The Jamaica Constabulary Force Cashiering System User Group Report listed the authorized users of the system, the group to which they are assigned and their status, that is, whether 'active' or 'inactive.' Investigations revealed the status of a former cashier was still being reflected as active. In another instance

the Department was unable to identify the officer that was assigned a particular username with administrative privileges. In addition, there were five "inactive" usernames on the system. The System Administrator explained that removing users from the system would also delete all the transactions processed by such users. The retaining of these users on the system could lead to abuse such as the unauthorized reactivating of users' status to perform fictitious transactions. The audit recommended that efforts should be made to have the system reviewed with the aim of correcting the problem of transactions being deleted when removing inactive users from the system. Thereafter all inactive users should be deleted from the system forthwith.

Super User Privileges

124. The System Administrator's responsibilities included creating users, and maintaining and monitoring of the computer system. In addition, only the System Administrator can view the activity log which lists all users and their activities on the system. Investigations revealed that the System Administrator was also a Cashier Supervisor. The supervisor's responsibilities included checking reports, cancelling transactions, reprinting receipts, and performing TRN overrides on the system. A combination of these duties constitutes a significant control weakness as it is possible that fictitious users could be created to manipulate the system. The risk is even greater since related transactions are deleted when user accounts are removed from the system. Poor segregation of duties compromises the intended controls that would ensure independent checks of the transactions processed on the system by the various users. The audit recommended that the System Administrator should not be allowed to perform operational functions. The system should also be subjected to independent checks. In addition, the process of creating and deleting users should be subjected to two levels of approval to enhance control. It was also recommended that the system activity log should be checked by a senior independent officer to ensure that all anomalies are identified and reported.

Verification of Receipts

125. The system generated a receipt number that corresponded with the pre-printed number of the receipt being processed. Information seen revealed that there were 14 instances in which the pre-printed receipt numbers and the system generated numbers were different. Investigations disclosed that such differences resulted from a failure to re-set the computer numbering system in cases of printing errors. There was also no evidence that periodic reconciliations were undertaken between the physical stock of receipts with information on the system. The absence of such reconciliations could lead to irregularities going undetected for a protracted period. There was also no evidence of periodic examination of the cancelled receipts reports and related receipts to ensure that all cancellations were duly authorized and verified. It was recommended that such reconciliations and verifications be instituted.

HEAD 2624 –
DEPARTMENT OF CORRECTIONAL SERVICES

Outstanding Appropriation Account

126. Up to the date of this report, the Appropriation Account for the financial year 2006/2007 was not submitted for examination.

Annual Returns

127. At the time of audit the statutorily required annual returns for National Housing Trust, National Insurance Scheme, Education Tax and Income Tax were not submitted for the calendar year 2006. This could adversely affect employees' access to certain benefits.

Overpayments

128. Employees were overpaid salaries and taxi allowance totalling \$1,506,745 due mainly to inadequate internal check. The Department was advised to effect recovery and to strengthen the internal control over the preparation and payment of salaries.

Expenditure Vouchers

129. Expenditure vouchers bore no required certification that goods costing \$3,562,185 were received in good condition and services procured were satisfactorily performed. A number of instances were also identified where payments totalling \$1,870,419 and \$4,176,714 were made without evidence of the appropriate authorization or requisite original supporting invoices, respectively. These weaknesses could compromise the Department's ability to safeguard against possible improper or duplicated payments.

Bank Reconciliation

130. Reconciliation of the salaries bank account was approximately two years in arrears. This could facilitate irregularities and errors going undetected for protracted periods. The Department was advised to bring the reconciliation up to date in the shortest possible time.

131. Procurement Breaches

- (i) Procurement of goods and services costing approximately \$15.5M was made without evidence that the required competitive price quotations were obtained.
- (ii) Payments totalling \$120.3M were made to nine (9) service providers for whom no evidence was presented to indicate that they

were registered with the National Contracts Commission as required.

- (iii) Documentary evidence was not presented to allow verification that the requisite approval was obtained from the National Contracts Commission and Cabinet for the award of six (6) contracts exceeding \$4M and \$15M, respectively.

Absence of Contracts

132. Current contracts were not presented for payments totalling approximately \$175.8M made to seven (7) suppliers of goods and services. It was recommended that the situation be regularized without further delay as it could lead to controversy in the event of any dispute.

Fuel Pump

133. The records seen did not indicate how 2,588 litres of petrol valued at \$133,935 were accounted for. The Department was requested to investigate and provide an explanation.

HEADS 2800, 2800A & 2800B – MINISTRY OF JUSTICE

Outstanding Appropriation Accounts

134. Up to the date of this report the Appropriation Accounts for the Ministry and its Departments for 2006/2007 had not been submitted for audit. Failure to submit the Accounts within four months of the end of each financial year constitutes a breach of the Financial Administration and Audit Act.

Internal Control Weaknesses

135. The following areas of internal control weaknesses were noted:

- (i) Receipt Books

There was need for improvements in the record keeping for the receipt books, as the stock register was not maintained on a perpetual inventory basis. Three hundred and nine (309) books received and one hundred and sixty-four (164) books issued were also not recorded in the register. Failure to maintain proper records constitutes a breach of section 4.34 of the Financial Instructions and could lead to abuse and the loss of public funds.

(ii) Inadequate Motor Vehicle Control

The Ministry of Finance's guidelines dictating the operation of Advance Cards used to purchase petrol were not faithfully adhered to. Approximately 585 receipts for 27,018 litres of fuel dispensed valued at \$1.34M and seven (7) Advance Cards requested were not presented for audit. There was also need for improvement in the controls exercised over the use of motor vehicles and Advance Debit Cards as the related log books and registers were not satisfactorily maintained. It was recommended that these concerns be addressed as quickly as possible as they could facilitate abuse.

RESIDENT MAGISTRATES COURTS

136. The audits of the financial transactions and accounting records of six (6) Court offices for the year under review disclosed the under-mentioned inadequacies:

(i) Accounting Deficiencies

There was the continuing need for improvements in the level of internal check; maintenance of cash books, value books, receipt books, blank cheques registers; and control over the use of telephones. These weaknesses could result in the loss or misuse of public funds. The Ministry was again reminded that these records should be kept and checked in accordance with the regulations. I was subsequently advised that steps were being taken to implement the recommendations.

(ii) Bank Reconciliations

Reconciliation of seven (7) bank accounts was in arrears of between four months and five years at the time of audit. The bank reconciliations done disclosed numerous unresolved discrepancies some dating from as far back as 1989. Failure to reconcile the bank accounts could allow unauthorized transactions and errors to go undetected for prolonged periods. The Ministry was advised to have these matters rectified at an early date.

(iii) Warrants and Commitments

The records at the Courts visited disclosed 1232 outstanding warrants for violation of bail bonds and 965 outstanding commitments involving approximately \$32M and \$24.9M respectively for the period April 2005 to July 2007. It was also observed that warrants were often not issued promptly and in many instances persons who stood as surety for bail were unknown

at the addresses given. Additionally, commitment registers were not faithfully maintained and the requirement for unexecuted warrants and unpaid fines to be reported to the Courts for corrective action was not always followed. The Ministry was again advised to institute appropriate corrective measures to ensure stricter adherence to the requirements of the Bail Act. Failure to execute the warrants and carry out the order of the Court could undermine the effectiveness of the judicial system and allow perpetrators to go unpunished.

HEAD 2831 – ATTORNEY GENERAL’S DEPARTMENT

Expenditure Vouchers

137. Payment vouchers for \$783,093 bore no evidence of the required authorisation; while payments amounting to \$399,527 were made without appropriate certification that the goods purchased were received in good condition. As a result the authenticity of these payments could not be verified.

Control of Assets

138. The requisite fixed assets inventory records were not maintained. As a result, items costing \$2.99M which were acquired during the period under review were not recorded therein, neither were they suitably marked. Assets purchased for \$64,300 were not presented for audit. These deficiencies weakened management’s control over such assets and corrective measures were recommended.

HEAD 2830 – ADMINISTRATOR GENERAL’S DEPARTMENT

Internal Control Weaknesses

139. Deficiencies were noted in the control over the stationery stores. A receipt book requested was not presented for audit. The Department has promised corrective action.

Key Performance Indicators

140. No evidence was seen that the requisite approval was sought from the Ministry of Finance and Planning prior to the payment of staff incentives related to the 2005/2006 financial year. In addition, overpayments of incentive allowance totalling \$127,548 were made to employees.

Salary Overpayment

141. Seven (7) officers were overpaid salaries amounting to \$13,774. Of this amount \$3,697 was recovered up to the date of the report.

HEAD 2832 – TRUSTEE IN BANKRUPTCY

142. The audit of the accounting records and financial transactions of the captioned Department for the year under review disclosed a generally satisfactory state of affairs. The few internal control weaknesses identified were subsequently addressed by management.

HEAD 3000 – MINISTRY OF FOREIGN AFFAIRS AND FOREIGN TRADE

Accounting Arrears

143. Up to the date of this report the Appropriation Accounts for 2004/2005 to 2006/2007 had not been submitted for audit. Serious arrears were also noted in the submission of and the internal checking of the accounting records and financial statements for several overseas Missions.

Internal Control Weaknesses

144. There was need for stricter compliance with the procedures governing the payment of public funds, as several instances were noted in which expenditure vouchers were either not supported by original suppliers' invoices, were not certified or authorized, or bore no evidence that the service paid for was satisfactorily performed. The Ministry has promised to implement corrective action.

OVERSEAS MISSIONS

Accounting Weaknesses

145. Audits of Jamaica's Missions in Miami and Washington disclosed that due to insufficient staff, accounting duties were not adequately segregated and there was little or no internal check of key accounting records. There was need for effective monitoring of advances as several uncleared balances had been on the books for protracted periods. Deficiencies were also noted in the maintenance of the value books, motor vehicle records, liquor stock and cash book. Corrective measures were recommended as these shortcomings may result in loss to the Government. The Ministry has indicated that it intends to take steps to improve the situation.

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

Outstanding Appropriation Accounts

146. Up to the date of this report, the Appropriation Accounts for 2005/2006 and 2006/2007 were not presented for audit.

Engagement of Consultant

147. There was no evidence that a competitive process was used for the engagement of a consultancy firm to which payments totalling \$1.76M were made between May 2006 and January 2007, to provide communication advice and speech writing services. The relevant supporting invoices were not seen for \$1.5M of the amounts paid.

Motor Vehicles

148. Two motor vehicles were loaned to two other government entities without evidence of the requisite approval from the Ministry of Finance. One vehicle was subsequently returned.

Bank Reconciliation

149. The reconciliation statements for the Ministry's Main Drawing Bank Account disclosed long unresolved discrepancies amounting to \$544,465. The Ministry was advised to continue steps to resolve these matters to safeguard against possible loss of public funds.

NATIONAL INSURANCE SCHEME

Outstanding NIS Contributions

150. The records disclosed that 1,004 employers from eight parishes owed outstanding NIS contributions amounting to \$279.2M and 1,161 employers were also delinquent in filing Annual Returns for the years 1993-2006. Failure of employers to remit outstanding contributions and returns may adversely affect employees' entitlement to benefits when they become due. The Ministry advised that approximately 300 employers had been taken to court, payment arrangements had been made with 200 employers, and a rigorous compliance drive had been launched island-wide.

Pension Vouchers

151. The audit disclosed that weaknesses persisted in the clearing to expenditure, advances made to the Post and Telecommunications Department to

pay pension benefits. The balance at March 31, 2007 stood at \$1.27B. It was recommended that these inadequacies be corrected to facilitate timely and accurate accounting. The Ministry advised that this problem was due primarily to the delay in the submission of final statements by the Department.

Pension Benefits

152. A test check of pension payments was conducted to determine whether persons receiving benefits met the qualifying criteria and that cheques were paid to bona fide payees. This disclosed a generally satisfactory situation except that information was not presented to verify payments of benefits amounting to \$85,358.

Receipting and Accounting for NIS Contributions

153. An audit of lodgements made by the Clarendon and St. Thomas Parish Offices revealed differences totalling \$93,680 between amounts on the lodgement slips and the related credits made on the bank statements. The Ministry advised that this matter was being pursued with the bank and the Inland Revenue Department.

Rehabilitation Grants Programme

154. A test check of payments made under the captioned programme was attempted with the main objectives of ascertaining whether beneficiaries met the qualifying criteria; disbursements were used for the intended purposes; specific project objectives were met; and payments were made to bona fide payees. I was however unable to conclude this audit as 38 of the 50 files selected were not presented for examination. The Ministry was asked to present these at an early date.

PROGRAMME OF ADVANCEMENT THROUGH HEALTH AND EDUCATION (PATH) GOJ/IBRD LOAN NO. 7076JM

155. The Programme of Advancement Through Health and Education (PATH) which is jointly funded by the Government of Jamaica and the International Bank of Reconstruction and Development aims to provide a more efficient system of social assistance for the poor and vulnerable. The audit of the Programme for the year under review disclosed the under-mentioned areas of concern:

(i) Internal Control Weaknesses

Weaknesses were noted in the controls exercised over the custody and disbursement of cheques to beneficiaries and the salary preparation process. I was subsequently advised that corrective measures were instituted.

(ii) Bank Reconciliation

At the time of audit, reconciliation of the beneficiaries' bank account was one year in arrears. It was noted that the management was taking steps to correct this issue.

(iii) Irregularities and Losses

The Programme reported fraudulent encashment of cheques amounting to J\$2.87M. The matter was reported to the Police. It was noted that the Ministry demanded that the Bank refund the amount defrauded, but up to the date of this report this had not yet been done.

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

156. *Teachers' Emoluments*

- (i) Fifty (50) teachers were overpaid emoluments totalling \$9.3M due mainly to a lack of timely communication of information from the regional offices, and calculation errors. It was recommended that the Ministry takes steps to improve the communication system and recover the amounts overpaid.
- (ii) Personal files for eighty-five (85) teachers, salary cards for eighty-five (85) former teachers and evidence of qualification and other relevant documents for another 101 teachers were not presented for audit. This prevented verification of whether the teachers were properly engaged and were being paid the correct emoluments.
- (iii) A sample audit disclosed that personal deductions from salaries totalling \$4.7M were wrongly paid on behalf of 202 teachers whose net salary cheques were cancelled, as they were not entitled to the payments. This amount should be recovered.
- (iv) The audit identified certain weaknesses in the teachers' payroll system which exposed it to serious risks. Teachers who resigned were not deleted from the system and duplicate data were not rejected. Consequently, one teacher was overpaid salary which was since recovered except for an outstanding balance of \$63,646. The Ministry was advised to correct the problem. It subsequently advised that the overpayment was fully recovered and that steps were being taken to correct the inadequacies.

- (v) There was no indication that overpayments of salaries totalling \$29.7M, mentioned at paragraph 135 of the 2005/2006 annual report had been recovered.
- (vi) Up to the time of the audit, annual returns for statutory salary deductions were not submitted for the 2006 calendar year. This could adversely affect employees' access to certain benefits.
- (vii) In my Annual Report for the financial year 2005/2006 it was reported that salary and interest charges totalling \$122.2M were not recovered from 203 former teachers who breached their training bond agreements. There was still no evidence that effective efforts were being made by the Ministry to recover the amounts owed.
- (viii) Honoraria and other fees paid totalling \$1.7M were not subjected to statutory deductions, as required by law.

Breaches of the Payment Procedures

157. Adequate supporting documents were not presented to substantiate payments totalling \$8.2M. The Ministry was advised to present these records.

Schools' Audits

158. A review of the extent to which Boards of Management of publicly funded educational institutions had complied with the requirements of Section 89 (1d) of the Education Regulation in submitting annual audited financial statements showed no evidence that eighty-seven (87) of the listed schools had ever submitted audited financial statements. Failure to ensure that independent audits are conducted may allow errors and irregularities to go undetected.

Bank Reconciliation

159. The reconciliation statements for six (6) bank accounts disclosed numerous unresolved errors made by banks over protracted periods and represented net erroneous debits of \$6,638,612. The Ministry was again advised to rigorously pursue these matters to safeguard against possible loss of public funds.

School Cottages and Flats

160. There was no indication that the Ministry had corrected the deficiencies outlined in my 2005/2006 annual report regarding the absence of a housing policy, the need to implement more realistic rental rates and the failure to recover rental arrears totalling approximately \$1.5M.

Rental of Motor Vehicles

161. Amounts totalling \$261,797 were paid by the Ministry for the rental of motor vehicles without evidence of the required approval from the Ministry of Finance.

Suspected Irregularities

162. The Ministry reported two (2) cases of suspected irregularities involving amounts totalling \$1.7M. The matters were reported to the Police.

ENHANCEMENT OF BASIC SCHOOLS PROJECT **GOJ/CDB NO. 13/SRF-OR-JAM**

163. The captioned Project aims to enhance the quality of learning and development of children up to six (6) years of age. It plans to attain its objectives through the development of model learning environments, strengthening institutional capacity, qualitative improvement, which encompasses the training of early childhood education workers for certification, and public education. The Project is jointly funded by the Caribbean Development Bank (CDB) through a grant of US\$13.383M and the Government of Jamaica (GOJ) cost sharing contribution of US\$2.46M. The audit of the financial transactions of the Project disclosed a generally satisfactory state of affairs except for the under-mentioned areas of concern:

(i) Outstanding Financial Statements

Annual financial statements for the years 2002/2003 to 2005/2006 were submitted for audit but had to be returned for amendments. These were not resubmitted up to the date of this report. Statements for 2006/2007 were also outstanding. This breached the General Provision of the Loan Agreement. The management was advised to make every effort to comply with the requirements of the Agreement.

(ii) Breach of Contract Guidelines

The requisite approval was not seen for variations amounting to J\$4,487,910 on a contract. In addition, Retention Money of only 5% of the certified sum paid to a contractor was withheld instead of the 10% stipulated in the contract. The management was advised to ensure stricter compliance with the Government's rules on contracts.

EARLY CHILDHOOD COMMISSION

164. The audit of the captioned entity disclosed the following shortcomings:

(i) Outstanding Annual Reports

Up to the time of this report annual reports for financial years 2003/2004 to 2006/2007 had not been submitted to the Ministry as required by Section 3 of the Public Bodies Management and Accountability Act 2001.

(ii) Breaches of Payment Procedures

Payment vouchers totalling \$10.7M were not appropriately certified or authorized by the responsible officers. Consequently, the risk of improper payment was increased. The Commission was advised to ensure that all payment vouchers are certified and authorized prior to disbursement.

(iii) Non-Payment of Statutory Deductions

Fees totalling \$2M paid to Board Members of the Commission and Dietetic Technicians at the Regional Health Authorities were not subjected to the required statutory deductions.

MICO UNIVERSITY COLLEGE

165. The audit of the captioned College disclosed the following areas of concern:

(i) Outstanding Financial Statements

Up to the time of this report audited financial statements for 2004/2005 to 2006/2007 had not been submitted to the Ministry as required by the Education Regulations.

(ii) Unauthorized Bank Overdrafts

The College incurred bank overdraft charges totalling \$12,610 on unauthorised overdrafts on two (2) current accounts.

(iii) Breaches of the Procurement Procedures

Amounts totalling \$10.8M were paid to two (2) firms for security services without evidence that the required competitive price quotations were obtained. Formal contracts with the firms were not

presented for audit, and there was no evidence that the attendance register was checked to verify the hours worked by the security personnel. The College was advised of the requirement to adhere to the Government's procurement and payment guidelines.

(iv) Bank Reconciliation

The bank balances for two (2) current accounts were not properly reconciled with the cash book since October 2004 and there was no evidence that the reconciliation statements were checked by a senior officer. This may cause errors and irregularities to go undetected.

(v) Overpayment of Salaries

Two (2) officers were overpaid amounts totalling \$136,777 because of incorrect computations.

(vi) Unauthorized Positions

Four (4) new positions were added to the staff establishment without evidence of the required approval of the Ministry of Finance.

(vii) Payment Vouchers

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

(viii) Internal Control Weaknesses

There were inadequacies in the maintenance of the fixed assets register, value book, motor vehicle logs, and the blank cheques and receipt book registers.

Corrective measures were recommended to address these concerns.

COUNCIL OF COMMUNITY COLLEGES OF JAMAICA

Internal Control Weaknesses

166. The audit of the captioned entity for the year under review disclosed the need for improved control over blank cheques, receipt books and fixed assets. Assets bought during the year at a cost of \$745,441 were not taken on inventory. In addition, personal files were not updated with pertinent salary information.

Outstanding Financial Statements

167. The financial statements for 2004/2005 to 2006/2007 were not submitted for audit up to the date of this report, as required by Section 12 of the Council of Community Colleges of Jamaica Act and Section 3 of the Public Bodies Management and Accountability Act.

INSTITUTE OF JAMAICA

168. The audit of the financial transactions and accounting records of the captioned entity revealed the following deficiencies:

(i) **Improper Payments**

Two officers were overpaid emoluments amounting to \$2,631,878 due to failure to follow guidelines issued by the Ministry of Finance, contrary to the requirement of the Public Bodies Management and Accountability Act. The Institute was informed to effect recovery, failing which the Ministry of Finance should seek to invoke the sanctions provisions of the Act.

(ii) **Procurement Breaches**

The procurement of goods and services costing J\$1,528,670 and US\$1,980 was done without evidence that the required competitive price quotations were obtained. In addition, no satisfactory explanation was provided for the acquisition of two properties for approximately \$1.2M above the independent valuations received.

(iii) **Development Fund**

Transactions relating to the Institute's Development Fund were not reflected in the accounting records and consequently the entity's annual financial statements did not reflect the true state of its affairs.

(iv) **Inadequate Loan Security**

As previously reported, the entity did not obtain sureties before the disbursement of loans, contrary to Ministry of Finance's guidelines. The possible difficulty in recovering overdue amounts, especially when officers become separated from the entity, was again communicated to the Institute.

(v) Control Deficiency

Improvements were needed in the record keeping and control exercised over fixed assets, investments, blank cheques, receipt books, and the reconciliation of bank accounts. The Institute was advised that the weaknesses identified would increase the possibility of errors and irregularities going undetected.

NATIONAL GALLERY OF JAMAICA

169. The audit of the financial transactions and accounting records of the National Gallery of Jamaica for the year under review revealed the following deficiencies:

(i) Statutory Deductions

Statutory deductions amounting to \$103,374 were not made from benefits and emoluments provided to two (2) officers. The Gallery was advised to recover the amounts involved from the respective officers and remit same to the relevant tax authorities.

(ii) Absence of Contracts

Contracts of employment were not presented for two (2) officers engaged during the period April 2006 to December 2006. Consequently, the terms of their employment could not be verified.

(iii) Overpayment

An officer was overpaid salary amounting to \$8,286 because of inadequate internal check. The entity was informed to recover the overpayment.

(iv) Unsupported Payments

Adequate supporting documents were not presented for withdrawals totalling US\$4,593 made from one of the entity's bank savings accounts.

NATIONAL YOUTH SERVICE

170. An audit of the captioned entity's financial and accounting records for 2006/2007 disclosed that a senior officer was paid emoluments above the level approved by the Ministry of Finance, contrary to Section 20 of the Public Bodies Management and Accountability Act. This resulted in overpayment of \$838,652 for the period August 2006 to September 2007. Five (5) posts were also

operated by the entity without the requisite approval of the Ministry of Finance. The organization was advised to take steps to recover the overpayment and regularize the staffing situation.

NATIONAL LIBRARY OF JAMAICA

171. The audit of the captioned entity for the year under review disclosed the following deficiencies:

(i) Advance

An advance payment of \$13,340 made to an officer was supported by receipts totalling \$8,450. The difference of \$4,890 remained outstanding. The entity was advised to either obtain receipts for the balance or recover same from the officer involved.

(ii) Disposal of Motor Vehicle

A motor vehicle was disposed of by sale to a member of staff. However, the necessary documentation relating to the transaction was not presented. It could therefore not be determined whether the sale was done in keeping with the Guidelines to Financial Management in Public Sector Entities and Government's comprehensive motor vehicle policy.

HEADS 4200, 4200A AND 4200B –

MINISTRY OF HEALTH

Outstanding Appropriation Accounts

172. Up to the date of this report, the Appropriation Accounts for 2006/2007 had not been received for audit.

THE PESTICIDES CONTROL AUTHORITY

173. The audit of the captioned Authority for 2006/2007 disclosed that the financial transactions and accounting records were generally satisfactory.

NATIONAL HEALTH FUND

174. The audit of the captioned Fund for 2006/2007 disclosed a generally satisfactory state of affairs.

CHILD DEVELOPMENT AGENCY

175. An audit of the captioned Agency for the period under review revealed the following areas of concern:

- (i) Payments totalling \$8.7M were made to two companies to provide security services. However, the required written agreements were not presented for audit. I was subsequently told that steps were being taken to regularize the situation.
- (ii) Tax due on the private use of a motor vehicle assigned to a senior officer was not deducted resulting in an overpayment of \$30,000.

HEAD 4234 – BELLEVUE HOSPITAL

Breaches of Procurement Guidelines

176. The audit identified instances in which the procurement of goods and services costing \$28.1M was done without evidence of compliance with the Government's procurement procedures. These breaches could have served to compromise achievement of the objectives of economy, equity and transparency in the use of public funds.

Uneconomical Purchases

177. Amounts totalling \$205,000 were paid for security services for a Drop-In Centre although similar services were being provided by another firm. There was no evidence that the entity was licensed to offer security services or that signed agreements were entered into with both service providers.

Overpayment of Salaries

178. An officer was overpaid salary of \$137,268 while on no pay leave. The Hospital was advised to recover the amount. I was subsequently informed that this was done.

Missing Equipment

179. A gas stove and a washing machine which were listed to be disposed of, were not presented for examination. There was also no evidence seen that the necessary board of survey by the Ministry of Finance had recommended their disposal.

REGIONAL HEALTH AUTHORITIES

Internal Control Weaknesses

180. Weaknesses were noted in the controls exercised over bank reconciliations, salaries, receipt books, stores, motor vehicles and cash management. Corrective measures were recommended as failure to implement them may result in loss of public resources.

Outstanding Financial Statements

181. At the time of examination, the audited annual financial statements for three (3) Regional Health Authorities were between two and four years in arrears. This breached the Public Bodies Management and Accountability Act and prevented a timely assessment of the Authorities' financial state of affairs.

Non-remittance of Statutory Deductions

182. Statutory deductions made from employees' emoluments totalling \$954.19B as detailed below were not remitted by three Authorities to the relevant agencies as required by law. This breach of the relevant Acts could expose the Authorities to possible legal sanctions as well as adversely affect employees' entitlement to certain benefits.

<u>Regional Authority</u>	\$
Southern	249,311,863
Western	90,052,728
South East	615,830,023
	\$954,194,614

The Ministry advised that steps had been taken to clear the arrears and prevent any recurrence.

Overpayments and Other Losses

183. The Western and Southern Regional Health Authorities reported losses during the financial year totalling \$482,212 due to break-ins and \$4M due to a fire. Additionally, overpayments totalling \$562,802 were made by both Authorities, of which \$302,443 was recovered at the time of the audit:-

<i>Regional Authority</i>	<i>Losses</i>	<i>Overpayments</i>
	\$	\$
Western	394,926.50	539,296.75
Southern	4,087,285.00	23,505.26
	4,482,211.50	562,802.01

Construction Contracts

184. A contract for \$35,997,597 was awarded in July 2006 by the Western Regional Health Authority for water proofing of roofs at the Cornwall Regional Hospital. The work was scheduled to be completed by March 30, 2007, however, at the time of audit in May 2007 the work was incomplete but there was no evidence that the extension beyond the stipulated completion date was approved. Reports seen indicated that the Operations and Maintenance Director was dissatisfied with the quality of the work done, and the poor workmanship was confirmed by an audit inspection, as cracks were observed in the roof. The Authority was asked to ensure that these deficiencies were corrected. I was subsequently advised that most of the leaks had been corrected and the contractor was being held responsible for correcting the other defects.

Furniture and Equipment

185. Inadequacies were noted in the maintenance of the assets inventory records at the Western Regional Health Authority as furniture and equipment costing \$3,215,861 were not recorded in the relevant records.

Waste of Medical Gas

186. Minutes of the Finance Committee's meetings revealed that the South East Regional Health Authority utilized at least three times the amount of medical gas compared to other regions. This was attributable to a number of leaking valves which were identified at the Kingston Public and Jubilee Hospitals. It was recommended that early action be taken to correct the problem highlighted. I was since informed that steps so far taken had improved gas usage by 39% and funds were being sought to further improve the situation.

Unauthorized Study Leave

187. Two doctors at the South East Regional Health Authorities who were employed on contract were granted study leave with pay during the contract period. There was no evidence that the approval of the Office of the Services Commissions was obtained and in the case of one doctor the approval of the Ministry of Health was not presented. Salaries and gratuities paid for the period of study leave totalled \$4.6M.

Travelling Allowance

188. An officer at the Southern Regional Health Authority was paid the fixed travelling allowance of \$477,708 per annum in keeping with his employment contract. However, his salary group was not on the Ministry of Finance's approved list for that benefit and there was no evidence that the Ministry's approval was obtained.

Unauthorised Bank Overdrafts

189. The Southern Regional Health Authority incurred bank charges totalling \$1.3M on unauthorized overdrafts on a bank account.

UNIVERSITY HOSPITAL OF THE WEST INDIES

Overpayment of Emoluments

190. Six officers were overpaid emoluments totalling \$1.05M as a result of breaches of internal policies and failure to adhere to government guidelines.

Payment of Overtime

191. Overpayment of overtime totalling \$37,066 was noted. This resulted from payment of overtime to 15 employees who were instead eligible for honorarium.

Staff Loans

192. There was no evidence that the staff loans policy was approved by the Ministry of Finance. In addition, the interest rate charged was 4 percent instead of the minimum 8 percent stipulated in the Ministry's guidelines. There was also no evidence that motor vehicle loans totalling \$2.59M granted to 7 officers were secured by way of registered liens on the vehicles. Management was advised to take corrective action to reduce the hospital's exposure to losses.

Breaches of Procurement Procedures

193. The audit identified 54 instances in which the procurement of goods and services costing \$61.55M was done without evidence of compliance with Government's established procurement procedures. As a result the objectives of ensuring equity, transparency and economy in the use of public funds were compromised.

Items Not Yet Received

194. At the time of audit there was no evidence that goods costing \$1,555,159 and US\$76,472 paid for months in advance were received. Additionally, there was no indication that an asset costing \$3.6M had been put to use 9 months after it was acquired.

Overseas Travel

195. The required approval of the Ministry of Finance was not presented for the payment to 6 officers of per diem allowances of US\$5,480 in excess of the government's approved rates for overseas trips undertaken.

Contracts

196. Written contracts were not presented for sundry services and construction works procured at a cost of \$104.6M. There was also no evidence that a signed contract existed for catering services provided to the Hospital at a cost of \$162M between 2005 and 2006. Management was advised to ensure strict future compliance with the Government's procurement rules.

Contractors Levy

197. There was no indication that contractors levy totalling \$201,473 was deducted from certain contract payments made and remitted to the Collector of Taxes as required by the Contractors Levy Act.

PHARMACY COUNCIL OF JAMAICA

198. The audit of the financial transactions and accounting records of the captioned Council for the year under review revealed a generally satisfactory state of affairs. The few weaknesses identified were corrected.

NATIONAL COUNCIL ON DRUG ABUSE

199. The audit of the accounting records and financial transactions of the captioned entity revealed the following areas of concern:

- (i) Internal Control Weaknesses
 - (a) In several instances there was no evidence that the required competitive price process was adhered to in the procurement of goods.
 - (b) A number of instances were identified where payments were made without evidence of the appropriate authorization and requisite original supporting documents. Improvement was also needed in the maintenance of the advance accounts, fixed assets inventory, preparation of bank reconciliation statements and in the accounting for moneys collected. It was recommended that appropriate action be taken to reduce the entity's exposure to possible losses or irregularities caused by these weaknesses.
- (ii) Absence of a Board of Directors

The Council's Board of Directors was dissolved in March 2006. Up to the time of this report, a new Board was not appointed thus denying the Council proper guidance in its operations.

PROFESSIONS SUPPLEMENTARY TO MEDICINE

200. The audit of the captioned entity for the year under review disclosed the following deficiencies:

(i) Inadequate Control of Funds

The necessary controls were not implemented to ensure that cash was properly safeguarded. The inadequacies included the opening of mails with value by the cashier only; inadequate segregation of duties over the receipt, recording and lodgement of cash; the cash book not being balanced and subjected to independent reviews; unsigned adjustments to copy receipts; and petty cash disbursements and reimbursements made without adequate supporting documentation. In addition, the cashier had full access to un-issued receipt books. The audit disclosed unexplained irregularities involving \$40,840 and the entity was advised to report the matter to the Police for further investigation. Up to the date of this report I was not informed if this had been done.

(ii) Cash Shortage

A surprise inspection revealed an apparent cash shortage of \$28,606.

(iii) Signed Blank Cheques

The entity continued the improper practice of signing cheques in blank despite previous advice to desist. In addition, access to blank cheques was not appropriately restricted and several breaches in the payment process were noted.

(iv) Unapproved emoluments

Although reported in my 2005/2006 annual report, written approval was still not obtained from the Ministry of Finance and Planning for salaries paid to officers as required by Section 2.02 of the Guidelines to Financial Management in Public Sector Entities and Section 20 of the Public Bodies Management and Accountability Act .

(v) Overpayment

One officer was overpaid salary of \$120,596 as a result of incorrect salary computation. The entity was advised to effect recovery.

MEDICAL COUNCIL OF JAMAICA

Inducement Allowance

201. Inducement allowance of \$58,363 was paid to two (2) officers without evidence of the required prior approval from the Ministry of Finance. A similar payment of \$83,376 was made in the previous year to three (3) officers as reflected in my 2005/2006 annual report.

Procurement Breaches

202. Competitive price quotations were not seen for goods purchased by the entity. In addition, the acquisition of goods and services was not always properly supported with the relevant documents and certification.

Outstanding Financial Statements

203. Up to the date of this report there was no indication that the Financial Statements for the years 2003/2004 to 2005/2006 were submitted to Parliament as required by Section 3 of the Public Bodies Management and Accountability Act and Section 12 of the first schedule of the Medical Act.

HEAD 7248 – NATIONAL ENVIRONMENT AND PLANNING AGENCY

Appropriation Account

204. Up to the time of this report, the Appropriation Account for the financial year 2006/2007 was not submitted for audit.

Storage Fees

205. The agency incurred storage fees totalling \$700,000 for three (3) motor vehicles which remained in a garage over the period February 2003 to October 2006.

Absence of Formal Agreements

206. Payments totalling \$9.65M were made by the Agency for property rental. However, no related formal agreements were presented. The Agency was advised to regularize the situation without further delay as it could lead to controversy in the event of any dispute.

Internal Control Weaknesses

207. Deficiencies were noted in the controls exercised over bank accounts, revenue cash book, and motor vehicles. It was recommended that steps be taken to address these weaknesses as these could expose the Agency to losses and abuse.

Overpayment of Incentives

208. Incorrect calculations and inadequate internal checks contributed to the overpayment of incentive allowances totalling \$2,169,328 to employees. The Agency was advised to recover the overpayments and strengthen its internal checking process.

HEAD 4220 - REGISTRAR GENERAL'S DEPARTMENT

209. The audit of the financial transactions and accounting records of the captioned agency disclosed the following unsatisfactory features:

(i) Key Performance Indicators (KPIs)

An assessment of the Agency's KPIs for 2005/2006 indicated that the qualifying targets for the payment of certain performance incentives were not met. Recommendation was made for a revision of the assessment of the affected KPIs and recovery of the portion of the incentive allowance which seemed to have been improperly paid.

(ii) Breaches of Procurement Guidelines

(a) During the period April 2005 to July 2007 the Agency paid three contractors \$17.5M to transport its cash and other valuables. However, the required written contracts were not presented for the provision of these services.

(b) Amounts totalling \$5.4M were paid to a contractor to provide janitorial and ground maintenance services for the period September 1, 2006 to August 31, 2007 without evidence that a written agreement was in place for that period. There was also no indication that the necessary recommendation of the National Contracts Commission was obtained for the engagement of the contractor.

(iii). **Unauthorized Salary Payments**

No evidence was presented that the requisite approval was obtained from the Ministry of Finance and the Public Service and the Office of the Services Commissions for the re-classification and salary increases afforded four senior positions at the Agency. This resulted in improper salary payments totalling \$3,968,323 being made over the period April 2004 to August 2007. The matter was referred to the Ministry of Finance and the Public Service for surcharge action to be taken against the negligent officer.

HEAD 4235 – GOVERNMENT CHEMIST

210. The audit of the captioned department for the year under review disclosed a generally satisfactory state of affairs. However, up to the date of this report the Appropriation Account for 2006/2007 was not presented for audit. There was also need for improvement in the internal check over the preparation and payment of salaries, and in the maintenance of the chemical stores records.

**HEADS 5100, 5100A AND 5100B –
MINISTRY OF AGRICULTURE AND LANDS**

Ministry's Head Office

211. The audit of the Ministry's Head Office disclosed that financial transactions for the year under review had been conducted in a generally satisfactory manner. The few weaknesses identified were being rectified.

NATIONAL IRRIGATION COMMISSION

212. The financial transactions of the Commission for 2006/2007 were conducted in a generally satisfactory manner; however, the under-mentioned areas of concern were noted:

(i) **Breaches of the Procurement Guidelines**

There was no evidence presented that the required competitive process was used to engage two consultants who were paid emoluments totalling \$5.5M.

(ii) **Receivables**

Reports presented showed that as at January 2007 debts owed to the Commission for thirty (30) days and over for the sale of water amounted to \$77M. The Commission subsequently advised that

the arrears had been reduced to \$36.4M and that steps were being pursued to collect the remainder of \$11.5M considered collectible.

AGRICULTURAL DEVELOPMENT CORPORATION

213. An audit of the financial transactions and accounting records of the captioned entity disclosed the following unsatisfactory features:

(i) Outstanding Financial Statements

Up to the time of this report audited financial statements were not available for the years 2002/2003 to 2006/2007. This contravened the Public Bodies Management and Accountability Act and prevented a proper assessment of the Corporation's state of affairs.

(ii) Breaches of the Procurement Guidelines

There was no evidence presented that the required competitive price process was adhered to in the procurement of goods and services amounting to \$839,045.

(iii) Disposal of Assets

Evidence was not presented to indicate that the appropriate procedures were followed for the disposal of some fixed assets and in accounting for the loss and death of cattle. The Corporation has promised corrective action.

(iv) Outstanding Debts

Information on the status of certain debts totalling \$9.6M which were reflected in the most recent audited financial statements presented (1999/2000) was not provided.

HEAD 5847 – NATIONAL LAND AGENCY

214. The audit of the Agency's financial transactions and accounting records for the period under review, disclosed a generally satisfactory state of affairs. However, there was no evidence of competitive bidding for goods and services procured from four (4) suppliers amounting to \$5.3M. The Agency was advised to adhere to the procurement guidelines in order to ensure economy, equity and transparency.

**LAND ADMINISTRATION AND MANAGEMENT
PROGRAMME GOJ/IDB LOAN NO. 1219/OC-JA**

215. The Land Administration and Management Programme, which is jointly funded by the Government of Jamaica and the Inter-American Development Bank, aims to establish a dynamic land market that promotes an efficient use of land resources. This is to be achieved through Land Registration, Public Land Management, Land Information Management and Land Use Planning and Development. The audit of the Programme for the period under review disclosed a generally satisfactory state of affairs. However, improvement was needed in the control exercised over motor vehicles, furniture and equipment.

JAMAICA 4-H CLUBS

216. The audit of the financial transactions and accounting records of the captioned entity for the year under review disclosed the following unsatisfactory features:

(i) Unpresented Documents

Adequate supporting documents were not presented to substantiate expenditure totalling \$68,830.

(ii) Fixed Asset Inventory

It was noted that assets purchased at a cost of \$1,017,161 during the year were not taken on inventory. This may undermine efforts to safeguard the Club's assets.

(iii) Unauthorised Bank Overdrafts

The Club incurred charges and interest totalling \$141,697 during 2006/2007 as a result of unauthorised overdrafts on a bank account. Management was advised to institute appropriate steps to prevent any recurrence.

(iv) Internal Control Weaknesses

There was need for improved control over advances, blank cheques, cash receipts, and advance debit cards for fuel.

(v) Breach of Procurement Rules

Several instances were noted in which there was no evidence that the required competitive price quotations had been used in the procurement of goods and services.

JAMAICA VETERINARY BOARD

217. The audit of the Jamaica Veterinary Board revealed the need for improvement in the procurement process, management of the petty cash imprest and in the accounting for moneys collected.

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

218. The Ministry's financial transactions and accounting records for 2006/2007 disclosed a generally satisfactory state of affairs.

JAMAICA BUREAU OF STANDARDS

219. The audit of the Bureau of Standards for 2006/2007 disclosed the following unsatisfactory features:

(i) Internal Control Weakness

Inadequacies were noted in the certification and authorisation of payment vouchers. Corrective measures were recommended.

(ii) Foreign Travel

A delegation of six individuals visited Singapore and Japan during September 27 – October 9, 2006 to obtain information designed to enhance the Bureau's activities. I was not satisfied with the basis on which a non-employee or officer of the Bureau was included in the delegation. Unauthorized and nugatory expenses totalling \$1,563,845 for business and first class airfares, hotel accommodation and car rental were also incurred for this trip.

(iii) Compensation Package – Former Senior Officer

Payments and benefits amounting to \$8,743,030 were, on the approval of the Standards Council, made to a former senior officer in breach of established government guidelines, as detailed below:

	\$
Emoluments	4,457,611
Gift of Office Equipment	326,249
Motor Vehicles	3,422,920
Life Insurance	<u>536,250</u>
Total	8,743,030

The Bureau was asked to recover these benefits and payments from the former senior officer failing which the Ministry of Finance should see to invoke the sanctions provisions of the Public Bodies Management and Accountability Act.

(iv) Disposal of Motor Vehicle

It was noted that a motor vehicle was sold to an employee of the Bureau for \$200,000 despite the highest bid of \$456,556. It was recommended that the motor vehicle disposal policy, which stipulated that vehicles be sold to the highest bidder, be strictly adhered to.

FAIR TRADING COMMISSION

220. The audit of the Fair Trading Commission for the year under review disclosed a generally satisfactory state of affairs.

ANTI-DUMPING AND SUBSIDIES COMMISSION

221. The audit of the Anti-Dumping and Subsidies Commission's financial transactions and accounting records revealed the following deficiencies:

(i) Leave Entitlement

The entity was informed that the contractual leave entitlement given to staff was unauthorised because it contravened the amount allowed by Government as outlined in the respective guidelines issued by the Ministry of Finance and the Public Service.

(ii) Internal Control Weaknesses

Weaknesses were observed in the maintenance of the required fixed assets control records. The entity was informed that this could impact negatively management's ability to safeguard and account for assets owned. Improvements in controls were also needed in the areas of advances and loans, reconciliation of bank accounts, procurements and the payroll process. The Commission has promised corrective action.

HEAD 5238 – COMPANIES OFFICE OF JAMAICA

222. An audit of the captioned Agency raised the following concerns:

(i) Internal Control Weaknesses

Deficiencies were noted in the areas of expenditure transactions, record keeping for fixed assets and the securing of motor vehicle loans. Corrective measures were recommended.

(ii) Unauthorized Salary Payments

The Agency continued to be in breach of the instructions of the Ministry of Finance and Public Service as it remunerated an officer at a higher level than that approved. This resulted in improper payments totalling \$624,557 being made to this officer for the period September 2006 to August 2007. Once again the matter was referred to the Financial Secretary and the Office of the Services Commissions for imposition of appropriate sanctions against the negligent officer.

HEAD 5239 –
POST AND TELECOMMUNICATIONS DEPARTMENT

Outstanding Financial Statements

223. The Annual Revenue Statements for 2003/2004 to 2006/2007 remained outstanding up to the date of this report in contravention of the Financial Administration and Audit Act.

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

Outstanding Financial Statements

224. Up to the time of this report, the Appropriation Accounts for 2006/2007 remained outstanding.

FLOOD DAMAGE REHABILITATION PROGRAMME

225. An examination of certain contracts under the Flood Damage Rehabilitation Programme funded by the Caribbean Development Bank and the Government of Jamaica revealed the following shortcomings:

(i) Contract Variations

The following three (3) contracts reflected substantial variations in cost:-

Contract	<u>Original Contact Sum</u>	<u>Variation Orders</u>	<u>Percentage Increase over Original Contract Sum</u>
Rio Minho Bridge Protection Works	\$ 32,076,820	\$ 23,368,914	73%
Retaining Wall at Trinityville to Cedar Valley, St. Thomas	8,383,690	18,543,618	221%
Rehabilitation of Roads in St. Mary	53,301,729	25,781,772	48%

There was no evidence that new submissions were made to the National Contracts Commission and Cabinet for approval of the variations.

(ii) Unremitted Contractors Levy

There was no indication that Contractors Levy totalling \$1,482,200 deducted from two (2) contracts was paid over to the Inland Revenue Department. This violated the requirements of the Contractors Levy Act 1985 and could result in the imposition of penalties.

(iii) Penalty Charges

The Agency's inability to honour contractors' claims on a timely basis resulted in the payment of interest of \$2,647,498 for late payments on two (2) contracts and payment of \$2,402,370 as loss and expense claimed on one contract.

(iv) Contract Breaches

A contract which was previously awarded in the sum of \$21,748,364 in 2005 was sub-contracted to another contractor nine (9) months after the date the work should have commenced. There was no evidence that a new submission was made to Cabinet and the National Contracts Commission for approval or ratification. There was no evidence that a performance bond and insurance was obtained by the contractor or sub-contractor. In the absence of a performance bond and insurance the Agency could be exposed to financial losses.

CARIBBEAN MARITIME INSTITUTE

226. An audit of the captioned Institute disclosed the following concerns:

(i) Non-Submission of Annual Financial Statements

Up to the date of this report there was no indication that annual financial statements for 2005/2006, had been tabled in the Houses of Parliament as required by Section 3 of the Public Bodies Management and Accountability Act and Section 14 of the Caribbean Maritime Institute Act. The Institute advised that its annual report for the year had been submitted to its portfolio ministry on January 5, 2007.

(ii) Disbursement Inadequacies

(a) Several instances were noted in which expenditure vouchers bore no certification that goods purchased were received in good condition and services procured were satisfactorily performed.

(b) Eighty-nine (89) payments were made during December 2006 to January 2007, without the use of payment vouchers. It therefore could not be determined who certified and authorized these payments.

(c) During the period under review the Institute did not operate the required Procurement Committee.

(iii) Canteen Concessionaire

The procurement of canteen services at a cost of approximately \$6M was done without evidence that the required competitive tenders were obtained.

(iv) Fully Assigned Motor Vehicle

A former director who was assigned a fully maintained motor vehicle was also in receipt of motor vehicle upkeep allowance of \$661,830. It was recommended that the matter be investigated and the overpayment made recovered. The Institute subsequently advised that recovery had been effected.

(v) Fuel Advance Cards

The necessary information was not provided to substantiate that petrol acquired at a cost of \$58,528 was supplied to official vehicles. The Institute has indicated that corrective measures had

since been implemented to address the concerns expressed at (ii), (iii) and (v) above.

JAMAICA URBAN TRANSIT COMPANY

227. An audit of the financial transactions and accounting records of the captioned Company disclosed the following matters of concern:-

(i) Outstanding Statutory Deductions

Statutory deductions amounting to \$573,189,488 made from employees' emoluments since the financial year 2002/2003 were not remitted to the relevant collecting agencies as required by law. This breached the relevant acts and could expose the Company to possible legal sanctions, and adversely affect employees entitlement to certain benefits.

(ii) Unauthorised Payments

The Ministry of Finance and Planning had advised that certain categories of workers were not entitled to duty allowance. However, the Company paid \$2,400,000 in duty allowances to these workers. It was advised to recover all amounts overpaid, failing which the Ministry of Finance and the Public Service should seek to impose the sanctions provisions of the Public Bodies Management and Accountability Act against the negligent officer(s). It was also noted that eighteen (18) employees, were paid supper allowance of \$96,770, contrary to the Ministry of Finance's guidelines. The Company was advised to recover the overpayments made.

(iii) Unauthorised Bank Overdraft

Charges totalling \$79,819 were incurred on unauthorized overdrafts on one of the Company's bank accounts.

(iv) Disposal of Waste Water Contracts

There was no evidence of written contractual agreements with two companies which were paid approximately \$7.56M since 2005 for removing waste water from the Company's compound. In addition there was no indication that the companies were tax compliant or were certified by the National Contracts Commission.

(v) Chartered Income

I was unable to verify whether chartered income amounting to \$821,800 was lodged to the relevant bank accounts as the necessary supporting information was not presented. The Company was asked to investigate this matter and advise me.

(vi) JUTC Charter Arrears

At the time of audit the records showed that amounts totalling \$2,712,057 were owing to the Company for charter service provided, with some of the arrears dating back to 2002.

(vii) Advance Debit Cards

At the time of audit the Ministry of Finance and Planning's guidelines on the use of fuel advance cards to purchase petrol was not faithfully adhered to. As a result, I was unable to determine the authenticity of transactions costing \$54,132. The management was advised to provide the missing information and to comply with the stipulated guidelines.

ROAD MAINTENANCE FUND

228. The audit of the Road Maintenance Fund for the period under review disclosed the following areas of concern:

(i) Non-submission of audited financial statements

Up to the date of this report there was no indication that audited financial statements for 2004/2005 and 2005/2006 were submitted to Parliament as required by the Road Maintenance Fund Act and Public Bodies Management and Accountability Act.

(ii) Unauthorised Allowances

For the period May to November 2006, six (6) officers were paid \$217,125 for clothing and laundry allowances which did not have the required approval of the Ministry of Finance. The Fund was advised to recover this amount.

(iii) Expenditure Vouchers

Several instances were noted in which expenditure vouchers bore no certification that goods purchased were received in good condition and services procured were satisfactorily performed

LOCAL GOVERNMENT BODIES
CLARENDON PARISH COUNCIL

229. The audit of the Clarendon Parish Council for the year under review disclosed the following unsatisfactory features:

(i) Arrears of Revenue

The records reflected that the Council was owed arrears of property rental totalling \$830,403.

(ii) Furniture and Equipment Inventory Control

The relevant inventory control records were not updated with assets acquired at a cost of \$773,379.

KINGSTON AND ST. ANDREW CORPORATION

230. The audit of the Kingston and St. Andrew Corporation for 2006/2007 disclosed the following weaknesses:

(i) Overpayments

Incorrect calculation of salary arrears resulted in overpayment of salaries totalling \$16,167 to two officers. The Corporation was advised to effect recovery.

(ii) Inadequate Control

The control exercised over the use of the telephones continued to be unsatisfactory. There was no indication on the bills for lines assigned to specific officers whether calls made were private or official. Several instances were also noted where calls made through the switch board were not recorded in the control register. It was recommended that appropriate steps be instituted to ensure that all private calls made are identified and paid for by the callers.

HANOVER PARISH COUNCIL

231. The audit of the Hanover Parish Council for the year under review disclosed the need for improved control over the use of telephones and the maintenance of the fixed assets inventory records. The Council subsequently indicated that corrective action had been taken.

PORTLAND PARISH COUNCIL

232. The audit of the captioned Council for 2006/2007 disclosed the under-mentioned unsatisfactory features:

(i) Outstanding Financial Statements

At the time of this report the financial statements for the years 2004/2005 to 2006/2007 were outstanding.

(ii) Un-remitted Statutory Deductions

The Council's records revealed that income tax deductions from employees' emoluments amounting to \$3,254,252 had not been remitted to the relevant authority.

PORTMORE MUNICIPAL COUNCIL

233. The audit of the Portmore Municipal Council for the year under review disclosed that up to the date of this report, the financial statements for the years 2005/2006 and 2006/2007 remained outstanding.

MANCHESTER PARISH COUNCIL

234. The audit of the Manchester Parish Council for the year under review disclosed the need for improved internal check over the preparation of salaries, and more effective efforts to collect rental due. The records also showed that education tax totalling \$589,662 had not been remitted to the relevant authority. The annual financial statements for 2003/2004 to 2006/2007 were not received for audit up to the date of this report.

ST. ANN PARISH COUNCIL

235. The financial transactions and accounting records of the St. Ann Parish Council for the year under review were found generally satisfactory. However, at the time of the audit the records reflected that the Council was owed arrears of revenue for rent/leases totalling \$1,507,814.

ST. CATHERINE PARISH COUNCIL

236. The audit of the St. Catherine Parish Council for the year under review disclosed that up to the time of this report, the financial statements for 2006/2007 were outstanding, and the records reflected that the Council was

owed arrears for rental of properties totalling \$463,051. The Council subsequently advised that \$165,000 of the arrears had since been collected.

ST. ELIZABETH PARISH COUNCIL

237. The financial transactions examined for the year under review were found to be generally satisfactory. However, up to the date of this report the annual financial statements for 2006/2007 were not received for examination. The records disclosed arrears of rental amounting to \$1,225,305, and there was also need for improvement in the control exercised over the use of telephones, reconciliation of bank accounts and furniture and equipment.

ST. JAMES PARISH COUNCIL

238. The audit of the financial transactions and accounting records of the St. James Parish Council for the year under review disclosed the need for improvement in the control over the use of telephones. The required location inventory records for furniture and equipment were also not maintained, and newly acquired assets were not appropriately marked. The Council subsequently advised that corrective measures had since been instituted.

ST. MARY PARISH COUNCIL

239. The audit of the St. Mary Parish Council for the year under review revealed a generally satisfactory state of affairs; however, the records showed rental arrears amounting to \$943,171 and the annual returns for statutory deductions for 2006 were not yet submitted. The Council subsequently advised that \$186,000 of the arrears had since been collected and that it continues to pursue legal action to recover the outstanding amounts.

ST. THOMAS PARISH COUNCIL

Financial Statements

240. Up to the date of this report annual financial statements for 2003/2004 to 2006/2007 remained outstanding.

Un-remitted Statutory Deductions

241. At the 31st March, 2007 amounts totalling \$17,042,973 representing statutory deductions made from employees' emoluments over a protracted period were not remitted to the relevant agencies. This not only breached the relevant Acts and could attract penalties, but could also adversely affect employees entitlement to certain benefits. The Council advised that a request for

waiver of the taxes due had been sought and steps were being taken to clear the outstanding contributions for National Housing Trust and National Insurance Scheme.

Pension Payments

242. There was need for improvement in the control exercised over the payment of pensions as in many instances there was no evidence that the necessary life certificates had been received. The Council has promised corrective action.

TRELAWNY PARISH COUNCIL

243. The audit of the Trelawny Parish Council for the year under review disclosed that it was owed arrears of revenue for rent/leases totalling \$230,241.

WESTMORELAND PARISH COUNCIL

Outstanding Statements

244. The financial statements for 2005/2006 and 2006/2007 were not submitted for examination up to the date of this report.

Rental of Properties

245. At the time of audit arrears of rental totalling \$1,071,850 were reflected as owed by lessees of the Council's properties. I was subsequently informed that \$330,400 of the arrears had since been paid and Court action had been taken against some of the delinquents.

ACKNOWLEDGEMENT

246. This is the final annual report that I will present to the Parliament as I proceed on pre-retirement leave at the beginning of 2008 after holding the office of Auditor General for 29 years. It has been a great honour and privilege to have served my country in this capacity for such a long time. I take this opportunity to thank the several political administrations, the Public Accounts Committee of the House of Representatives, the Accounting Officers and their staff, and officers of Local Government agencies, other statutory bodies and Government companies for the co-operation and courtesies extended to my staff and myself over the past 29 years.

ADRIAN P. STRACHAN, OJ, CD, FCCA, FCA, JP.
AUDITOR GENERAL
14th December, 2007.

APPENDIX "A"

OUTSTANDING APPROPRIATION ACCOUNTS
AS AT 10th DECEMBER 2007 IN RESPECT OF
FINANCIAL YEARS 2005/2006 TO 2006/2007

<u>HEAD</u>	<u>MINISTRY/DEPARTMENT</u>
2005/2006	
3000	Ministry of Foreign Affairs and Foreign Trade
4000	Ministry of Labour and Social Security
4000A	Ministry of Labour and Social Security
7200	Ministry of Local Government, Community Development and Sport
7000A	Ministry of Local Government, Community Development and Sport
7200B	Ministry of Local Government, Community Development and Sport
2006/2007	
0100	His Excellency the Governor General & Staff
0200	Houses of Parliament
0600	Office of the Services Commissions
1649	Management Institute for National Development
2000	Ministry of Finance and Planning
2000A	Ministry of Finance and Planning
2000B	Ministry of Finance and Planning
2011	Accountant General
2015	Inland Revenue Department

<u>HEAD</u>	<u>MINISTRY/DEPARTMENT</u>
2018	Public Debt Charges (Interest Payments)
2041	Taxpayer Audit and Assessment Department
2042	Taxpayer Appeals Department
2044	Tax Administration Services Department
2600	Ministry of National Security
2600A	Ministry of National Security
2600B	Ministry of National Security
2622	Police Department
2624	Department of Correctional Services
2800	Ministry of Justice
2800A	Ministry of Justice
2800B	Ministry of Justice
2823	Court of Appeal
2825	Director of Public Prosecutions
2826	Family Courts
2827	Resident Magistrates' Courts
2828	Revenue Court
2829	Supreme Court
2831	Attorney General
2833	Office of the Parliamentary Counsel
2852	Legal Reform Department
3000	Ministry of Foreign Affairs and Foreign Trade
3000B	Ministry of Foreign Affairs and Foreign Trade
4000	Ministry of Labour and Social Security

<u>HEAD</u>	<u>MINISTRY/DEPARTMENT</u>
4000A	Ministry of Labour and Social Security
4000B	Ministry of Labour and Social Security
4200	Ministry of Health
4200A	Ministry of Health
4200B	Ministry of Health
4220	Registrar General's Department
4234	Bellevue Hospital
4235	Government Chemist
4251	Child Development Agency
5100	Ministry of Agriculture and Lands
5100A	Ministry of Agriculture and Lands
5100B	Ministry of Agriculture and Lands
5147	National Land Agency
5238	The Companies Office of Jamaica
5239	Post & Telecommunications Department
6600	Ministry of Housing, Transport and Works
6600A	Ministry of Housing, Transport and Works
6600A	Ministry of Housing, Transport and Works
6650	National Works Agency
7200	Ministry of Local Government and Environment
7200A	Ministry of Local Government and Environment
7200B	Ministry of Local Government and Environment

EXCESS ON VOTES NOT COVERED BY
PARLIAMENTARY APPROVAL AS SHOWN BY
THE APPROPRIATION ACCOUNTS RECEIVED

HEAD	MINISTRY/DEPARTMENT	EXCESS
1994/1995		
18	Public Service & Environment	810,051.24
2600	National Security	50,893,738.13
		<u>51,703,789.37</u>
1995/1996		
2600	National Security & Justice	4,004,491.59
2600B	National Security & Justice	10,023,748.11
3000	Foreign Affairs and Foreign Trade	15,270,650.52
4200	Health	40,819,084.38
		<u>70,117,974.60</u>
1996/1997		
2014	Income Tax	3,002,590.79
2015	Inland Revenue	4,463,496.66
600	Office of the Services Commissions	750,591.34
1510	Jamaica Information Service	2,237,050.74
2600B	National Security & Justice	780,705.36
2622	Police Department	12,541,924.71
2627	Resident Magistrates' Courts	2,133,960.34
2629	Supreme Court	2,704,684.57
2732	Bankruptcy	38,621.55
4000	Labour, Social Security & Sport	6,196,457.48
4200	Health	64,400,944.17
5200	Industry, Investment & Commerce	14,971,055.80
6000A	Public Utilities & Transport	12,541,069.67
6000B	Public Utilities & Transport	81,489,331.53
6400A	Environment & Housing	26,119,082.56
7100A	Local Government & Works	6,278,696.03
		<u>240,650,263.30</u>

HEAD	MINISTRY/DEPARTMENT	EXCESS
1997/1998		
100	His Excellency the Governor General & Staff	250,113.82
2019	Pensions	49,239,356.43
2627	Resident Magistrates Courts	3,454,036.79
2629	Supreme Court	6,094,910.47
2234	Bellevue Hospital	2,986,752.12
6000A	Public Utilities & Transport	25,891,123.67
6500	Transport and Works	25,576,503.35
7100	Local Government & Works	1,792,124.07
7100A	Local Government & Works	62,478,692.10
		<u>177,763,612.82</u>

1998/1999

100	His Excellency the Governor General & Staff	4,620.53
2011	Accountant General	1,662,042.01
2012	Customs	19,862,421.26
2015	Inland Revenue	1,018,021.11
2600	National Security and Justice	23,182,220.00
2626	Family Court	819,139.70
3000	Foreign Affairs and Trade	3,366,721.93
4100	Education and Culture	2,940,183.78
4200	Health	155,472,442.01
5239	Post & Telecommunication	20,546,418.40
5438	Registrar of Companies	17,067.54
5500A	Mining and Energy	982,651.44
		<u>229,873,949.71</u>

1999/2000

1510	Jamaica Information Service	8,382,540.60
2014	Income Tax	492,070.19
2600A	National Security and Justice	17,780,290.73
2622	Police Department	50,009,094.40
2627	Resident Magistrates' Courts	8,320,356.12
4100A	Education and Culture	4,993,907.85
4100B	Education and Culture	2,989,908.96
5400	Commerce and Technology	20,408.34
5400A	Commerce and Technology	230.00
5400B	Commerce and Technology	299.40
5439	Post and Telecommunications	7,951,013.73

HEAD	MINISTRY/DEPARTMENT	EXCESS
1999/2000		
5500A	Mining and Energy	1,033,101.19
6400	Environment and Housing	5,977,619.24
6400A	Environment and Housing	7,516,657.19
6400B	Environment and Housing	4,591,537.26
		<u>120,059,035.20</u>

2000/2001		
0600	Office of the Service Commission	294,147.00
1510	Jamaica Information Service	31,522.94
2015	Inland Revenue	174,497.29
2624	Correctional Services	20,746,203.92
2627	Resident Magistrate's Courts	563,840.95
3000	Foreign Affairs and Trade	67,386,121.80
4100	Education and Culture	19,682,028.15
4200	Health	8,966,724.58
5100	Agriculture	51,038.40
5200	Industry and Commerce	2,981,233.85
5238	Registrar of Companies	4,174,146.00
5500	Mining and Energy	2,981,233.85
7200	Local Government, Youth and Community Development	266,012,070.42
		<u>394,044,809.15</u>

2001/2002		
0200	Houses of Parliament	959,197.32
3000	Foreign Affairs and Foreign Trade	11,866,549.40
4234	Bellevue Hospital	10,411,705.43
5238	Office of the Registrar of Companies	16,459,883.00
5239	Post and Telecommunication	11,693,232.52
7200	Local Government, Youth and Community Development	50,344,549.31
		<u>101,735,116.98</u>

HEAD	MINISTRY/DEPARTMENT	EXCESS
2002/2003		
2012	Customs	15,806,868.41
4200B	Health	50,651,443.82
5500B	Mining and Energy	500,000.00
6500A	Transport and works	1,534,338.10
7200	Local Government, Youth and Community Development	83,097,643.50
		<u>151,590,293.83</u>
2003/2004		
2015	Inland Revenue	25,444,654.06
4100B	Education, Youth and Culture	8,588,111.60
5100A	Agriculture	2,197,089.41
5100B	Agriculture	15,514,164.31
5146	Forestry	2,577,955.87
5238	Office of the Registrar of Companies	153,237.00
6300	Water and Housing	8,538,586.11
6500A	Transport and works	32,549,957.45
6500B	Transport and works	44,491,067.89
		<u>140,054,823.70</u>
2004/2005		
2012	Jamaica Customs	4,618,492.60
2600	National Security	42,689,829.99
2622	Police	48,079,531.37
5238	Registrar of Companies	6,329,023.08
		<u>101,716,877.04</u>
2005/2006		
2041	Taxpayer Audit and Assessment	712,294.84
4200	Health	907,509.10
5243	Forestry	752,751.73
		<u>2,372,555.67</u>