

R E P O R T
OF THE
AUDITOR GENERAL
ON THE
APPROPRIATION AND OTHER ACCOUNTS OF JAMAICA
FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2001

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, 2001. 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 Audit

3. The audit of most ministries, departments and public bodies for the 2000/2001 financial year consisted of examinations, inquiries and investigations to allow assessment of the adequacy of the systems of internal control over the major areas of revenue and expenditure, and obtaining the information and explanations considered necessary for certifying the accounts and financial statements submitted. Additional audit emphasis was applied to those areas of governmental activity where the internal control was weak, others which had been prone to problems in the past, and new programmes. Follow-up work was also done to ascertain what action had been taken on previous audit observations and recommendations. Once again a number of programmes and projects were selected for special "value for money" audits. These special audits were aimed at assessing if adequate planning had been done, proper management control systems instituted and whether the programmes and projects had been administered economically and efficiently and were achieving their intended objectives.

Contents of the Report

4. This report summarizes the more important observations made during the various audits conducted in 2001. More detailed comments on the points mentioned, as well as recommendations as to the corrective measures considered necessary, were communicated to Accounting Officers, Principal Receivers of Revenue and other heads of agencies by way of audit queries, reports and other memoranda. Where appropriate the comments and reactions of those officers to my findings and recommendations are indicated. In a number of instances mention is also made in the report of the findings of internal auditors. The heads of government agencies were supplied with a draft of the points I intended to make in this report on their portfolios and given an opportunity to comment thereon.

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 instances in which the requirements of the Financial Administration and Audit Act, other Acts of Parliament, the Financial Regulations and Instructions, as well as good financial, accounting and management practices have not been observed. The report therefore tends to emphasize the shortcomings and unsatisfactory features disclosed by the audits. Mention is, however, also made of those areas in which a generally satisfactory state of affairs was observed and where marked improvements were noted.

Staff Development

6. The Department continued to encourage staff development. Several officers were given time-off and "Day Releases" to pursue courses of study at tertiary institutions. In 2001 eight graduated with degrees, diplomas and certificates from the UWI, UTECH, MIND and the AAT Examination Board. Three other officers attended short courses conducted by MIND. During the year another substantial training programme was undertaken by the Department under the auspices of the Audit Component of the Government's Public Sector Modernisation Project. This resulted in 22 officers being trained in audit planning, 29 in the use of computers, 25 in the use of Computer Audit Assisted Techniques, 27 in forensic auditing, 26 in value for money audits, 26 in public sector management, 17 in financial statements audit, 24 in audit of contracts and 21 in report writing.

THE ACCOUNTS OF ACCOUNTING OFFICERS

7. Accounting Officers are required to maintain accounts and records to reflect:

- (i) expenditure incurred from the funds provided by Parliament;
- (ii) miscellaneous revenues, deposits and appropriations-in-aid which they are required to collect; and
- (iii) assets and liabilities of their ministries and departments.

They are also required by the Financial Administration and Audit Act to submit for audit by 31st July each year annual Appropriation Accounts which form the basis of their accountability to the House of Representatives for the voted funds for which they are responsible. Once again the audits disclosed that the financial affairs of many ministries, departments and other agencies were conducted in a generally satisfactory manner with only minor breaches of the Financial Regulations and Instructions observed. During the period under review most

agencies also made genuine efforts to correct the weaknesses identified by the audits. It was noted, however, that up to 14th December, 2001 I had not received 58 Appropriation Accounts for 2000/2001, 24 for 1999/2000 and two for 1998/99. The paragraphs which follow contain the observations arising from the audits which I considered should be brought to the attention of Parliament.

HEAD 0100 – HIS EXCELLENCY THE GOVERNOR GENERAL AND STAFF

8. The financial transactions and accounting records examined for the period under review were found to be generally satisfactory. However, up to the date of this report the Appropriation Account for the year 2000/2001 was not presented for audit. There was also need for improvement in the controls exercised over the disbursement process, blank cheques and motor vehicles.

HEAD 0200 – HOUSES OF PARLIAMENT

9. The audit of the Houses of Parliament revealed that the financial transactions for the year under review were carried out in a generally acceptable manner.

HEAD 0300 – OFFICE OF THE PUBLIC DEFENDER

10. The audit revealed that the financial transactions for the year under review were carried out in a generally acceptable manner.

HEAD 0400 – OFFICE OF THE CONTRACTOR GENERAL

11. Examination of the accounting records and financial transactions of the Office of the Contractor General for the year under review revealed a generally satisfactory state of affairs. However, there was need for stricter compliance with the requirement for the written authorisation and certification of payment vouchers.

HEAD 0600 – OFFICE OF THE SERVICES COMMISSIONS

12. The financial transactions and accounting records of the captioned Agency for the year under review were found to be generally satisfactory. However, the under-mentioned areas of concern were noted:

(i) Outstanding Appropriation Account

The Appropriation Account for the financial year 2000/2001 was not presented for audit up to the date of this report.

(ii) Motor Vehicles

There was need for improvement in the maintenance of the prescribed motor vehicle control records.

The Chief Personnel Officer subsequently advised that these matters were being addressed.

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

13. The audit of the financial transactions and accounting records of the Office of the Prime Minister for the year 2000/2001 disclosed a generally satisfactory state of affairs.

NIBJ – Loan to IT Firm

14. In August 2000 a loan of US\$1.5M (J\$64M) was made by the National Investment Bank of Jamaica (NIBJ) to a firm under the INTEC Project. The loan was at 0% interest and was to have been repaid over a five-year period after a moratorium of three years. In December 2000 an agreement was entered into to change this arrangement and instead the firm was to transfer to the Kingston Free Zone (KFZ) the assets acquired from the proceeds of the loan, in settlement of the loan. The Company in turn was to lease the equipment from KFZ. In May 2001 I asked NIBJ to advise me as soon as the assets verification exercise was completed, the value of those assets professionally valued and their legal transfer to KFZ effected. NIBJ was also advised to make appropriate arrangements to recover from the firm any shortfall between the original loan of US\$1.5M (J\$64M) and the value of the assets transferred to KFZ. Up to the date of this report I was provided information that an inventory of assets valued at approximately US\$1M was done at the firm. I was also told that the firm had advised that additional telecommunications equipment was due to be shipped to Jamaica. There was, however, no indication that any of the assets had yet been legally transferred to the KFZ or that a lease agreement had been entered into between KFZ and the Company.

BATH FOUNTAIN HOTEL
ST. THOMAS THE APOSTLE

15. The audit inspection of the accounting records and financial transactions for the captioned entity for the year under review disclosed the need for improved control over cash receipts, blank cheques and disbursements.

CREATIVE PRODUCTION & TRAINING CENTRE LTD.

16. A review of the financial transactions and accounting records of the Creative Production and Training Centre for the year under review revealed the following deficiencies:

(i) Disbursements

There was need for improvements in the disbursements process as several instances were identified where payments were made without appropriate authorization or certification that goods purchased were received in good condition or that services were satisfactorily performed. These weaknesses could compromise the entity's ability to safeguard against improper payments.

(ii) Partial Recovery of Missing Funds

It was noted that only \$400 had been recovered of a total sum of \$23,700, which was reported missing, and which the auditors from the Office of the Prime Minister had recommended should have been recovered from the responsible officer.

(iii) Staff Loans and Advances

The Centre's staff loan policy needed to be expanded to cover such areas as qualifying criteria, loan limits, interest rates, repayment period and required security.

NATIONAL HOUSING TRUST

17. A sample audit of the captioned agency for the year under review showed a generally satisfactory state of affairs. However, it was noted that gratuity payments were made to contract officers after a period of less than two years service in the first instance, contrary to Ministry of Finance circular instruction. This resulted in the premature disbursement of public funds. The Trust gave its undertaking to ensure future compliance.

HEAD 1510 – JAMAICA INFORMATION SERVICE

18. The audit disclosed that the financial transactions of the captioned Agency for the year 2000/2001 were conducted in a generally satisfactory manner. However, the following shortcomings were noted:

- (i) The Appropriation Accounts for 1999/2000 and 2000/2001 were not submitted for examination up to the date of this report.
- (ii) Seven (7) officers were overpaid salaries amounting to \$27,360 mainly due to incorrect calculations.
- (iii) Two (2) Nissan AD Wagon motor vehicles purchased in 1998 at a cost of \$909,630 were taken to the dealer in May 1999 for servicing. It was reported that parts needed would have to be imported. However, up to the time of my audit the vehicles were not returned to the Department. I was subsequently advised that they were scrapped and that the company to which they were sent was no longer in existence. The matter was referred to the Attorney General's Department for legal advice.

HEADS 1600 & 1600B – CABINET OFFICE

19. The audit disclosed that the financial transactions of the Cabinet Office for the year under review had been conducted in a generally satisfactory manner. However, the year's Appropriation Accounts were not submitted for examination up to the date of this report.

PUBLIC SECTOR MODERNIZATION PROJECT

20. The main objectives of the Public Sector Modernization Project are to bring about major improvements in the quality of service provided by selected public sector agencies, to enhance the ability of selected ministries to formulate sound policies, technical standards and operational norms and to improve public accountability by strengthening internal and external controls. The audit of the Project's accounting records and financial transactions for the period under review disclosed a generally satisfactory state of affairs.

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

21. The Management Institute for National Development (MIND) was established as an Executive Agency on April 1, 1999 to provide training and consultancy services in a range of areas. The audit of the Agency for the period under review disclosed a generally satisfactory state of affairs.

**HEAD 1700 & 1700A –
MINISTRY OF TOURISM AND SPORT**

22. The audit disclosed that the financial transactions for the period under review had been conducted in a generally satisfactory manner.

JAMAICA VACATIONS LIMITED.

23. An audit of the financial transactions and accounting records at the Kingston office of the captioned company for the financial year 2000/2001 disclosed the following areas of concern:

- (i) One of the company's motor vehicles was involved in an accident on December 25, 2000 while being driven by the son of an employee. Subsequently, an amount of \$148,659 was paid by the company to cover damage to the other vehicle involved in the accident. It was also noted that the vehicle had no insurance coverage at the time of the accident. It was recommended that the total cost of the accident should be recovered from the employee.
- (ii) Directors' fees amounting to \$23,100 were paid to two employees holding executive positions for attending the Board's meetings. This contravened the guidelines stipulated by the Ministry of Finance. An amount of \$9,000 was subsequently recovered.

MILK RIVER HOTEL AND SPA

24. Examination of the financial transactions and accounting records of the captioned entity for 2000/2001 revealed a generally satisfactory state of affairs. However, no evidence was produced to show that the Agency's Board had sought the requisite approval from the Ministry of Finance for the increase in emoluments of four employees. There was also need to improve the controls over a motor vehicle and the disbursement process.

TOURISM PRODUCT DEVELOPMENT COMPANY

25. The Ministry reported suspected irregularities at the captioned Company involving amounts totalling \$592,250 which occurred by way of forged signatures on cheques. The Internal Auditors reported that weaknesses in internal controls over the disbursement process facilitated the irregularities.

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

26. The audit of the Ministry of Finance and Planning disclosed that the accounting records and financial transactions for the period under review were generally in order. However, the following shortcomings were noted:

(i) Outstanding Statutory Returns

At the date of the audit annual returns for Education Tax and Income Tax deducted from the monthly paid staff had not been submitted since 1995.

(ii) G.E.A.S.O. Health Scheme

The Ministry continued to experience difficulty in obtaining timely and reliable information from ministries and departments to allow verification of claims submitted by the health provider. During the period under review approximately \$847M was paid in respect of claims made totalling \$1.121B but I was unable to determine the amount properly payable. The Ministry was advised to explore other means of overcoming the problem. It was subsequently indicated that it planned to introduce a new system from April 2002.

PROVIDENT FUND ACCOUNTS

27. The audit of the Provident Fund for the year under review disclosed that the annual financial statements for 1999/2000 and 2000/2001 were outstanding and that reconciliation of the bank account was seven months in arrears.

SUGAR COMPANY OF JAMAICA (SCJ)

28. An audit of the captioned Company disclosed the following areas of concern:

(i) Pension Scheme

Information seen indicated that at the time of audit contribution of \$84.4M owed to the Company's pension fund for the period since March 1997 remained outstanding.

(ii) Payment of Utility Bills

Payments totalling \$308,579 were made by the Company for utility bills incurred at the residence of a senior officer, in violation of his employment contract. The Company was advised to effect recovery.

AGRICULTURE RESTRUCTURING COMPANY LTD.

29. A loan of \$2,561,000 was made by the captioned agency to an officer of the Sugar Company of Jamaica on the basis that it would attract a rate of interest of 5% per annum and was repayable between May 1999 and April 2004. However, up to the time of my audit there was no evidence that the loan was being repaid. I was subsequently advised that steps were being taken to have the matter resolved.

STATISTICAL INSTITUTE OF JAMAICA

30. A test check of the accounting records and financial transactions of the Institute for 2000/2001 disclosed a generally satisfactory state of affairs.

HEAD 2011 – ACCOUNTANT GENERAL

General Comment

31. The audit of the captioned Department for the year under review revealed a number of weaknesses in the system of internal control and certain shortcomings in the maintenance of accounting records, the more important of which are mentioned below.

Accounting Deficiencies

32. Deficiencies were noted in the maintenance of the advances ledger and the motor vehicle inventory records. There was also need for more effective control to ensure that only the cost of official telephone calls is met from public funds. Salary overpayments amounting to \$330,910 were noted. It was also observed that five members of staff had not taken vacation leave for periods

ranging from 8-20 years. I recommended that officers should be required to take vacation leave periodically to safeguard against employee fatigue and as an internal control measure.

Pension Bank Accounts

33. Monthly pensions were paid from two bank accounts which at the date of audit had not been reconciled for many years. Unreconciled bank balances pose a risk as irregularities and errors could go undetected for prolonged periods.

Outstanding Financial Statements

34. Section 24H of the Financial Administration and Audit Act requires the Accountant General to submit to the Auditor General by July 31 following the close of each financial year the following statements:

- (a) Current assets and liabilities of the Consolidated Fund;
- (b) Revenue actually paid into the Consolidated Fund compared with estimates of revenue;
- (c) Actual expenditure from the Consolidated Fund Principal Bank Account as compared with estimates of expenditure;
- (d) The Public Debt of Jamaica showing the transactions for the relevant year of account and the balance of Sinking Fund held against redemption;
- (e) Advances and loans from the Consolidated Fund showing transactions for the year of account and for those accounts in respect of which no recovery is reported during that year, the date of the most recent recovery;
- (f) Capital investments of the Consolidated Fund showing transactions for the year of account, the securities held and the proportion of equity held on behalf of the Government;
- (g) Balances held by the Accountant General on deposit at the end of the financial year and outstanding advances made therefrom;
- (h) Expenditure in respect of those services which by law are directly charged upon the Consolidated Fund as compared with budget forecasts;
- (i) Outstanding loans or credits guaranteed by the Government; and

- (j) Receipts and payments of the Contingencies Fund.

Up to the time of this report statements A and G for 1998/99; statements A, D and G for 1999/2000; and statements A, D, G and H for 2000/2001 had not been submitted for audit.

Public Debt Charges – LRS

35. The audit disclosed that the necessary cash transfers were not made between expenditure and the Consolidated Fund for Local Registered Stocks issued by the Ministry of Finance and Planning in the sum of \$2.75B as required by law. These instruments were issued to various institutions to which the Government was indebted. This arrangement also resulted in the understatement of Government's revenue and expenditure. The Ministry of Finance and Planning subsequently advised that budgetary provision would be sought in the Final Supplementary Estimates for 2000/2001 to correct the breaches.

HEAD 2012 – CUSTOMS DEPARTMENT

36. The audit of the Customs Department for the year under review disclosed the following unsatisfactory matters:

- (i) Outstanding Financial Statements

Under the Financial Administration and Audit Act the Commissioner of Customs is required to submit an annual statement of revenue collected within four months after the end of each year. Up to the date of this report statements for 1998/99, 1999/2000 and 2000/2001 had not yet been submitted for audit.

- (ii) Unreconciled Bank Account

There was not much improvement in the reconciliation of the Department's main bank account over the past year as at the date of audit this remained approximately two years in arrears.

- (iii) Payment of Travel Tax – Montego Bay Pier

The Travel Tax Regulations (1963) require ships bringing passengers to the island to pay to the Collector of Taxes a travel tax of US\$15 in respect of each traveller listed on the ship's manifest. The records revealed that between January 1999 and March 2001 approximately J\$74.7M was owed for 97 visits made

by cruise ships. The Department was asked to indicate the steps being taken to effect collection of these arrears.

(iv) Payment of Honoraria

Instances were noted in which honoraria were paid to officers contrary to the guidelines issued by Government. It was noted that during the period January to December 2000, a member of the accounting staff was paid honorarium of \$782,442. The payment of honorarium to the accounting staff appeared to be an ongoing feature instead of the exceptional occurrence normally expected. This was said to be due to the volume of work to be undertaken but seemed an uneconomical way of dealing with the problem.

(v) Annual Returns

Up to the date of this report the latest annual returns filed for NHT, NIS, Income Tax and Education Tax were for 1995. This not only breached the relevant Acts but could adversely affect employees' entitlement to benefits.

HEAD 2015 – INLAND REVENUE DEPARTMENT

37. The audit of the Inland Revenue Department for 2000/2001 disclosed that the financial transactions were conducted in a generally satisfactory manner. However, at the time of audit a number of cheques valued at approximately \$10M which had been accepted in payment of taxes at four collectorates but were dishonoured by the banks on which they were drawn, had not yet been made good. It was recommended that the cashiers be more vigilant when accepting cheques as the reasons given for the dishonouring of many of the cheques suggested that negligence was involved.

HEAD 2041 – TAXPAYER AUDIT AND ASSESSMENT DEPARTMENT

38. The Taxpayer Audit and Assessment Department (TAAD) is a new department formed out of the merger of the former Income Tax Department, General Consumption Tax and Excise Department and the Department of Stamp Duty and Transfer Tax. The Department has the responsibility for administering the functions and policies relating to General Consumption Tax, Special Consumption Tax, Income Tax, Stamp Duty and Transfer Tax. The accounting records and financial transactions examined for the year under review were found to be generally satisfactory. However, weaknesses were observed in the

maintenance of the furniture and equipment inventory and in the control over the use of the telephones.

INCOME TAX OPERATIONS

Income Tax returns

39. The names of 101 companies and individuals were randomly selected with a view to ascertaining whether they were complying with Section 67 of the Income Tax Act. Fifty-eight (58) of the files requested were not submitted for audit. I was therefore unable to conclude my audit of those cases.

GENERAL CONSUMPTION TAX AND EXCISE DUTIES

40. (a) General Consumption Tax collected during the year fell \$2.3B short of the \$15.3B projected. This was said to be due mainly to the cessation of businesses.
- (b) The Department's records indicated that at March 31, 2001, 19,630 taxpayers owed approximately \$2.4B. This attracted interest, penalty and surcharge of \$13.3B, making the total due \$15.7B.
- (c) A random sample selection of 200 business to ascertain enrolment in the Register of Taxpayers revealed that 78 were not listed. Efforts should be made to bring all potential taxpayers into the tax net.

STAMP DUTY AND TRANSFER TAX

41. (i) Estate Duties – Unpresented Files

Seven files requested for audit were not presented. I was therefore unable to verify whether the duties collectible had been properly assessed.

- (ii) Salary Overpayments

Three officers were overpaid salaries amounting to \$60,194 as a result of inadequate internal check. The Department was advised to improve the system of internal check and to take steps to effect recovery.

**HEADS 2600, 2600A & 2600B –
MINISTRY OF NATIONAL SECURITY AND JUSTICE**

42. The audit of the captioned Ministry for 2000/2001 disclosed the following shortcomings:

(i) Accounting Arrears

Up to the date of this report the Appropriation Accounts were not submitted for examination in respect of 1997/98 to 2000/01 for the Recurrent Head: 2000/01 for Capital Head A; and 1998/99 to 2000/01 for the Police Department. Similarly the 1999/2000 and 2000/01 Accounts for all the Ministry's other departments were outstanding.

(ii) Bank Accounts

Interest charges totalling \$829,223 were incurred on bank overdrafts for which Ministry of Finance approval was not seen. The Ministry of National Security and Justice advised that the overdrafts were due to inadequate and/or late provision of funds by the Ministry of Finance to meet the salaries of police personnel. The bank reconciliation statements also disclosed numerous unresolved discrepancies with dates from as far back as 1989. Failure to resolve these outstanding issues could lead to the loss of public funds.

(iii) Annual Returns

I was unable to determine the status of the Ministry's submission of annual returns for statutory deductions made from employees' salaries as the relevant information was not made available.

JAMAICA DEFENCE FORCE

43. The audit of the Jamaica Defence Force for 2000/2001 disclosed the following areas of concern:

(i) Internal Control Weaknesses

Deficiencies were noted in the controls exercised over blank cheques, cheque signing machine, stock and salary controls, and in the recovery of the cost of private telephone calls. Reconciliation of the bank accounts also continued to be in serious arrears. These weaknesses could contribute to the loss of public resources. The

JDF advised that steps were being taken to correct these deficiencies.

(ii) Sale of Aircraft

In 1998 Cabinet approved the sale of certain aircraft owned by the JDF and instructed that the net sale proceeds should be deposited in an account held by the Jamaica Consulate in Miami and used to defray the cost of repairs of other aircraft and to upgrade the aircraft hangar. An audit of the related transactions disclosed that contrary to the Cabinet directive US\$320,065 of the net proceeds of sale had not been paid over by the agent to the Consulate in Miami. Adequate supporting documents were also not made available to substantiate related disposal costs of US\$169,393. The JDF was asked to attend to these matters.

POLICE PUBLIC COMPLAINTS AUTHORITY

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

PRIVATE SECURITY REGULATION AUTHORITY

45. The audit of the captioned Authority for 2000/2001 revealed a generally satisfactory state of affairs. The minor weaknesses observed were subsequently corrected.

HEAD 2624 – DEPARTMENT OF CORRECTIONAL SERVICES

Outstanding Appropriation Accounts

46. The Appropriation Accounts for financial years 1998/99, 1999/2000 and 2000/2001 were not received for examination up to the date of this report.

Overpayments

47. Seven officers were overpaid emoluments totalling \$656,588 because of incorrect calculation of allowances and vacation leave entitlements. It was recommended that steps be taken to improve the system of internal check and to recover the overpayments.

Unsupported Payments

48. The required supporting documents were not presented for 15 payments totalling \$242,495.

Correctional Centres

49. An audit of the records of two correctional centres disclosed weaknesses in the area of sale of produce, cash collection, stores control and bank reconciliation. The supporting documents for two payments totalling \$50,000 were also not presented.

COSPROD

50. The captioned Company was incorporated in August 1994. Its main function is to engage human resources within the Adult Correctional Institutions in meaningful activities for rehabilitation through production. An audit of the Project disclosed the under-mentioned weaknesses:

- (i) The annual financial statements for 1996/97 to 2000/2001 were outstanding up to the date of this report;
- (ii) The records showed long outstanding receivables of approximately \$1.5M for goods sold on credit. The Department was advised to investigate the debts with a view to collecting the amounts due or having them written off.
- (iii) Revenues collected were frequently used to meet expenditure instead of being lodged to the bank account as required by the COSPROD Accounting Manual and the Financial Instructions.

HEAD 2627 – RESIDENT MAGISTRATES' COURTS***Accounting Problems***

51. Audits of six Court Offices for the year under review disclosed the need for improvements in the maintenance of cash books, value books, receipt book registers, bailiff records and the cheques stock record. The weaknesses could result in the loss or misuse of public funds. It was recommended that the relevant records be kept and checked in the manner prescribed by the regulations.

Outstanding Lodgement

52. There was no indication that an amount of \$79,000 for fines collected and lodged in May 2000 had been credited to the relevant bank account up to the time of my audit. The Ministry was advised to investigate the matter to ensure that the amount is properly accounted for.

HEAD 2630 – ADMINISTRATOR GENERAL’S DEPARTMENT

53. The audit of the financial transaction and accounting records of the captioned Department for the financial year 2000/2001 disclosed a generally satisfactory state of affairs.

HEAD 2632 – TRUSTEE IN BANKRUPTCY

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

ELECTORAL OFFICE

55. The audit of the Electoral Office of Jamaica for the year under review disclosed the following shortcomings:

(i) **Overpayments**

Failure to comply with Ministry of Finance’s circular instructions concerning the payment of laundry and upkeep allowances resulted in two officers being overpaid amounts totalling \$87,141. The Office has promised to effect recovery.

(ii) **Overseas Travel**

The records showed that on six occasions economy class tickets were sent by overseas organizations to the Electoral Office for foreign travel to observe elections in other countries. It was noted that these tickets were upgraded to first class at a total cost of \$354,777. I was not satisfied that this represented justifiable and economic use of public funds.

(iii) Staff Functions

The records disclosed that for the year under review a sum of \$540,452 was disbursed for activities related to staff functions. This far exceeded the amount per member of staff approved by the Ministry of Finance. The existing rate was set in 1995 and in my opinion is now due for a review.

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

Accounting Arrears

56. The Appropriation Accounts for 1999/2000 and 2000/2001 were not presented for audit up to the date of this report. Delays of up to 20 months in the submission of monthly financial statements by some Missions were also noted. These arrears constituted a breach of the Financial Administration and Audit Act.

Internal Control Weaknesses

57. Deficiencies were noted in the controls exercised over motor vehicle operations, the use of debit cards, blank cheques, the use of telephones, fixed assets and departmental deposits. Recommendations were made for improvements as the weaknesses detected could result in losses and inefficiencies.

Overpayments

58. Eleven (11) officers were overpaid salaries totalling \$246,396 due to the non-recording of leave taken, inadequate internal checks and non-compliance with financial guidelines. The Ministry was instructed to recover the overpayments.

Unsupported Payments

59. The required supporting documents were not presented for 11 payments totalling \$518,233.

Internal Audit Unit

60. The Ministry reported that due to budgetary constraints it was unable to fill three of the six posts in the Internal Audit Unit. This resulted in inadequate audit coverage of the Ministry and its overseas Missions. It is important that the internal audit of the Missions be increased because of erosion of the internal control at several of them due to the recent staff retrenchment exercise.

Overseas Missions

61. Audit inspections conducted at four of Jamaica's Missions abroad disclosed that there was a need for improvement in the clearing of advances, the maintenance of passport registers, motor vehicle control records and the liquor stock book.

Unsubstantiated Payments

62. The New York Consulate did not present payment vouchers and/or supporting bills for six payments totalling US\$30,300. I was therefore unable to determine the authenticity of these transactions.

Travel Documents

63. Evidence was not presented to indicate how the under-mentioned travel documents were accounted for:

<u>Mission</u>	<u>Type of Document</u>	<u>Quantity</u>
Washington	Passport	16
Toronto	Passport	11
Toronto	Emergency Certificate	9

It was recommended that the Missions provide the necessary information on the disposal of these documents and institute effective controls to better account for travel documents.

Unremitted Statutory Deductions

64. Statutory deductions amounting to US\$23,420 made by the Consulate in New York from the salaries of locally recruited staff over the period April 2000 to May 2001 were not remitted to the relevant agencies up to the time of my audit. The Ministry was advised to instruct the Consulate to remit statutory deductions on a timely basis.

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

General Comment

65. For the financial year under review audits conducted at the Ministry's head office and four of its parish offices revealed concerted efforts to improve the

financial management and accounting arrangements. There were, however, several areas in which corrective action was still necessary

Outstanding Appropriation Accounts

66. The Capital A Appropriation Account for the year 1999/2000 which was returned for amendments, had not been resubmitted up to the date of this report. The Accounts for 2000/2001 were also outstanding. This contravened Section 241 I(b) of the Financial Administration and Audit Act.

Internal Control Weaknesses

67. Weaknesses were noted in preparation of payment vouchers; the maintenance of the Furniture and Equipment, Motor Vehicles and Toll Call control records; the accounting for unpaid salaries; the resolution of discrepancies disclosed by bank reconciliations; and in the internal check over the preparation and payment of salaries. These could expose the Ministry to losses and inefficiencies.

Unpresented Employment Contract

68. A contract detailing the terms and condition of employment of an officer who was paid approximately \$1.3M per annum was not presented for audit.

Parish Offices

69. Audit Inspections conducted at the Kingston and St. Andrew, Portland and St. Mary parish offices disclosed the following weaknesses:

- (i) At the Portland parish office eight files in respect of Old Age and Incapacity Assistance requested were not presented for audit. It was therefore not possible to verify that these beneficiaries were properly included on the programme.
- (ii) No record was maintained at the St. Mary parish office to properly account for uncollected pension cheques returned by the Post Office.
- (iii) I continued to observe instances in which official receipts were not issued by inspectors at the Kingston and St. Andrew Parish Office for NIS contributions collected. The collection of monies without issuing receipts could result in funds not being accounted for.

National Insurance Scheme

70. (i) Annual Financial Statements

Up to the date of this report the annual financial statements for the year 2000/2001 remained outstanding.

(ii) Furniture Inventory

For the period under review items of furniture and equipment totalling \$4,241,856 which were acquired by the National Insurance Fund were not entered in the Master Inventory. This could undermine the Fund's ability to safeguard and properly account for its assets.

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

Arrears of Bank Reconciliation

71. Serious arrears remained in the reconciliation of four of the Ministry's salaries bank accounts. Recommendations were made for corrective action to be taken.

Outstanding Accounts

72. Up to the date of this report the Appropriation Accounts for 2000/2001 were not received for examination.

Fraud and Irregularities

73. The Ministry reported six cases of suspected irregularities involving amounts totalling \$4,516,910. All were reported to the Police.

Furniture and Equipment Inventory

74. Up to the time of my audit the fixed assets inventory records had not been updated for several years. This undermined the control exercised over such assets.

Teachers' Salaries

75. Five teachers were overpaid salaries totalling \$161,607 as a result of being paid at the wrong point in their salary scales.

Mico C.A.R.E. Centre

76. An audit of the captioned institution disclosed several internal control and accounting weaknesses. I was subsequently advised that action had been taken to have them corrected.

**COLLEGE OF AGRICULTURE, SCIENCE
AND EDUCATION (C.A.S.E.)**

77. An examination of the accounting records and financial transactions of C.A.S.E. for the year under review revealed several unsatisfactory features as under:

(i) Internal Control Weaknesses

- (a) Ledgers accounts, blank cheques register, receipt book register, salary records, furniture and equipment inventory records were not being maintained and breaches of the Financial Instructions were noted in the maintenance of the cash books;
- (b) Up to the time of my audit bank reconciliation statements were not prepared since January 1999 for the Staff Development Fund Account and there was no indication that the Payroll bank account had ever been reconciled;
- (c) Supporting vouchers for payments totalling \$330,000 were not presented for audit;
- (d) There was inadequate segregation of duties in the preparation and payment of salaries. Weaknesses in the stores control system were also noted.

(ii) Emoluments

Overpayments totalling \$152,836 were made to two officers during the period July 1999 to August 2001. The contract of a senior officer offered gratuity terms which breached Government's guidelines. Senior officers did not pay income tax on the housing accommodation provided by the institutions as required by the Income Tax Act. A formal service contract was not entered into with a consultant to whom the institution paid \$17,000 per month for services provided.

(iii) Audited Financial Statements

Up to the date of this report, the latest audited financial statements available were for the financial year ended March 31, 1998. There was no indication that such annual statements were ever submitted to the Ministry as required by the Education Act.

PORTMORE COMMUNITY COLLEGE

78. An audit inspection at the captioned institution raised concerns about inadequate segregation of accounting duties, unsatisfactory control over stores, and breaches of the regulations concerning payment vouchers and the custody of funds.

APPRENTICESHIP BOARD

79. The audit of the Apprenticeship Board's financial transactions for the year under review disclosed a generally satisfactory state of affairs. However, no reconciliation of the bank account was done since March 2000. This could result in errors and unauthorized transactions going undetected for protracted periods.

JAMAICA CULTURAL DEVELOPMENT COMMISSION

80. A sample audit of the Commission for the year under review disclosed the following shortcomings:

(i) Disbursements

Proper supporting documents were not presented to substantiate expenditure of approximately \$190,000

(ii) Financial Statements

Up to the date of this report audited annual financial statements for 1996/1997 to 2000/2001 were not available for review. I was therefore unable to assess the Commission's financial state of affairs.

JAMAICA LIBRARY SERVICE

81. A review of the financial transactions and accounting records of the Jamaica Library Service for the year under review revealed the following deficiencies:

(i) Motor Vehicle Loans

There was no evidence that motor vehicle loans were appropriately secured to protect the interest of the Agency. There was also no indication that any repayment had been made on a loan of \$350,000 which was granted to an officer in November 2000.

(ii) Fixed Assets

No fixed assets inventory system was in place. However, it was noted that a computer inventory software was acquired and data was being compiled for the inventory.

JAMAICA NATIONAL HERITAGE TRUST

82. An examination of the accounting records and financial transactions of the Jamaica National Heritage Trust for 2000/2001 revealed a generally satisfactory state of affairs.

THE NATIONAL GALLERY

83. The audit of the accounting records and financial transactions of the National Gallery of Jamaica for the year under review revealed weaknesses in the areas of cash and investment management, and in the maintenance of fixed assets control records. The financial status of the Gallery could also not be adequately assessed, as annual financial statements for the periods 1995/96 to 2000/2001 were not presented for audit.

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

General Comment

84. For the year under review audits were conducted at the Ministry's head office, the four Regional Health Authorities head offices and several related health institutions and facilities in the regions. The audits disclosed several internal control weaknesses and accounting deficiencies.

Accounting Arrears

85. Up to the date of this report the Appropriation Accounts for 2000/01 were not received for audit and there continued to be serious arrears in the reconciliation of the Salaries Bank Account for the Ministry's head office.

The Pesticide Control Authority

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

WESTERN REGIONAL HEALTH AUTHORITY

87. (i) Tax on the Private Use of Government Vehicles

Three officers were provided with partially maintained motor vehicles. However, income tax totalling \$44,339 for the partial private use of the vehicles was not deducted from the officer's emoluments as required by law. The authority subsequently advised that collection of the tax had commenced.

(ii) Salary Advances and Staff Loans

Salary advances of \$2,118,862 were made to members of staff over the period April 1999 to January 2001. I was unable to ascertain how much of this amount was recovered because of the unsatisfactory state of the related records. There was also need for a documented policy for the granting of loans to staff. The Authority subsequently advised that these matters were being addressed.

(iii) Accommodation of Health Personnel

(a) The Ministry's Housing Policy stipulated that the total cost of utility bills of staff residences would be the sole responsibility of the occupants. However, for the months of October and November 2000 the Cornwall Regional Hospital subsidized the utility charges for the Quadrants staff residence by approximately \$80,736 or 83.9% for water and \$81,964 or 69% for electricity.

(b) There was no evidence that the occupants of staff residences at the Noel Holmes, Falmouth and Savanna-la-Mar Hospitals contributed to the cost of utility.

(c) The Ministry is the custodian of a three-bedroom house located on property at Sunset Boulevard, Montego Bay, St James. The officer who occupied this house, retired from the Public Service in November 1994 but the Ministry had not regained possession of this property up to the time of my audit.

(iv) Inadequate Cash Management

Inspection at several health facilities in the region revealed a number of instances of failure to issue receipts for cash collected and cash and cheques being held for protracted periods before lodgement, in breach of the Financial Instructions.

SOUTH EAST REGIONAL HEALTH AUTHORITY

88. (i) Outstanding Receivables and Payables

The records disclosed that hospital fees totalling \$156.9M, remained uncollected for seven hospitals in the region as at March 31, 2001. At that date also, \$150.8M was owed to suppliers for goods and services provided to hospitals and health facilities in the region. Failure to collect outstanding fees could adversely affect the operations of the hospitals.

(ii) Staff Loans

An approved documented staff loan policy was not seen. In addition, proper loan records were not maintained.

(iii) Losses and Irregularities

Inspections undertaken at various health care facilities and examination of records at the Regional Health Authority's head office revealed nine cases of losses and irregularities with a value of \$754,335. There was no indication that these were reported to the Financial Secretary and the Auditor General as required by the Financial Administration and Audit Act.

(iv) Collection of Public Money

(a) The Authority engaged the services of a company to provide courier services for 20 health centres in Kingston and St. Andrew. There was, however, no evidence of a formal

contract setting out the relevant terms and conditions. This could cause problems in the event of any discrepancy.

- (b) In several instances cash collected was not lodged for periods ranging from five to 60 working days, in contravention of the Financial Instructions.
- (c) A schedule of receipts and lodgements compiled from documents obtained from the courier revealed that \$2,110,421 was not accounted for at the time of audit. The Regional Health Authority and Ministry of Health were requested to conduct an investigation to determine the reason for the apparent short lodgements and advise.
- (d) Inadequate Control of Public Money

Cash inspections conducted at several health centres in the Region revealed inadequate internal check over cash collected, unsatisfactory security; untimely lodgements and inadequate custody for cash. In addition, there was no evidence of notice informing the public of the gazetted fees charged for services provided and the requirement for official receipts to be issued by the staff for all amounts collected.

NORTH EAST REGIONAL HEALTH AUTHORITY

89. (i) Security Services

The records disclosed that North East Regional Health Authority expended \$3,515,691 on security services for the year under review. There was, however, no evidence that formal contracts existed between the Regional Health Authority and the security companies.

(ii) Unsubstantiated Payments

Suppliers' bills were not presented for expenditure totalling \$308,626. Therefore, the authenticity of the payments could not be verified.

(iii) Furniture and Equipment Inventory

Up to the time of audit the Furniture and Equipment Inventory had not been updated beyond August 2000, resulting in assets acquired

during the year under review for \$2,669,298 not being entered therein. This undermined the control exercised over such assets.

(iv) Outstanding Receivables and Payables

(a) Records were not maintained to show the outstanding revenue receivables for the Region. This undermined management's ability to monitor the collection process.

(b) As at March 31, 2001, \$157.4M was shown as owed to suppliers for goods and services supplied to the region. In addition, PAYE deductions totalling \$91.3M made from employees' emoluments had not been remitted for the period October 2000 to June 2001 up to the time of my audit.

(v) Sewage Treatment Plant – Annotto Bay Hospital

A Sewage Treatment Plant was given as a gift to the hospital in 1994. Up to the time of my audit it remained non-functional although over the years expenditure of \$15.4M had been incurred for relocation, installation and to make it work. The Ministry engaged the services of a consulting firm in May 2001 to evaluate the Plant. It recommended that extensive modification costing about \$2.5M would be necessary to make it functional.

SOUTHERN REGIONAL HEALTH AUTHORITY

90. (i) Tax on Private Use of Assigned Government Vehicles

The related income tax totalling \$101,278 for the partial private use of assigned motor vehicles was not collected from five officers, as required by law.

(ii) Furniture and Equipment Inventory

Up to the time of audit, the required Furniture and Equipment Inventory Records were not maintained and therefore did not reflect fixed assets acquired during the year under review for approximately \$11M. Assets seen also bore no identification marks as required by the Financial Instructions. These deficiencies weakened management's control over such assets.

(iii) Bank Accounts

At the time of audit, reconciliation of the two bank accounts maintained by the Southern Regional head office was several months in arrears. Interest charges of \$71,628 were incurred on unauthorised bank overdrafts. This was in breach of the Financial Instructions and could expose the officers responsible to surcharge.

(iv) Irregularities

Six cheques totalling \$132,947 were fraudulently converted by a former employee. The officer was forced to resign and the matter reported to the police.

(v) Accommodation for Health Personnel

Although the Ministry's Housing Policy specified that the cost of utility bills would be the sole responsibility of the occupants of staff health residences, there was no evidence that occupants of the Viking Court Complex paid the cost for water charges, and that occupants of the Viking Hall Complex paid the cost of electricity and water.

(vi) Missing Computers

The Regional Internal Auditors reported that three computers valued at \$133,877 were not accounted for and computer related items totalling \$143,237 were not presented for inspection.

(vii) Overpayment of Transport Allowance

Failure to comply with the terms of the contract of an officer resulted in the overpayment of transport allowances totalling \$159,460.

HEAD 4234 – BELLEVUE HOSPITAL

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

(i) Outstanding Account

The Appropriation Account for 2000/2001 was not received for examination up to the date of this report.

(ii) Unsubstantiated Payments

Suppliers' bills were not presented to support payments totalling \$450,259. Therefore the authenticity of these transactions could not be verified.

(iii) Overtime Payments

Payments totalling \$148,000 were made to various members of the accounting staff as supper and taxi allowances for working beyond normal working hours. However, the hours worked could not be verified as the time of departure was not recorded in the Attendance Register.

(iv) Overpayment of Salaries

An officer was overpaid salary amounting to \$19,345.

HEALTH SERVICES RATIONALIZATION PROJECT

92. The Health Services Rationalization Project which is jointly funded by the Inter-American Development Bank and the Government of Jamaica aims to strengthen health sector policy, expand health system planning and management and improve the quality and availability of secondary and tertiary health care services. The audit of the Project for the 2000/2001 financial year revealed that the accounting records and financial transactions were generally satisfactory.

HEALTH SECTOR REFORM PROGRAMME

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

ADOPTION BOARD

94. An examination of the financial transactions and accounting records of the Adoption Board for the financial year 2000/2001 revealed a generally satisfactory state of affairs.

MEDICAL COUNCIL OF JAMAICA

95. An audit of the Medical Council of Jamaica for 2000/2001 revealed the following weaknesses:

(i) **Outstanding Annual Returns**

No annual returns for statutory deductions made from employees' emoluments had been filed since 1990 in breach of statutory requirements. The Council was therefore exposed to legal sanction.

(ii) **Signed Blank Cheques**

The practice of signing cheques in blank continued, thereby negating the internal control role of cheque signers.

(iii) **Outstanding Financial Statements**

The financial statements for 1999/2000 and 2000/2001 were not presented for examination up to the date of this report.

PROFESSIONS SUPPLEMENTARY TO MEDICINE

Outstanding Financial Statements

96. The annual financial statements for 1999/2000 and 2000/2001 for the captioned agency were not presented for audit up to the date of this report.

THE UNIVERSITY HOSPITAL BOARD OF MANAGEMENT

97. Up to the date of this report the audited financial statements for the University Hospital in respect of the years 1999/2000 and 2000/2001 were not available for review. I was therefore unable to assess the Hospital's financial state over this period.

**HEAD 4220 – REGISTRAR GENERAL'S
DEPARTMENT**

98. An audit of the financial transactions and accounting records of the Registrar General's Department for the year 2000/2001 disclosed a generally satisfactory state of affairs. However, Appropriation Account for that year was not submitted for examination up to the date of this report and interest charges amounting to \$41,894 was incurred as a result of an unauthorised overdraft on one of the Department's bank account.

HEAD 4235 – GOVERNMENT CHEMIST

99. The audit of the captioned Department for the year under review revealed that the financial transactions were carried out in a generally satisfactory manner. However, there was need for improvement in the maintenance of the stores and fixed assets control records as they did not reflect items acquired during 2000/2001 at a cost of \$736,500. Failure to keep these records up to date could facilitate the misappropriation/misuse of the Department's assets.

**HEADS 5100, 5100A & 5100B –
MINISTRY OF AGRICULTURE**

General Comment

100. The audit of the captioned Ministry for the year under review revealed improvements in several areas. However, the under-mentioned unsatisfactory features were observed.

Accounting Arrears

101. The Appropriation Accounts for 2000/2001 were not received for examination up to the date of this report and reconciliation of the salaries bank account was over three years in arrears.

Accounting for Assets

102. Information was not provided as to how eight tractors as well as equipment valued at \$357,000 were accounted for.

103. An audit of the Fisheries Division revealed the following shortcomings:

(i) Travelling Claims

Two officers were overpaid \$93,463 for travelling allowances.

(ii) Renovation Contract

A contract was awarded in February 1999 in the sum of \$2,442,253 for the renovation of the Division's Wet Laboratory. This included an amount of \$309,525 for the supply and installation of a 2000-gallon steel water tank to facilitate experiments conducted at the Laboratory. Up to the date of audit the tank was not in use, as it was said to be unsuitable to carry out the type of experiments required. The contract incurred a time overrun of 11 months and a cost overrun of \$598,301 for which adequate explanation was not presented.

EXPORT DIVISION

104. The Export Division of the Ministry of Agriculture is a self-sufficient trading entity responsible for procuring markets internationally for pimento grown in Jamaica. An audit of this unit disclosed a generally satisfactory state of affairs except that there was no indication of Ministry of Finance approval of an outstanding loan/advance of \$30M made to its parent Ministry.

JAMAICA AGRICULTURAL SOCIETY

105. An examination of the accounting records and financial transactions of the Jamaica Agricultural Society for the financial year 2000/2001 revealed the following unsatisfactory features:

(i) Outstanding Financial Statements

The annual financial statements for 1996/97 to 2000/2001 had not been presented for audit up to the time of this report. Management indicated that a consultant had been hired to prepare these statements and that they should be available shortly.

(ii) Overpayments

Three employees were overpaid a total of \$31,855, while no approval of the Ministry of Finance was seen for an increase of \$500,000 per annum in the emoluments of a senior officer.

(iii) Inadequate Cash Management

Serious arrears were noted in the maintenance of the cash books and in the reconciliation of bank accounts. In addition, the storage facilities for blank cheques were inadequate and the improper practice of signing blank cheques was observed.

JAMAICA 4-H CLUBS

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

(i) Loans

No Board or Ministry of Finance approval was seen for the setting up of the Motor Vehicle Loan Scheme and there was no evidence that the motor vehicle loans were appropriately secured to protect the interest of the Jamaica 4-H Clubs.

(ii) Livestock Register

No Livestock Register was in place and could undermine management's control over such assets.

JAMAICA VETERINARY BOARD

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

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

General Comment

108. An audit of the captioned Ministry for the year under review disclosed several areas of concern as detailed below.

Outstanding Appropriation Account

109. Up to the time of this report, the Appropriation Accounts for the year 2000/2001 were not submitted for examination.

Suspected Irregularities

110. The Accounting Officer reported cases of suspected irregularities involving \$3,184,833. These appeared due to a breakdown in the system of control over the procurement of office supplies as well as collusion and/or negligence on the part of officers. The matter was reported to the Police. It was recommended that measures be instituted immediately to strengthen the controls within the Ministry in order to prevent a recurrence.

Internal Control Weaknesses

111. Weaknesses in internal controls were also noted in the areas of long distance telephone calls, payment vouchers and advances. It was recommended that steps be taken to address these weaknesses promptly to prevent and/or detect errors and abuse.

Internal Audit

112. There was need for better response by management to the reports made by the internal auditors to ensure that the concerns raised are promptly and effectively addressed.

FOOD STORAGE AND PREVENTION OF INFESTATION DIVISION

113. An audit of the captioned Division disclosed the following unsatisfactory features:

(i) Toll Calls

At the time of my examination the Toll Call Register indicated that \$54,853 for the cost of private telephone calls made during the period August 2000 to January 2001 remained uncollected.

(ii) Annual Returns

Up to the time of my audit the annual returns for National Insurance, National Housing Trust and income tax had not be filed for 1999 and 2000. Annual returns not filed promptly could adversely affect employees' access to benefits.

(iii) Stores

There was need for improved maintenance of stores records to facilitate the proper accounting for Government's assets.

(iv) Receivables

I was unable to determine the extent of revenue collections and receivables of three of the Division's laboratories as appropriate accounting records were not maintained.

(v) Excessive Lost Man Hours

The records showed that during the period February 1 to April 25, 2001, approximately 430 man hours were lost due to the excessive late coming of 18 employees. It was recommended that appropriate measures be instituted to ensure compliance of staff with the Government's working hours and so correct the nugatory expenditure of public funds.

FAIR TRADING COMMISSION

114. A test check of the financial transactions and accounting records of the Commission for the year under review disclosed a generally satisfactory state of affairs.

JAMAICA EXPORT TRADING COMPANY

Statutory Deductions

115. Up to the time of my audit statutory deductions made from employees' emoluments between April 1997 and January 2001 amounting to \$7,414,639 had not been paid over to the relevant authorities. This not only exposed the Company to legal sanctions but could adversely affect workers' entitlement to benefits.

POSTAL CORPORATION OF JAMAICA

Directors Fees

116. There was no indication that income tax totaling \$97,500 was deducted from directors' fees paid, as required by law.

Consultancy Contract

117. A consulting firm was engaged to manage the Company's Project Implementation Unit (PIU) whose objective was to assist in the commercialization of the Postal Service. There was no evidence that this award was based on

competitive tenders as stipulated by Ministry of Finance's guidelines. Evidence of the deliverables which should have formed the basis for payments made totalling \$4,376,000 was also not presented for audit.

SPECTRUM MANAGEMENT AUTHORITY

118. The audit of the captioned Agency for 2000/2001 disclosed a generally satisfactory state of affairs.

THINGS JAMAICAN LIMITED

119. The audit of the financial transactions and accounting records of Things Jamaican Limited for the year under review disclosed the following deficiencies:

(i) **Termination of Employment**

A person who was employed for six months had his services terminated after five months and was paid a gratuity of \$56,354 to which he did not appear entitled.

(ii) **Loans**

Interest free loans were approved for employees despite Ministry of Finance's guidelines stipulating that an interest rate of at least 8% per annum should be charged to all loans made by public sector entities.

(iii) **Storekeeping and Stores Control**

There was need for improvement in the area of stores control.

HEAD 5238 – OFFICE OF THE REGISTRAR OF COMPANIES

120. The audit of the Office of the Registrar of Companies for the year under review disclosed that the accounting records were maintained in a generally satisfactory manner. However, overpayment of salaries amounting to \$50,522 made to two officers was noted. It was recommended that steps be taken to effect recovery.

**HEAD 5239 – POST AND TELECOMMUNICATIONS
DEPARTMENT**

Outstanding Financial Statements

121. Up to the date of this report the Appropriation Account for 2000/2001 and the Annual Revenue Statements for 1998/99, 1999/2000 and 2000/2001 remained outstanding in contravention of the requirements of the Financial Administration and Audit Act.

Intransit Lodgements

122. At the time of audit the relevant control record reflected that lodgements totalling \$3,403,513 made by post offices over the period 1996-2000 had not been credited to the Department's bank account. This situation might have been exaggerated by the arrears in the maintenance of this record. The Department was advised to bring the register up to date and pursue vigorously with the relevant banks amounts that remained long outstanding so as to safeguard the Government against possible loss of funds.

Bank Reconciliation

123. There continued to be arrears of more than a year in the reconciliation of three bank accounts which could facilitate and conceal errors and irregularities.

**HEADS 5500 AND 5500A –
MINISTRY OF MINING AND ENERGY**

Appropriation Accounts

124. The Appropriation Account for the Recurrent Head of Estimates for the financial year 2000/2001 was not presented for audit up to the date of this report. Expenditure on the Ministry's Capital A Head of Estimates for the year exceeded the amount authorized by Parliament by \$1,033,101. This contravened Parliament's statutory authority to approve public expenditure.

Internal Control Weaknesses

125. There was need for improvement in the controls over the preparation and payment of salaries and the use of motor vehicles.

RURAL ELECTRIFICATION PROGRAMME

126. The audit of the captioned Programme for 2000/2001 disclosed a generally satisfactory state of affairs. However, it was noted that only 22.6km of the planned 84km of Distribution Line was accomplished. The main reason given for this 73% shortfall was indecision on the part of management as to whether to use concrete or wood polls.

CLARENDON ALUMINIA PRODUCTIONS

127. A limited test check o the captioned Agency for 2000/2001 disclosed that the records and financial transactions were generally satisfactory.

HEADS 5800, 5800A & 5800B – MINISTRY OF LAND AND ENVIRONMENT

128. The audit of the Ministry of Land and Environment disclosed that the financial transactions for the year under review had been conducted in a generally satisfactory manner. However, a laptop computer was given to a company to be repaired and upgraded in July 1997. An advance payment of \$43,200 was made. However, up to the time of my audit there was no indication that either the laptop or the money paid had been retrieved. The Ministry has subsequently sought the assistance of the Attorney General's office in the matter.

NATURAL RESOURCES CONSERVATION AUTHORITY

129. The audit of the Authority for the financial year 2000/2001 disclosed that the financial transactions were conducted in a generally satisfactory manner. However, the following unauthorized staff benefits were observed:

- (i) The required Ministry of Finance approval was not seen for four employees to proceed on study leave for periods of three to four years and to be paid grants totaling \$997,737.
- (ii) An officer who was granted two years study leave did not resume duties until four months after the expiry of this period. The Authority was asked to justify the payment of \$79,169 to this officer during the four-month period.
- (iii) Failure to comply with the directives of the Ministry of Finance resulted in the salaries paid to a contract officer during the period 1998 to 2000, exceeding the approved limit by \$124,765.

HEAD 5821 – TOWN PLANNING DEPARTMENT

130. The financial transactions of the Town Planning Department examined for the year under review were found to be generally satisfactory. However, up to the date of this report the 2000/2001 Appropriation Account was not submitted for audit. Overpayments totaling \$13,116 were also noted.

**HEAD 5847 – NATIONAL LAND AGENCY –
TITLES OFFICE**

131. The financial transactions of the captioned Agency examined for the year under review were found to be generally satisfactory. However, there was need for more effective internal check to ensure that revenue collected was lodged promptly and intact.

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

General Comment

132. For the year under review audits conducted at the Ministry's head office and two of its agencies revealed that the financial transactions and accounting records were undertaken and maintained in a generally satisfactory manner. However, the under-mentioned shortcomings were noted.

Excess Expenditure on Heads of Accounts

133. The Appropriation Accounts for the Ministry of Environment and Housing for the financial year 1999/2000 reflected expenditure in excess of the amounts authorized by Parliament as indicated below:

<u>Heads of Account</u>	<u>Excess Expenditure</u>
6400 – Recurrent	\$5,977,619.24
6400A – Capital A	\$7,516,657.19
6400B – Capital B	\$4,591,537.26

This will require Parliamentary approval by way of Final Supplementary Estimates.

Uncleared Advances

134. Accounting records disclosed that for the financial year 2000/2001 there were uncleared advances from the Housing Fund amounting to \$102,377,123. Most of these were in relation to disbursements under the Urban Renewal and Upgrading Project, which was implemented through the Caribbean Engineering Corporation Limited (CECL) and also in regard to the implementation of the Emancipation Land Programme at Liberty Estate. Failure to have advances cleared promptly can lead to difficulty in having them properly accounted for and could result in the understatement of the Ministry's actual expenditure for the year under review.

Unauthorized Loans to Staff Members

135. Loans totalling \$122,000 were granted to five staff members by the Ministry to help defray the cost of tuition fees and other related expenses in pursuing courses of study. At the time of audit only \$25,000 was reportedly recovered from one officer. The Ministry was reminded that the authority to grant such loans was restricted to the Ministry of Finance and Planning.

Payments for Breach of Contract

136. A contractor was given an out of court settlement of \$25.15M plus accrued interest of \$65M for damages claimed against the Ministry for failing to meet certain obligations in relation to a construction contract. Of the total settlement of \$90.15M, \$30M was paid in cash and the balance was to be settled by the transfer to the contractor of certain government-owned lands. Up to the time of this report the property had not yet been valued as the Ministry was attempting to have squatters removed.

Security Contract

137. A security firm was engaged to provide protective services at the Eltham Park sewage plant. This involved the supply of two unarmed guards and two canines round the clock at a cost of approximately \$150,000 per month. There was no evidence that the contractor was selected through a tendering process, and although the original contract period was for the three months from November 1, 1999 the arrangement was still in force up to the time of audit – July 16, 2001 – without evidence of formal renewal. This could cause uncertainty as to the parties' rights and obligations. The Ministry subsequently advised that the arrangements with the security firm had been suspended and the facilities taken over by the National Water Commission.

**OFFICE OF DISASTER PREPAREDNESS AND
EMERGENCY MANAGEMENT (ODPEM)**

138. An audit of the captioned Agency's financial transactions and accounting records for the year under review revealed the following areas of concern:

(i) Staff Loans

Contrary to the established loan policy, loans were made to members of staff without the approval of a loan committee. It was also noted that several employees received salary and miscellaneous loans above the stipulated ceiling without evidence of special approval. Loans were granted interest free in contravention of the Ministry of Finance's guidelines, which require a minimum interest of 8% per annum. I was subsequently advised that my concerns were being addressed.

(ii) Losses and Irregularities

Forty-seven (47) heavy-duty metal cots, costing \$244,120 were discovered missing from the National Emergency Stores which is operated from a warehouse located at Marcus Garvey Drive. The Ministry confirmed that the procedures for dealing with losses in the Public Service were not followed in this case.

NATIONAL IRRIGATION COMMISSION

139. An audit of the captioned entity for 2000/2001 disclosed a generally satisfactory state of affairs. The few internal control weaknesses noted were subsequently corrected.

WATER RESOURCES AUTHORITY

140. An audit of the accounting records and financial transactions of the captioned entity for the year under review revealed a generally satisfactory state of affairs. However, it was observed that the Authority continued to provide interest free staff loans, contrary to "Guidelines to Financial Management in Public Sector Entities" issued by the Ministry of Finance and Planning which stipulated a minimum rate of 8%.

HEAD 6437 – SURVEY DEPARTMENT

141. The under-mentioned deficiencies were disclosed by the audit of the Survey Department for the year under review:

(i) Outstanding Accounts

Contrary to the requirements of Section 24 I (b) of the Financial Administration and Audit Act, the Appropriation Accounts for the years 1999/2000 and 2000/2001 were not presented for examination up to the date of this report.

(ii) Suspected Irregularities

Suspected irregularities involving revenue collections amounting to \$588,173 were identified. This matter was reported to the Police and the Department subsequently instituted improved controls aimed at preventing any recurrence.

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

142. The audit of the Ministry's financial transactions and accounting records for the year under review disclosed a generally satisfactory state of affairs. However, the following shortcomings were noted:

(i) Rental Payments

Failure by the Ministry to finalize agreement for relocation of owners of lands used in the construction of the Ocho Rios bypass resulted in accumulated payments for rent amounting to approximately \$3.3M for the housing of three families displaced during the road construction process. There was also evidence of pending litigation as one family's lawyer had written the Ministry re the finalizing of the agreement. The Ministry was advised to have the matter settled as soon as possible to contain the relocation costs.

(ii) Consultant

The audit revealed that the Ministry engaged a consultant during the financial years 1999/2000 and 2000/2001 to act as Senior Adviser/Coordinator to the Honourable Minister. Payments totalling \$5.092M were made over this period. There was, however, no evidence that these amounts were subject to statutory deductions

as required by law. The consultant who was assigned a fully maintained motor vehicle was also not taxed for the partial private use of the vehicle, resulting in uncollected revenue. The Ministry was advised to have the matter rectified.

(iii) Parish Offices

Although audits conducted at three parish offices revealed a generally satisfactory state of affairs, there was need for improvement in the maintenance of salary records, blank cheque registers and the controls over the use of the telephones.

PORT AUTHORITY OF JAMAICA

143. A test check of the financial transactions and accounting records of the Authority for the year under review revealed the following:

(i) Contracts

- (a) The required Cabinet approval was not seen for a contract amounting to £350,859.20 (approximately J\$21,051,552), which was awarded to a consultancy company.
- (b) There was no evidence that the award of a consultancy and works contract for \$12.04M was done on a competitive basis as required by the Ministry of Finance's directives.

(ii) Per Diem

The required Ministry of Finance approval was not seen for per diem allowance paid for an officer's overseas trip in excess of the usual rates.

(iii) Gratuity

Failure to comply with the Ministry of Finance's guidelines resulted in advance gratuity payment of \$500,000 to an officer after one month's service rather than at the expiration of the three-year contract period. This represented the premature disbursement of public fund which could expose the Government to loss.

(iv) Legal Fees

An amount of \$1M was paid to an individual for legal services. I was, however, unable to determine how this figure was arrived at as the relevant documentation was not presented for audit.

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

144. The audit of the captioned Ministry disclosed that the financial transactions for the period under review were conducted in a generally satisfactory manner. However, it was noted that during the period under review the Ministry remitted to Metropolitan Parks and Markets (MPM) certain funds to be administered under the Social and Economic Support Programme. A test check of the related disbursements made by MPM disclosed that although MPM received an administration fee, there was no evidence that a technically competent officer from that Agency visited the various work sites to determine the work to be done, the rates to be paid and to verify that work to be paid for was satisfactorily done. The Ministry was advised to instruct MPM to correct this weakness. The Ministry subsequently indicated that this had been done.

JAMAICA FIRE BRIGADE

145. The audit of the captioned entity disclosed the under-mentioned unsatisfactory features:

(i) Outstanding Financial Statements

Audited financial statements for the period 1996/97 to 2000/2001 were outstanding. The Department reported that the arrears were due mainly to inadequate accounting personnel which they were in the process of correcting.

(ii) Internal Control Weaknesses

Control weaknesses were noted in the areas of disbursement of cheques, reconciliation of bank accounts, motor vehicle operations and fixed assets inventory. Only one of four internal audit posts was filled resulting in inadequate internal audit coverage of the Department's operations. Failure to implement effective controls could result in losses and inefficiencies.

(iii) Unremitted Statutory Deductions

At the time of reporting, deductions totalling \$178,582,507 made from employees emoluments and contractors' payments, some as far back as September 1999, were not remitted to the relevant agencies. The Department reported that this was due to cash flow problems. This not only breached the relevant Acts but also exposed the entity to penalties.

(iv) Interest Charges

Interest charges totalling \$209,604 were incurred on bank overdrafts which did not have the required approval of the Ministry of Finance. It was recommended that appropriate steps be taken to prevent any recurrence.

(v) Procurements

Goods and services valued at approximately \$1.2M were procured without evidence that the required quotations were obtained or that the cases were referred to the Procurement Committee. This breached the entity's procurement policy and Government's guidelines. It was also noted that goods costing \$330,056 were purchased using quotations or estimated bills as supporting documents instead of the suppliers' bills/invoices. It was recommended that this practice be discontinued as it could result in erroneous or duplicate payments.

SOUTHERN PARKS AND MARKETS LTD.

146. The audit of the captioned entity disclosed several unsatisfactory features, the more important of which are highlighted below:

(i) Outstanding Financial Statements

Up to the time of my examination, audited financial statements for the periods 1992/93 to 2000/2001 were not available. Draft statements for 1992/93 to 1998/99 were prepared for discussion purposes only. The serious arrears of audited accounts breached the Financial Administration and Audit Act and undermined the accountability process.

(ii) Internal Control Weaknesses

The controls exercised over the usage of fuel, fixed assets, and commercial garbage billing were inadequate. The entity was advised to institute corrective action in order to strengthen the internal controls as failure to do so could result in errors and inefficiencies. The Ministry subsequently advised that improvements were being instituted.

(iii) Payment Vouchers

Adequate supporting documents were not produced for payments totalling \$277,743.

(iv) Statutory Deductions

As at March 31, 2001 statutory deductions of \$3,431,790 made from employees' emoluments during the years 1998 and 2000 were not remitted to the relevant agencies. The company reported that it was faced with severe cash flow problems. Management was reminded that the non-remittance of statutory deductions could result in legal sanction and could deprive employees of benefits.

(v) Gratuity Payment

A gratuity payment of \$51,604 was made on a six-month employment contract in contravention of the Ministry of Finance guidelines. The Ministry advised that this would be recovered.

(vi) Social Economic and Support Programme

Thirty-two payments totalling \$375,551 were made without any documented evidence of the work actually done and whether it was satisfactorily performed. The company was reminded of its responsibility to properly supervise work under the captioned programme to ensure that the public receives good value for the money spent.

NATIONAL YOUTH SERVICE

147. A review of the financial transactions and accounting records of the National Youth Service for the year under review revealed a generally satisfactory state of affairs. However, the fixed assets control records were in need of updating.

NATIONAL SOLID WASTE MANAGEMENT PROGRAMME

148. The National Solid Waste Management Programme is jointly funded by the Inter-American Development Bank and Government of Jamaica, through the Ministry of Local Government, Youth and Community Development. The main objectives of the programme are to improve the environmental and sanitary conditions of the solid waste site in the Kingston Metropolitan area and other non-active sites around the country, as well as to develop an action plan for a country-wide Solid Waste Management Programme. The audit of the programme for the financial year 2000/2001 revealed that the internal controls, accounting records and financial transactions were generally satisfactory.

PARISH INFRASTRUCTURE DEVELOPMENT PROGRAMME

149. The Parish Infrastructure Development Programme (PIDP) is jointly funded by the Inter-American Development Bank and the Government of Jamaica, with the Ministry of Local Government, Youth and Community Development being the executing agency. The chief objective of the programme is to improve the capacity of local authorities to deliver basic services and maintain parish infrastructure. The financial transactions and internal controls examined for the period under review were found to be generally satisfactory.

SOCIAL DEVELOPMENT COMMISSION

150. A review of the financial transactions and accounting records for the Social Development Commission for the year under review revealed the following unsatisfactory features:

(i) **Salaries**

Instances were noted at the Commission's Head Office in which no written authorization was seen for the issue of salary cheques to officers other than the payees. This practice exposed the Commission to the risk of improper disbursement.

(ii) **Statutory Deductions**

Statutory deductions from employees' emoluments totalling \$28.8M for the period February to November 2001 had not been remitted to the relevant agencies as at the date of this report. This exposed the Commission to legal sanction and could adversely affect the

staff's ability to access benefits from the National Insurance Fund and the National Housing Trust.

- (iii) No fixed assets inventory control records were presented for audit. This undermined management's ability to properly account for and safeguard the organization's assets. The Commission advised that it expected to have this problem corrected by 2002, March 31.

KINGSTON AND ST. ANDREW CORPORATION

151. The audit of the captioned entity for 2000/2001 disclosed several unsatisfactory features, the more important of which are highlighted below:

- (i) **Unpresented Payment Vouchers**

The related payment vouchers and supporting documents were not presented to substantiate expenditure totalling \$840,530. I was therefore unable to verify the authenticity of the transactions.

- (ii) **Security Arrangements**

Payments totalling \$1,033,570 were made for the provision of certain security services. However, a formal agreement was not presented neither were the relevant details seen to indicate how the amounts payable were arrived at.

- (iii) **Salaries Overpayments**

A test check of salaries disclosed overpayments of \$62,935.

- (iv) **Uncollected Income Tax**

Income Tax of \$174,231 was not deducted from the emoluments of a contract officer employed since November 1999, as required by the Income Tax Act.

- (v) **Collection of Revenue**

The records showed that at the time of my audit arrears of rental due to the Corporation totalled \$679,750. Adequate records were not presented to indicate the amounts due from advertising agencies for the erection of billboards on the Corporation's properties.

PARISH COUNCILS

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

(i) **Arrears of Revenue**

At the time of audit the records showed that arrears of Leases/Rentals totalling \$6,567,098 were owed to ten councils; Barbers/Hairdressers fees of \$6,751,951 to five councils; and Butchers Licences of \$1,314,300 to four councils.

(ii) **Unremitted Statutory Deductions**

At the time of audit substantial amounts for statutory deductions made from employees' emoluments at four councils had not been remitted to the relevant collecting agencies for protracted periods. This involved \$5.4M for Portland, \$4.6M for St. Elizabeth, \$3.1M for Trelawny and \$2.7M for St. James. The non-remittance of these deductions on a timely basis not only breached the relevant laws, but in the case of NIS and NHT could adversely affect employees' entitlement to benefits.

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

At the Portland and St. Elizabeth Parish Councils income tax of \$56,250 and \$67,500, respectively, had not been deducted from the emoluments of officers provided with motor vehicles, as required by the Income Tax Act.

(iv) **Inadequate Control of Assets**

The furniture and equipment inventory records were not faithfully maintained at the St. Ann, Trelawny, St. James, Clarendon and St. Catherine Parish Councils. This could undermine the control over public property.

(v) **Inadequate Motor Vehicle Control**

There was need for improvement in the controls exercised over the use of motor vehicles owned by the St. Ann, Clarendon and St. Catherine Parish Councils.

ST. THOMAS PARISH COUNCIL

153. Up to the time of this report the financial statements for 1999/2000 and 2000/2001 were not received for audit and unauthorized overdrafts of bank accounts resulted in interest charges of \$94,000 being incurred.

ACKNOWLEDGEMENT

154. I take this opportunity to record my appreciation to Accounting Officers and their staff, and officers of Local Government agencies and other statutory bodies and government companies for the cooperation and courtesies extended to my staff and myself during the year 2001.

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

19th December, 2001