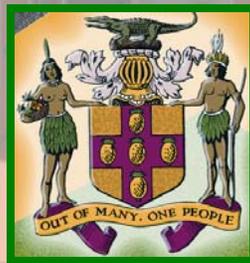




**REPORT
OF THE
AUDITOR GENERAL
ON THE
APPROPRIATION AND OTHER
ACCOUNTS
OF JAMAICA**



For the Financial Year ended 31st March 2006

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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, 2006

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, 2006. 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 2005/2006 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 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 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.

Staff Development

6. During the period under review the Department continued to encourage staff development. Six (6) officers were given time off from work, "day releases" and study leave to pursue courses of study at tertiary institutions. In 2006, five (5) officers successfully completed degree courses from universities. During the year one officer attended an accounting course at the Management Institute for National Development, and another a computer auditing course abroad, while 46 employees participated in internal training courses.

Public Accounts Committee

7. 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. The Committee actively pursued its responsibilities during the period under review and my officers and I continued to provide it with appropriate support and advice.

Summary of the Major Findings of the Audits

8. A summary of the major findings of the audits conducted for the period under review is provided at paragraphs 9 to 16 below.

Generally Satisfactory Audit Findings

9. 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

10. 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 8, 2006, I had not received 57 accounts for 2005/2006 and 21 for 2004/2005. 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

11. The audits identified a number of instances in which payments amounting to \$50.4M were made in breach of the stipulated rules and guidelines or without the requisite approval. Overpayments totalling \$20.1M 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

12. The audits at several entities disclosed instances in which vouchers and supporting invoices were not presented for expenditure totalling \$18.3M. I was therefore unable to verify their authenticity. Information was not made available as to how assets and other resources valued at \$1.8M were accounted for. Nine (9) entities also reported losses and irregularities involving \$13M. Most of these cases of losses and irregularities were reported to the police.

Breaches of the Constitution and Certain Acts of Parliament

13. A number of instances were noted in which the use of funds or the accounting for public financial transactions was not done in compliance with the Constitution and/or relevant Acts of Parliament. These breaches related to such areas as some loan transactions, certain resources belonging to the Capital Development Fund and the revenue from the levy imposed by Government on incoming international telephone calls. One of the adverse effects of such non-compliance with the Constitution and the Acts is the undermining of the intended Parliamentary control of public expenditure.

Unpaid Statutory Deductions

14. The audits disclosed that eleven (11) agencies of Government had not remitted to the relevant institutions statutory deduction of approximately \$1.48B which had been deducted 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

15. 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 furniture and equipment, the custody of blank cheques and the purchase of petrol. Reconciliation of many bank accounts also remained in serious arrears, thereby creating an environment which facilitated the concealment of errors and fraud.

Breaches of Procurement Requirements

16. Many breaches of the Government's prescribed rules for the procurement of goods and services were again noted. In some instances there was no indication that the required recommendation of the National Contracts Commission or Cabinet approval was obtained. But once more the most common infraction was the failure of many entities 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 required Tax Compliance Certificate. I again recommended that appropriate legal sanctions be instituted for breaches of the Government's procurement requirements.

HEAD 0100 – HIS EXCELLENCY THE GOVERNOR GENERAL AND STAFF

17. The audit of the financial transactions and accounting records of the captioned Head of Estimates for the year under review disclosed the need for improvement in the operation of fleet vehicles. The Appropriation Account for 2005/2006 was also not presented for audit up to the date of this report.

HEAD 0200 – HOUSES OF PARLIAMENT

18. The audit of the Houses of Parliament for 2005/2006 disclosed a generally satisfactory state of affairs. However, the following areas of concern were noted:

i) *Control Weaknesses*

There was need for improvements in the maintenance of the furniture and equipment control records and the use of telephones.

ii) *Breach of Procurement Procedures*

Goods and services costing approximately \$8M were procured without evidence that the required competitive price quotations were obtained. The entity was asked to indicate how it satisfied itself that it obtained the best value for money and to ensure future compliance with the Government's procurement rules.

HEAD 0300 – OFFICE OF THE PUBLIC DEFENDER

19. The audit of the financial transactions and accounting records of 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

20. The audit 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.

HEAD 0600 – OFFICE OF THE SERVICES COMMISSIONS

21. The audit of the Commission for the period under review disclosed the following areas of concern:

i) *Outstanding Appropriation Accounts*

At the time of this report, the appropriation accounts for the years 2004/2005 and 2005/2006 were not presented for audit, in contravention of the Law.

ii) *Internal Control Weaknesses*

Improvements were needed in the areas of salary control records, advance debit cards, bank reconciliations, procurement of goods and services and lodgement of funds. Amounts totalling \$60,291 remained outstanding for private calls made by officers during the

year and \$11,632 from prior years. Recommendations were made to correct these deficiencies and recover the outstanding amounts.

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

22. The audit of the financial transactions and accounting records of the Office of the Prime Minister for the period under review disclosed a generally satisfactory state of affairs.

NATIONAL HOUSING TRUST

23. The audit of the financial transactions and accounting records of the captioned entity disclosed a generally satisfactory state of affairs. However, the following matters of concern were noted:-

i) *Credit Card Transactions*

The relevant supporting bills were not presented for credit card transactions totalling \$47,128 and US\$2,087. This prevented assessment as to whether these payments represented a proper use of public funds.

ii) *Loan to Employees*

There was no evidence that the necessary prior approval of the Ministry of Finance and Planning was obtained for the staff loan scheme being operated by the Trust. It has since written to the Ministry seeking retroactive approval.

iii) *Outstanding Government Contribution*

The records disclosed that as at August 2006 the Government owed employer's NHT contribution of \$18.3B for the period January 1994 to August 2006. This amount included accrued interest of \$9.9B.

SOCIAL DEVELOPMENT COMMISSION

24. The audit of the Social Development Commission's financial transactions and accounting records for 2005/2006 revealed the following deficiencies:

i) *Overpayments*

Nine (9) officers were overpaid salaries of \$40,076. Management was advised to effect recovery. Up to the date of this report \$5,497 was repaid by four (4) officers.

ii) *Economic Enablement Project*

A review of this project indicated that Government's procurement guidelines were still not being strictly complied with. Several payments continued to be made on estimates and pro forma invoices. This could lead to improper disbursement of public funds. The Commission subsequently advised that steps were being taken to address this concern.

iii) *Outstanding Financial Statements*

Up to the date of this report, annual financial statements for the years 2001/2002 to 2005/2006 were not submitted for audit.

iv) *Social Assistance Programmes*

There was no indication that beneficiaries of the Social and Economic Support Programme and Education Assistance Programme were assessed by competent government officers to have met written specified qualifying criteria. It was observed that in one (1) instance an education benefit of J\$158,000 was approved by a project officer attached to the SESP Unit in the Office of the Prime Minister who was said to be a close relative of the beneficiary. There was no indication that this transaction had obtained the scrutiny and sanction of any superior officer. It was also noted that contrary to the requirements of Ministry Paper 29/99, the disbursement was made to a commercial bank and transferred to an account held by the project officer, instead of being paid directly to the Educational Institution. It was also noted that an education grant of J\$342,000 awarded to another beneficiary was approved by the same project officer and the amount transferred to the same account. Both amounts were

subsequently remitted to bank accounts of the beneficiaries over the periods October 2005 to June 2006 and May 2005 to February 2006, respectively.

Management was advised that the direct involvement of an employee in the award of benefits to family members may be deemed as nepotism and should be avoided and that the disbursement requirement of Ministry Paper 29/99 be adhered to. In several instances no evidence was presented to allow verification that assistance provided was used for the intended purposes. The above-mentioned weaknesses could subject these programmes to abuse. The Commission agreed that the present extent of verification was inadequate and advised that request had been made for five (5) additional project officers.

OFFICE OF NATIONAL RECONSTRUCTION (ONR)

25. The audit of the financial transactions and accounting records of the captioned Agency disclosed the following matters of concern:-

i) *National Contracts Commission Approval*

There was no indication that six (6) contracts each valued over \$4M and totalling \$58,738,791.00, were approved by the National Contracts Commission as stipulated in the Public Sector's Procurement Guidelines.

ii) *Valuation Certificates*

Payments totalling \$7,568,055 were made on valuation certificates which at the time of audit were not signed by the Quantity Surveyor. It could therefore not be determined whether the work paid for was properly valued.

iii) *Outstanding Annual Returns*

At the time of audit annual returns for NHT and NIS salary deductions were not submitted for the calendar year 2005. This could adversely affect employees' access to certain benefits.

iv) *Emoluments*

There was no evidence that the requisite approval was obtained from the Ministry of Finance and Planning for the emoluments paid to the entity's employees.

v) *Bank Reconciliation Arrears*

The early detection and prevention of possible errors and irregularities was impeded as, reconciliation of the recurrent bank account was seven (7) months in arrears; while a joint account had not been reconciled since its opening in January 2005. The entity was asked to bring the reconciliation up to date at the earliest possible time.

vi) Cashed cheques for \$3,104,476 drawn on the recurrent bank account were reportedly not returned by the bank but there was no evidence that it was notified of this omission. In the absence of these cashed cheques or microfilm copies the reconciliation of the account could not be satisfactorily concluded; neither could the payees be verified. Management was advised to rigorously pursue this matter with the bank.

vii) *Inadequate Control of Assets*

There was need for stricter control over the entity's fixed assets as, the requisite inventory control records were not maintained and items of furniture and equipment were not suitably marked. The absence of proper fixed asset records and control procedures could undermine Management's ability to properly safeguard its assets.

INSTITUTE OF SPORTS

Outstanding Financial Statements

26. Audited financial statements were not presented for the period 1992/1993 to 2005/2006 as required by the Public Bodies Management and Accountability Act. The absence of up-to-date financial statements prevented a proper assessment of the Institute's financial state of affairs..

Distribution of Sporting Goods

27. From time to time the Institute acquired sporting gears for distribution to clubs and schools. However, there was no evidence presented of the written acknowledgement of receipt of these goods by the institutions. This prevented verification that the gears had reached their intended destinations.

Overpayment of Salary

28. A member of staff was overpaid salary amounting to \$68,333, while the required statutory deductions were not made from the emoluments of five employees.

Outstanding Statutory Deductions

29. Up to the time of audit amounts totalling \$12.1M for employer's contribution and statutory deductions made from employees' emoluments between April 2002 and February 2006 had not been remitted to the relevant collection agencies. The annual return for NIS for 2005 was also outstanding. These breaches of the law exposed the entity to possible legal penalties and could also adversely affect employees' entitlement to certain benefits.

Staff Loans

30. There was no documented approved policy for the making of loans to staff. It was also noted that loans were granted interest free and without the acceptance of any form of security. These weaknesses contravened the Ministry of Finance's guidelines and the Institute was asked to take corrective action. The Institute subsequently advised that the loans had since been recovered and that such loans are no longer being made.

Fixed Assets Control

31. The required fixed assets inventory control records were not maintained. This undermined management's ability to safeguard and account for the assets.

Use of Telephones

32. The records indicated that \$1.128M was spent for telephone charges over the period March 2004 and January 2006. There was no evidence that appropriate controls were in place to ensure that only the cost of the official use of the telephones was met from public funds. The Institute was asked to correct this weakness.

HEAD 1510 – JAMAICA INFORMATION SERVICE

33. The audit of the financial transactions and accounting records of the Jamaica Information Service for the year 2005/2006 disclosed a generally

satisfactory state of affairs. However, it was noted that two of the suppliers engaged by the Department were not on the National Contracts Commission's approved list. The Agency was advised to ensure full compliance with the Public Sector's Procurement Guidelines.

CREATIVE PRODUCTION AND TRAINING CENTRE

34. An audit of the financial transactions and accounting records of the Creative Production and Training Centre for the year under review revealed the following unsatisfactory features:-

i) *Unauthorised Salary Payments*

Three officers were employed at a total cost of \$1,876,000 per annum without the necessary approval of the Ministry of Finance. In addition, thirteen officers were paid above the approved rates, resulting in excess payments totalling \$1,544,528. The Ministry of Finance subsequently directed that the salaries of the thirteen officers be frozen.

ii) *Repairs to Studio*

a) I was not satisfied that there was appropriate justification for the payment of J\$125,105 for air fare and accommodation for two specialists from the USA who came to Jamaica to make a proposal for the repair of the studio. The proposal was not accepted.

b) A payment of \$1.79M, or 71% of the agreed price, was made in December 2005 to a contractor for the flooring of the studio. \$1.2M of this amount was said to have been used to purchase material which I was advised proved unsuitable for the job. No security was obtained for the advance to secure the interest of the Centre. Up to the date of this report there was no indication that the work had commenced.

OFFICE OF UTILITIES REGULATIONS (OUR)

35. An audit of the captioned agency raised the following concerns:

i) *Use of Telephones*

Shortcomings were noted in the control exercised over the use of telephones.

ii) *Debit/Credit Cards*

The agency honoured credit card expenses amounting to \$46,166 for which adequate evidence was not presented to indicate that the related transactions were of an official nature. The necessary information was also not provided to substantiate that petrol acquired at a cost of \$337,864 was supplied to the official vehicles.

iii) *Unauthorized Motor Vehicle Lease Payments*

Eight employees were each in receipt of annual motor vehicle lease payments totalling \$660,000 without evidence of special approval from the Ministry of Finance and Planning.

iv) *Wireless Telephones*

During the year under review, expenses of \$900,512 were incurred for the acquisition and use of twelve wireless telephone systems. I was not convinced this was a sufficiently cost effective arrangement. The OUR indicated that these acquisitions were effective in improving communication between officers and with the office. It is however reviewing the guidelines for the use of the equipment with a view of containing their cost.

**HEADS 1600, 1600A & 1600B –
OFFICE OF THE CABINET**

36. The audit of the accounting records and financial transactions of the Office of Cabinet for the year under review disclosed a generally satisfactory state of affairs, however, the under-mentioned shortcomings were noted:-

i) *Outstanding Accounts*

Up to the date of this report the Appropriation Accounts for the financial year 2005/2006 were not submitted for examination.

ii) *Scholarship and Assistance*

The captioned project, which aims to offer scholarships and assistance in selected target disciplines, to public sector workers as

well as private individuals desirous of being employed in the public sector, was reviewed. At the time of audit the delinquency level of beneficiaries not serving their period of bond and those who had defaulted in paying the penalties imposed could not be determined due to the unsatisfactory state of the related record keeping. This prevented assessment of the extent to which persons who breached the training conditions were being appropriately sanctioned. I was subsequently advised that steps were being taken to improve the record keeping and that a review of the case files had shown that as at October 31, 2006, delinquent beneficiaries owed the following amounts inclusive of accrued interest:-

J\$80,159,848
US\$ 621,829
Cdn.\$198,558
UK £ 48,164

I was also informed that officers of the Attorney General's office were assisting in the recovery process.

JAMAICA SOCIAL POLICY EVALUATION PROJECT (JASPEV)
JAMAICA PERFORMANCE IMPROVEMENT PROJECT

37. The captioned Projects aim to establish processes and mechanisms to enable social policy priorities identified in the Social Policy Framework (SPF) and the Social Action Plan (SAP) to be disseminated and carried forward effectively in Jamaica. The Social Action Plan focuses on the need to improve policy and implementation processes and to transform the organizational culture of public institutions to ensure they are more effective, pro-poor and listen to the public. The Projects complement the on-going programme of public sector reform. The Projects are financed through a revised grant of £1.37M and the Government of Jamaica cost sharing contribution of J\$14.870M. The audit of the financial transactions and accounting records of the Projects for the year under review disclosed a generally satisfactory state of affairs. However, the controls exercised over furniture and equipment continued to be inadequate. The management was reminded that this shortcoming could result in loss of or misuse of the Projects' assets and should be corrected.

HEAD 1649 –
MANAGEMENT INSTITUTE FOR NATIONAL DEVELOPMENT

38. The audit of the captioned entity for the year under review revealed a generally satisfactory state of affairs.

HEADS 1700, 1700A AND 1700B –
MINISTRY OF INDUSTRY AND TOURISM
JAMAICA CULTURAL DEVELOPMENT COMMISSION

39. 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) *Outstanding Statutory Deductions*

At the time of my examination there was unpaid Income Tax of \$5.797M which had been deducted from employees' emoluments over the period July to December 2005. This was a breach of the Income Tax Act and management was informed to make the necessary remittance at an early date.

ii) *Breach of Procurement Requirements*

Several breaches of the Government's procurement requirements were noted. These included instances in which there was no indication that competitive price quotations, tax compliance certificates or tax registration numbers had been obtained. A number of cases were also noted in which no contracts were presented for service arrangements entered into. A service provider was paid \$14,165,140 without the related agreement obtaining the required approval of the National Contracts Commission. It was recommended that the Government's procurement guidelines be fully observed in future.

iii) *Payments to Consultant*

The necessary statutory deductions of \$1,667,093 were not made from monthly payments made to a consultant. In addition, the consultant was overpaid commission totalling \$264,432. The Commission subsequently advised that \$132,216 of the overpayment had since been recovered.

iv) *Outstanding Financial Statements*

There was no indication that audited Financial Statements for 1999/2000 to 2004/2005 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 2003. It was recommended that immediate steps be taken to correct this breach.

BATH FOUNTAIN HOTEL & SPA

40. The audit of the financial transactions and accounting records of the Bath Fountain Hotel & Spa for the year under review revealed weaknesses in the areas of receipt book register, petty cash imprest, cash lodgements, procurement process and inventory of fixed assets. Segregation of certain accounting duties was also necessary. The Hotel has since advised that my recommendations for dealing with these inadequacies had been implemented.

MILK RIVER MINERAL BATH

41. The audit of the financial transactions and accounting records of the captioned entity for the year under review disclosed several breaches of the Government's procurement rules which are intended to promote transparency and value for money.

INSTITUTE OF JAMAICA

42. The audit of the financial transactions and accounting records of the captioned entity for 2005/2006 revealed the following deficiencies:

i) *Staff Emolument*

An officer was paid in a higher salary scale than that approved by the Ministry of Finance in breach of Section 20 of the Public Bodies Management and Accountability Act 2003. The entity was informed to regularize the situation.

ii) *Procurement Breaches*

No evidence was presented to indicate that the stipulated competitive process was used in the selection of certain suppliers of goods and services. Tax Compliance Certificates were not presented for these suppliers, neither were they included on the National Contract Commission's approved list of contractors.

iii) *Overseas Trips*

The necessary portfolio Ministry's approval was not seen for overseas trips embarked on by several officers.

iv) *Loan Policy*

The entity did not obtain sureties before the disbursement of loans, contrary to Ministry of Finance and Planning's guidelines. The risk of failure to recover overdue amounts, especially when officers become separated from the entity was communicated to the Institute.

v) *Accounting Weaknesses*

Improvements were needed in the record keeping and control exercised over fixed assets, cash book, receipt books, blank cheques register, cash receipts, investments ledger, and the reconciliation of bank accounts. The Institute was advised that the weaknesses identified would increase the possibility of errors and irregularities. I was subsequently advised by the Institute that corrective steps were being taken.

NATIONAL LIBRARY OF JAMAICA

43. An audit of the Library's financial and accounting records for the year under review disclosed the following shortcomings:

i) *Reclassification of Posts*

It was disclosed that 63 positions operated by the Library were reclassified but no evidence was presented to indicate that this was approved by the Ministry of Finance and Planning as required by the Public Bodies Management and Accountability Act, 2003.

ii) *Procurement Breaches*

A number of instances were noted in which there was no evidence that competitive price quotations were used in the procurement of goods and services; suppliers were not on the National Contracts Commission's approved list of contractors; and Tax Compliance Certificates were not presented by suppliers, as required by the Government's procurement rules.

iii) *Loan Policy*

There was no evidence that the required Ministry of Finance and Planning's approval of the entity's staff loan policy had been received.

iv) *Inadequate Assets Records*

The control exercised over fixed assets was inadequate, as assets acquired during the period under review at a cost of \$129,338 were not recorded in the relevant inventory records. Management was reminded that this weakness could result in the loss or misuse of the Library's assets and should be corrected.

I was subsequently advised that corrective measures were being taken on the points mentioned above.

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

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

Excesses on Heads of Estimates

45. Section 116(2) of the Jamaica Constitution provides that whenever any monies are expended in any financial year in excess of the sum provided for that service by the Appropriation Act relating to that year, the Minister responsible for finance, shall as soon as possible after the end of the financial year, introduce into the House of Representatives a final Appropriation Bill for such excess for the approval of the House. It was noted however that up to the date of this report the necessary final Appropriation Acts had not been approved to cover one hundred and six (106) instances of excesses on heads of estimates totalling \$2,037,466,172 for the financial years 1994/1995 to 2004/2005. The Ministry has advised that appropriate steps were being taken to address this breach.

PROVIDENT FUND

46. The audit of the captioned Fund for the financial year 2005/2006 disclosed a generally satisfactory state of affairs. However, there needed to be stricter compliance with Government's cheque disbursement guidelines.

CAPITAL DEVELOPMENT FUND

47. The financial statements for the period ended March 31, 2000 were received in September 2005. These were audited in accordance with Section 12(7) of the Bauxite (Production Levy) Act, 1974 and the following concerns were raised:-

i) *Investment*

The proceeds of a Jamaica Local Registered Stock with a face value of J\$142,345,000 and which matured on August 17, 1999 was not paid to the Capital Development Fund by the Ministry of Finance until September 4, 2001. It was noted that no interest was received on this amount for a period of two years. This resulted in the loss to the Fund of approximately J\$40M in interest income.

ii) *Dividend Declaration*

During 2001, the Board of Directors of the National Investment Bank of Jamaica, a subsidiary of the Fund took the decision to pay a dividend of \$7.3M to the Accountant General. However, this contravened the provisions of the Bauxite (Production Levy) Act, 1974.

iii) *Shares – Caribbean Cement Company Limited*

Net proceeds of \$600.78M were received for the sale in 1999 of Caribbean Cement Company Shares held by National Investment Bank of Jamaica. Of this amount \$401.69M was paid over to the Ministry of Finance and Planning in breach of the Act.

DEVELOPMENT BANK OF JAMAICA

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

i) *Incentive Payments*

The required prior approval of the Ministry of Finance and Planning was not obtained for certain “incentive payments” made to some members of staff. This represented a breach of Section 20 of the Public Bodies Management and Accountability Act, and was reported to the Ministry which imposed fines on two of the Bank’s senior officers.

ii) *Foreign Travel*

The required approval of the Ministry of Finance and Planning was also not presented for the payment to certain officers of per diem allowance of US\$16,570 in excess of the Government's approved rates, in respect of overseas trips undertaken.

The matter was referred to the Ministry with the recommendation that the excess amounts be justified by supporting expenses incurred or recovered from the officers involved. The Ministry subsequently ruled that US\$7,430 should be repaid by the officers involved. Up to the date of this report US\$3,820 had been recovered. It was also observed that credit cards transactions amounting to US\$9,984 were honoured for an officer in respect of foreign travels undertaken but the necessary supporting bills were not presented for audit. The Bank was asked to provide this information or have the amount repaid.

iii) *Other Unauthorised Transactions*

The necessary Ministry of Finance and Planning approval was also not seen for the following arrangements:-

(a) *Transport Allowance*

Three (3) officers were paid motor vehicle allowance of Three Hundred and Sixty Thousand Dollars (\$360,000) per annum which was in excess of the Government's approved rates. The Ministry subsequently ruled that the overpayment of \$18,700 per annum to two of the officers should be recovered.

(b) *Motor Vehicle Assignment*

Three (3) fully maintained motor vehicles were assigned, one each to the Office of the Prime Minister, Ministry of Finance and Planning and the Ministry of Foreign Affairs and Foreign Trade.

HEAD 2011 – ACCOUNTANT GENERAL'S DEPARTMENT

Outstanding Financial Statements

49. The Appropriation Account for the financial year 2005/2006 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 a financial year were also outstanding:

	STATEMENT	OUTSTANDING PERIOD
A	CURRENT ASSETS & LIABILITIES OF THE CONSOLIDATED FUND	2004/2005 and 2005/2006
E	ADVANCES AND LOANS FROM THE CONSOLIDATED FUND (MISC. LOAN AND COMPUTER LOAN COMPONENTS)	2004/2005 2005/2006
G	BALANCES HELD BY THE ACCOUNTANT GENERAL ON DEPOSIT AT THE END OF THE FINANCIAL YEAR AND THE OUTSTANDING ADVANCES THEREFROM	2004/2005 and 2005/2006
I	OUTSTANDING LOANS OR CREDITS GUARANTEED BY THE GOVERNMENT	2001/2002 to 2005/2006

Internal Control Weaknesses

50. Weaknesses in Internal Control were noted in the following areas:

- i) There was need for improvement in the record keeping for motor vehicle loans.
- ii) The required inventory records for furniture and equipment were not being properly maintained. Several items purchased during the year were not included in the inventory and the records did not reflect repairs done to equipment during the period.
- iii) There was need for improvement in the maintenance of the ledger for miscellaneous loans, and the control over the commencement of loan repayments as well as the calculating and accounting for interest payments.

Pension Payment

51. i) Inadequate control was noted over the numerous returned pension cheques which were not yet stale dated.

- ii) Several instances of short deduction of Income Tax amounting to \$111,142 were noted. The Department was asked to recover these amounts.
- iii) Life certificates are required to be submitted quarterly by pensioners as a testimony that they are still alive. The audit observed that payments totalling \$5.2M were made to 22 pensioners who had life certificates outstanding for between 7 to 67 months. The Department subsequently advised that current life certificates had been received for 16 of the pensioners who had been paid \$4,547,034.

Improper Accounting for Loan Expenses

52. The audit disclosed that between 2000 and 2004 US\$15,224,000; J\$34,041,818 and Euro 6,800,000 representing loan expenses were deducted from the proceeds of six loans totalling US\$475M, J\$200M and Euro 550M and only the net amounts lodged to the Consolidated Fund. The Department was reminded that the necessary budgetary provision should have been made for loan raising expenses and such expenses incurred charged against the provision and an equal amount paid into the Consolidated Fund.

Contingent Payment on Guaranteed Loans

53. The Ministry of Finance and Planning in March 2006 guaranteed a loan of US\$38M without evidence of the Parliamentary approval required by Section 2(1) of the Approved Organizations and Authorities Loans (Government Guarantee) Act and Section 43 of the Financial Administration and Audit Act. The Department was asked to take steps to have this breach of the law rectified.

Interest on Local Registered Stocks

54. In December 2003 Interest totalling approximately \$235.9M payable to holders of certain Local Registered Stocks was converted to a new issue of GOJ investment debentures. This was not properly dealt with as the necessary charge to statutory expenditure and lodgement of an equivalent amount to the Consolidated Fund, was not done. This breached the requirements of the Constitution and the Financial Administration and Audit Act and resulted in the understatement of both Government revenues and expenditure. The Department was advised to correct this situation.

Discount on LRS's

55. The full nominal value of eight (8) Local Registered Stocks totalling \$3.8B, issued between September 2001 and September 2005, was not lodged into the Consolidated Fund. The amount verified as lodged was \$3.677B. The difference

of \$128M was attributed to discounts given to the investors. However these discounts were not treated as expenditure as was necessary and have resulted in the understatement of expenditure and revenue.

Outstanding Bank Reconciliations

56. At the time of my audit two (2) of the Department's bank accounts had not been reconciled for many months. This was in breach of the Financial Instructions and could impede the early detection of errors and fraud.

Outstanding Advances

57. Advances totalling \$58M were made from the Contingencies Fund to two Ministries in October 2002 and remained uncleared up to the date of the audit. This contravened Section 13(3) of the Financial Administration and Audit Act, which requires that supplementary estimates be submitted to Parliament as soon as possible to allow repayment of such advances.

Non-Cash Issue of Debt Instruments

58. The following debt instruments were issued without evidence that the related cash equivalent was lodged to the Consolidated Fund and charged to Government's expenditure as required:-

- i) A commercial bank had extended a credit facility of \$2B to the Development Bank of Jamaica. This obligation was taken over by Government in September 2003 by issue of Local Registered Stock.
- ii) In May and June 2002 three deferred financing facilities were converted to Local Registered Stocks totalling \$1.436B.
- iii) In March 2002 promissory notes totalling \$38.5M were issued to the Port Authority of Jamaica.
- iv) In January 2002 obligations of the Government to the Development Bank of Jamaica was settled by the issue of non-interest bearing promissory notes totalling \$271M.
- v) Between 1999 and 2004 certain obligations of three entities to three financial institutions were taken over by Government by the issue of Local Registered Stocks totalling \$1.14B.

- vi) In November 2001 certain outstanding GOJ contributions to UWI were settled by the issue of Local Registered Stocks totalling \$1.112B.

The above transactions were all in breach of the Constitution and the Financial Administration and Audit Act as the proceeds of these loan instruments were not paid in the Consolidated Fund and the expenditure they represented were not approved by Parliament. This had the effect of understating Government's expenditure and loan revenue and also the bypassing of the intended Parliamentary control of public expenditure.

HEAD 2012 - JAMAICA CUSTOMS

59. Up to the time of this report, the Appropriation Account for the year 2005/2006 was not presented for audit. This contravened Section 24I(1)(b) of the Financial Administration and Audit Act. The Department indicated that the account was with the Ministry of Finance and Planning for signature and dispatch.

Temporary Imports

60. Approximately \$61M which was deposited as duties on temporary imports, remained uncleared on the related control register although the stipulated three-month period had passed for these goods to be exported, or the amounts deposited lodged as revenue. The records also indicated \$67M worth of temporary imports for which there was no evidence that the necessary deposits had been made. The Department was advised to take steps to identify the revenue due and have the appropriate amounts lodged to the Consolidated Fund.

Outstanding Advances

61. Advances amounting to approximately \$16.5M remained outstanding at the date of this report. The Department was reminded to take steps to clear these amounts.

Overpayment of Salaries

62. Three persons were overpaid salaries amounting to \$10,635 due to inadequate internal check. Up to the date of this report \$2,550 had been recovered.

Bank Reconciliation

63. The November 2005 bank reconciliation statement for the salaries bank account disclosed numerous erroneous/unauthorised debits amounting to \$128,697 along with understated credits of \$89,931. The Department was asked to have these discrepancies resolved as soon as possible in order to safeguard against possible loss of public funds.

Use of Motor Vehicles

64. There was no evidence that trips undertaken by the Department's vehicles had the necessary authorization. Neither was there indication that appropriate investigations were done to determine whether the drivers involved in motor vehicle accidents were negligent and should be disciplined.

CARGO PROCESSING SYSTEM

General Comments

65. The Cargo Processing System (CPS) was implemented to assist the Jamaica Customs Department to accomplish its objectives of providing effective and speedy clearance of goods, and to improve information available to decision makers within Customs and the wider Tax Administration. An audit of the system was conducted to determine whether it was functioning in an effective and reliable manner and was achieving its objectives. The audit revealed non-compliance with information security policy, inadequate review of the system, to assess its effectiveness, system errors and lack of reconciliation of uncleared imports reports with physical goods. Control weaknesses were also identified in the access to the electronic payment cashier's office, verification of e-payments and the 'fast tracking' clearance of imports.

Performance Management

66. Jamaica Customs appointed an Information Technology Coordinating Committee to oversee all the Department's information systems. There was however no evidence to indicate that the effectiveness of the Department's computerization activities was measured to determine whether stated objectives were being achieved. and actual outcomes were in harmony with the Department's mission. The audit recommended that the Committee should regularly review the achievement of objectives and direct corrective actions where necessary.

Information Technology (IT) Security

67. There was no indication that the Information Management Unit had done any IT Security review to test the adequacy of and compliance with the existing policy. The security policy should be monitored to ensure that the various users are complying therewith and that the controls are adequate to prevent unauthorized access to and use of the CPS.

Fast Track Brokers

68. The Department advised that Custom Brokers with a 5% or less error rate are eligible for "fast track" processing of their entries. Such entries are subject to only one level of review unlike regular entries, which are reviewed twice. A list of the brokers eligible for fast track as at January 19, 2006 (most current list at date of audit) was used to verify whether the system correctly reflected such brokers. Investigation revealed that 15 Custom Brokers with fast track status on the system were not included in the list provided. It was also noted that although the list indicated that fast track privileges should be removed from four brokers, there was no indication on the system that this had been done. An examination of the Brokers Error Summary Report for the period 01/03/2006 to 24/03/06 showing the percentage of errors for each broker revealed that 56 of the 71 approved fast track brokers had errors exceeding 5%. I recommend that documented qualifying criteria for Fast Tract brokers should be developed and strictly adhered to.

Endorsement of E-payments

69. It was observed that the information displayed on the system to support the endorsement of e-payment entries was inadequate, as the authorization code issued by the bank to confirm e-payments did not appear on the cashier's computer screen. In the absence of this code I was therefore not satisfied that the system provided reasonable assurance that the related duties were duly paid. I recommended that the endorsement screen be re-designed to reflect the authorization code issued by the bank to confirm successful e-payments. In addition, the daily e-payments report should be cross-referenced and independently verified with the Import entries endorsed for the day in order to monitor the work done by the e-payment cashier.

Unrestricted Access to E-payment Cashier's Office

70. Investigation revealed that physical access to the e-payment cashier's office was not appropriately restricted. Brokers were provided with seating facility in this area and were also given the opportunity to search through batches of endorsed entries to find their documents. It was recommended that this office be restricted to authorized staff only and under no circumstances should brokers be allowed to search the Department documents.

Inadequate System Review

71. Investigations revealed that the cargo processing system was not being maintained up to date. A review of the Brokers details on the system disclosed that there were brokers with incomplete data entry requirements and expired licences that were not renewed since 2004. There were cases in which only the names of the brokers and their reference numbers were on the system. In the absence of complete broker details it is difficult to cross-reference and verify broker details with related data entered on import entries. All the required information and supporting details in respect of each Broker should be verified for completeness and authenticity and to ensure that only approved brokers utilize the system. Brokers with expired licence as well as 'test' data should be removed from the system to prevent the risk of unauthorized use.

Re-endorsement of Import Entries

72. Evidence of payment of customs duties is indicated by endorsement of the import entries with payment information, such as the transaction number, duty paid, stamp duty paid, payment locator number, broker's TRN and processing fee. At times there are situations that may give rise to a re-endorsement of an entry in cases where there are errors, paper crush or paper jam. It was observed that access to the re-endorsement screen was granted by the supervisor who had to enter access codes in a covert manner to maintain the privacy of the password in the presence of cashiers at their workstations. In the event that a supervisor's password is compromised, an unauthorized person may use the re-endorsement screen to endorse entries for which the related fees/duties were not paid. It should be noted that the system did not generate a report of re-endorsements done to facilitate verification of their authenticity

73. The "batching clerk" is required to sort the copies of import entries in sequential order according to the section to which the entries are to be submitted (i.e. 3rd copy – Audit, 4th copy – Revenue Accounts, 5th copy – STATIN, 6th copy – GCT). The clerk should also ensure that payment locator numbers were not duplicated and where such duplications are found this should be referred to a supervisor or manager immediately for investigations and correction. There was no evidence to indicate that this procedure was being followed. In the absence of adequate controls the possibility exists that undetected errors or irregularities may result in the improper use of the re-endorsement process on import entries resulting in the loss of revenue. The audit recommended that a more secure technique be implemented for re-endorsements by supervisors and that the daily transaction report should be made available to the batching clerk to check the payment locator numbers on the report against those on import entries to determine whether there has been any duplication of these numbers. In addition, copies of entries cleared at the wharf should also be checked against the daily transaction report for duplications.

Unpaid Entries

74. In cases where related duties are not paid within three months of processing of import entries on the system, such entries should be automatically transferred to an archive database. Investigations revealed that during the period May 2005 to December 2005, there were 1070 entries with outstanding payments of \$223.7M for periods of three months and over in the production database.

75. An examination of an archived entries report for the period January 2004 to December 2005 disclosed no evidence that any check was undertaken to ensure that the related goods were in store for 738 of the entries valued at approximately \$170.7M. I was therefore unable to determine whether:

- i) goods were paid for but payment was not entered on the system
- ii) goods were still in the custody of Customs awaiting clearance
- iii) clearance of goods was made without any payment
- iv) goods were auctioned by Customs

76. I recommended that a periodic review of archived import entries be done to determine the reason for long outstanding entries. In addition, measures should be put in place to ensure that the computer program that transfer entries outstanding for more than three months from the production database to the archives operates more efficiently.

Locking of the System

77. During a walkthrough of the system it was observed that there were instances where authorized officers were unable to view import entries to conduct the necessary processing. The System Administrator explained that this was a problem they had been experiencing for a protracted period and despite repeated reports to Fiscal Services Limited the problem remained unresolved. The audit recommended that efforts should be redoubled to have the problem rectified.

HEAD 2015 - INLAND REVENUE DEPARTMENT

In-transit Lodgements

78. An In-transit lodgement register was maintained to record lodgements of cash that were made by the respective collectorates but not yet credited to the Department's main bank account. At the time of audit this register which was one year in arrears reflected outstanding lodgements of approximately \$270M. The delay in the maintenance of this record undermined its purpose as a control tool aimed at allowing management to determine whether lodgements made were reaching their intended destination in a timely manner.

Outstanding Advances

79. The audit was unable to properly assess the status of outstanding advances as the related subsidiary ledgers were fifteen months in arrears.

Overpayment

80. There was no indication that overpayment of salaries amounting to \$42,028 reported by the Department's Internal Auditors had been recovered.

Expenditure Vouchers

81. The required documents were not presented to allow verification of the authenticity of payments amounting to approximately \$7.2M.

Inadequate Control of Assets

82. Twenty (20) air condition units costing approximately \$1.5M which were purchased during the period under review were not reflected in the relevant inventory records.

Unexplained Pre-retirement Leave

83. An officer was granted seventy (70) days pre-retirement leave in excess of what appeared to be her entitlement. The Department was asked to justify the additional days granted.

Tax Arrears

84. Two collectorates disclosed arrears of GCT as well as Income and Property Taxes amounting to approximately \$1.7B. Management was advised to implement more effective measures to collect these outstanding amounts.

Internal Control Weakness Over the FMIS

85. The audit disclosed that five persons had multiple user identification codes for the Department's Financial Management Information System. This undermined the internal check over the disbursement and accounting processes. The Department was advised to correct this problem.

Outstanding Appropriation Account

86. Contrary to the requirement of the financial Administration and Audit Act, the Department's Appropriation account for 2005/2006 was not received for examination up to the date of this report.

Procurement Breaches

87. A procurement contract for \$869,800 was entered into with a supplier who was not registered with the National Contracts Commission (NCC); neither was a valid Tax Compliance Certificate (TCC) presented as required.

Contractors Levy

88. There was no indication that Contractors Levy of \$43,943 was remitted to the Inland Revenue Department as required by the Contractor's Levy Act.

Salary Overpayments

89. Fifteen (15) employees were overpaid emoluments totalling \$44,352. Recovery of \$4,845 was made from two employees. The Department was advised to improve the system of internal check over the payment of salaries and to effect recovery.

Income Tax Assessments

90. Of a sample of 152 taxpayers who were assessed tax of approximately \$276.9M during the period under review, 42 of the related taxpayers' accounts were not seen entered on the computer system for tax collectible totalling \$58.57M. There was also no indication of any action taken to effect collection on seventy-seven (77) of the taxpayers' accounts posted to the system involving \$88.59M.

Up to the time of this report only \$23.96M or 8.6% of total assessments raised in the sample selected was collected.

Income Tax Returns

91. Of a sample of 100 taxpayers' files requested for examination, 23 had not been presented up to the date of this report. Examination of the files as well as thirty eight (38) other files requested in previous years revealed that fifty-five (55) taxpayers had not filed their returns for a total of two hundred and two (202) tax years. In other cases, tax due amounting to \$67,657,939 (inclusive of interest and penalty charges) 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.

Income Tax Refunds

92. The audit revealed that three (3) taxpayers were over refunded amounts totalling \$874,626. The Department reported that \$871,626 was subsequently recovered.

GCT Assessments

93. One hundred and fifty (150) GCT assessments totalling approximately \$254M made during the year 2005 were selected, with a view to ascertain whether they were posted to the taxpayers' accounts and the respective amounts collected. Only approximately 69% of these, involving \$175.3M were posted to the accounts and collection of \$122.3M effected up to the date of this report.

GCT Returns

94. The audit disclosed errors in the computation of GCT for a taxpayer, which resulted in the tax payable being understated by \$109,167. The Department was advised to make the necessary adjustment.

Registration of GCT Taxpayers

95. A sample of 200 businesses was selected to ascertain their enrolment in the Register of Taxpayers for GCT purposes. There was no indication that sixty-three (63) of these entities were so registered. It was recommended that steps be taken to investigate these cases and have them registered where appropriate.

STAMP DUTY AND TRANSFER TAX

Stamping Impressions

96. A test check of the daily stamping impressions done with the related cash collected revealed nine (9) instances of unexplained discrepancies of shortages totalling \$380,939 and two (2) cases of excesses totalling \$45,931. It was recommended that these differences be investigated and resolved and that proper reconciliations should be effected on a daily basis.

Losses and Irregularities

97. The Department reported that four (4) Laptops and two (2) carrying cases with an estimated value of \$195,304 were stolen in August 2006. The matter was reported to the police.

HEAD 2044 – TAX ADMINISTRATION SERVICES DEPARTMENT

Inadequate Control of Stores

98. Deficiencies were noted in the controls exercised over consumable stores. The officer who maintained the inventory records was also responsible for custody of the stores. There was also no indication that inventory records were subjected to internal check and several instances were noted in which there were discrepancies between the recorded and physical balances of items. It was recommended that steps be taken to improve the stock control system.

Mileage & Subsistence Allowance

99. I was unable to determine whether certain mileage and subsistence claims amounting to \$512,420 constituted a proper charge on public funds, as the purposes for which the related trips were undertaken were too vaguely stated. The Department was asked to provide more detailed information.

HEADS 2600, 2600A AND 2600B - MINISTRY OF NATIONAL SECURITY

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

JAMAICA DEFENCE FORCE

Internal Control Weaknesses

101. Deficiencies were noted in the controls exercised over blank cheques, the cheque signing machine, the stores, salaries, valuables received through the mail and the recovery of the cost of private telephone calls. Reconciliation of the bank accounts continued to be in serious arrears. These weaknesses could contribute to the loss of public resources. It was recommended that early corrective measures be instituted. I was subsequently informed that this had since been done.

Overpayment

102. An officer was overpaid salary of \$28,000. Up to the date of this report \$6,000 was recovered.

Breach of Procurement Procedures

103. Procurement of goods and services costing approximately \$10.8M was done without evidence that the required competitive price quotations were obtained. There was also no indication that twenty seven of the suppliers with which the Force did business during the period under review were registered with the National Contracts Commission. The JDF was advised to comply with the Government's Procurement Guidelines to safeguard against uneconomical expenditure and to facilitate fairness and transparency.

IMMIGRATION AND PASSPORT OFFICE

Use of Telephones

104. There was continued weakness in the control over the use of telephones. This prevented verification that only the cost of official calls was met from public funds.

Passport Inventory Records

105. There was no evidence that the passport inventory records were subjected to independent check during the period October 2004 and August 2005. I was also not able to determine how sixteen (16) passports reported to have been damaged in production and 24 old format blue passports were accounted for. The Department was asked to provide the necessary explanations.

HEAD 2622 – POLICE DEPARTMENT

Outstanding Appropriation Account

106. The Appropriation Account for the financial year 2005/2006 was not received for audit up to the date of this report.

Breaches of Procurement Procedures

107. There was no evidence that the required competitive price quotations were obtained or that the Procurement Committee was involved in the selection of suppliers for purchases totalling approximately \$3.717M

Inadequate Stock Controls

108. There was still need for stricter control over the stores operations as there was no evidence that items of motor vehicle parts issued from stores were signed for by the receiving officer. The stores ledger at the Transport and Repairs workshop was not maintained on the perpetual inventory basis. There was no indication that 500 log books costing \$245,000 were taken on inventory. There was no evidence that regular comparison of the physical stock with stock record balances was carried out by an independent officer even though this was said to have been done every six months. The Department was again reminded of the need to institute effective controls in this area to safeguard against possible errors and abuse.

Supply of Petrol to Service Vehicles

109. For the period under review approximately \$178.9M was spent on the advance fuel debit card facility to supply fuel to the Department's motor vehicles. There was however, no indication that reconciliations between the suppliers statements and service station receipts were carried out as required by the Ministry of Finance's guidelines. In the absence of such reconciliation it could not be determined whether the amounts charged accurately reflected the value of fuel supplied to the Department's vehicles. It was recommended that the necessary reconciliation be effected.

Salary Overpayments

110. Two officers who were on unapproved extended leave and one whose service was terminated were paid salaries totalling \$1,902,855 to which they were not entitled. The Ministry was advised to effect recovery and to strengthen the internal check over the preparation and payment of salaries. I was advised that \$347,669 was recovered up to the date of this report.

POLICE PUBLIC COMPLAINTS AUTHORITY

111. 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.

PRIVATE SECURITY REGULATION AUTHORITY

112. 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. However, the following matters of concern were noted:

i) *Leave to Contract Officers*

The terms of employment of two contract officers provided for 30 days vacation leave and 14 days departmental leave instead of 14 days vacation and 10 days departmental leave as mandated by the Ministry of Finance and Planning's guidelines.

ii) *Incorrect Salary Level*

An officer was paid at the level of SEG 4 despite the fact that the Ministry of Finance and Planning approved the post at the level of SEG 2 resulting in unapproved payments totalling \$224,661. The decision to pay the officer at the higher level represents a breach of section 20 of the Public Bodies Management and Accountability Act and the responsible officer may be subject to penal charges under section 25 of the said Act.

ELECTORAL OFFICE OF JAMAICA

Outstanding Financial Statements

113. Financial Statements for the year 2005/2006 were not presented for audit up to the time of this report.

Procurement Breaches

114. Procurement of goods and services costing \$5,302,799 was done without evidence that the required competitive price quotations were obtained. Instances were also noted where procurements were made from suppliers not registered with the National Contracts Commission (NCC). I was therefore not aware as to how the Department satisfied itself that the best value for money was obtained, or how the suitability of the suppliers was assessed.

Study Leave

115. An employee was granted eighteen (18) months paid study leave; however, the officer resigned after completion of the leave without serving the required three year bond period or repaying salary totalling \$611,959 received during the leave. The Office was advised to pursue recovery of this amount.

Contracts

- a) An agreement between the Electoral Office of Jamaica and the Guyana Government required the Office to provide consultancy

services for elections in Guyana at a contracted sum of US\$28,000. However, the actual expenditure incurred by the Office was approximately US\$37,700. It was asked to explain how the excess expenditure of US\$9,700 would be recovered.

- b) No evidence was presented that the required number of price quotations were obtained for a contract costing \$237,000 to design and enhance the entity's website.

HEAD 2624 – DEPARTMENT OF CORRECTIONAL SERVICES

Outstanding Appropriation Account

117. The Appropriation Account for 2005/2006 was not received for audit up to the date of this report.

Bank Reconciliation

118. Reconciliation of the salaries bank account was approximately six 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 at the shortest possible time.

Procurement Breach

119. Procurement of goods and services costing \$284,889 was done without evidence that the required competitive price quotations were obtained. I was therefore unable to determine how the Department satisfied itself that the prices paid were fair and reasonable.

Rental/Lease Agreements

120. Valid rental/lease agreements were not seen for eight (8) properties rented by the Department. It was recommended that the situation be regularized without further delay as it could lead to controversy in the event of dispute. I was subsequently advised that four of the agreements have since been resolved.

Fuel Pump

121. At the time of audit the relevant records did not indicate how 11,642 litres of petrol valued at \$505,124 were accounted for. The Department was asked to investigate and provide an explanation.

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

Outstanding Appropriation Accounts

122. Up to the date of this report the Appropriation Accounts for the Ministry and its Departments for 2004/2005 and 2005/2006 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.

RESIDENT MAGISTRATES' COURTS **FAMILY AND TRAFFIC COURTS**

Accounting Deficiencies

123. Audits of four Court Offices for the year under review disclosed the continuing need for improvements in the maintenance of cash books, value books, receipt book registers, bank reconciliation statements, telephone control record and the cheques stock record. The weaknesses could result in the loss or misuse of public funds. It was again recommended that the relevant records be kept and checked in the manner prescribed by the regulations. The Ministry advised that corrective measures would be implemented.

Warrants and Commitments

124. The records at the Courts visited disclosed 390 outstanding warrants of Distringas and Capias for violation of bail bonds and 526 outstanding commitments involving approximately \$9.56M and \$4.46M, respectively, for the period April 2005 to May 2006. It was also observed that warrants were often not issued promptly and in many instances persons who stood surety for bail turned out to be unknown at the addresses given. It appeared that greater care needs to be exercised to ensure that the requirements of the Bail Act are strictly adhered to. Failure to execute warrants and carry out the orders of the Courts could result in the subversion of the course of justice. The Ministry was again advised to institute appropriate corrective measures.

HEAD 2830 – ADMINISTRATOR GENERAL'S DEPARTMENT

125. The audit of the captioned Agency for the year under review disclosed that the accounting records and financial transactions were generally satisfactory. However, the under-mentioned areas of concern were noted:

Expenditure Vouchers

- i) The required supporting document was not presented for a payment of \$76,572.

Internal Control Weaknesses

- ii) Improvement was needed in the controls exercised over salaries and journal vouchers.

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

Accounting Arrears

126. The Appropriation Accounts for the financial years 2004/2005 and 2005/2006 were not received for audit up to the date of this report. Failure to submit the accounts within four months of the end of the financial year constitutes a breach of the Financial Administration and Audit Act.

Overpayment of Salaries

127. Two (2) officers were overpaid salaries amounting to \$23,232. The Ministry was advised to effect recovery.

Overseas Missions

128 ***General Comments***

- i) Audits of Jamaica's Consulates in Toronto and New York disclosed that due to insufficient staff, accounting duties were not adequately segregated and there was little or no internal check of key accounting records. Deficiencies were noted in the maintenance of the cash books, value books, liquor stock, and the control over the use of the telephones. There was also need for effective monitoring of advances as several uncleared balances had been on the books for protracted periods. The requisite periodic evaluation of the operational efficiency of each vehicle operated by these missions was not carried out. Failure to implement controls in these areas could allow errors and irregularities to go undetected

for lengthy periods. It was recommended that early corrective measures be instituted.

Revenue Collections

- ii) Revenues collected were not promptly remitted to Jamaica as required but were at times transferred to the expenditure bank account. At the time of audit outstanding transfers of US\$90,078 and C\$49,907 were noted. This contravened the law and the Ministry was advised to ensure that these missions are brought into compliance.

Arrears of Bank Reconciliation

- iii) Reconciliation of three of the Missions' bank accounts was one year in arrears. The Missions were advised to bring the reconciliation up to date at the earliest possible time as failure to do so could conceal errors and irregularities.

HEADS 4000 AND 4000B – MINISTRY OF LABOUR AND SOCIAL SECURITY

Outstanding Appropriation Accounts

129. At the time of this report, Appropriation Accounts for 2004/2005 and 2005/2006 remained outstanding.

Reported Losses

130. The Ministry reported two cases of losses and irregularities totalling \$615,130 for the period under review. The matters were reported to the Police.

Selection of Suppliers

131. In several instances there was no evidence seen that the selection of suppliers was done on the required competitive basis and on the recommendation of the Procurement Committee.

NATIONAL INSURANCE SCHEME

Investments in Properties & Subsidiary Companies

132. An audit of the National Insurance Fund's investments in properties and subsidiary companies was conducted with the following objectives:

- a) To ascertain what investment properties and subsidiary companies were held by the Fund;
- b) To ascertain whether the Fund had proper titles and shares certificates for the properties and subsidiaries being held.
- c) To ascertain whether proper government procedures and best practices were followed in the acquisition and sale of the properties.
- d) To ascertain the use to which the properties being held were put; and
- e) To assess whether the subsidiary companies were performing profitably.

The audit revealed the following areas of concern:

i) *Purchase of Property*

The Fund in 1994 acquired five (5) acres of land purportedly owned by a development company for a sum of \$11.5M. There was no evidence that title to the land or shares in the development company had since been transferred to the Fund. To date, the land remained idle.

ii) *Rental Arrears*

A total of \$81,471,668 was owed to the Fund for rental and maintenance by tenants as at March 31, 2006. I was subsequently informed that \$22,862,865 had since been collected.

iii) *Hotel Investment*

The records disclosed that in 1994 the Fund acquired five 2-bedroom and three 3-bedroom apartments in Point Village Resort, Negril. The market value of the investment was \$75M as at May 2006. However, there was no evidence of rental income from this investment since 1996. The Fund advised that this was due to expenses exceeding income. However, appropriate audited financial statements were not presented to substantiate this position.

iv) *Purchase of Land*

In September 1991, the Fund acquired 102,840 acres of land from a company for a total of \$117,379,774. However, up to the date of this report, the title had not been transferred from the vendor to the Fund. The Fund also acquired 468 acres of land at Llandovery Flatpoint, St. Ann, in November 1996 at a cost of \$40,535,000. No plan was presented for the development or use of these properties.

v) *Subsidiary*

The Fund invested \$38.3M in a wholly owned subsidiary company called Asprey Developers Ltd. in 1990. The company was to develop and sell houses and service lots. I was unable to assess its performance as audited financial statements were not presented beyond March 31, 1997.

Purchase of Books

133. The Canadian Farm Work Programme paid C\$5,146 to acquire 120 books on behalf of the Ministry. These books were seen in the Ministry in an apparently abandoned state and I was unable to ascertain their intended use or distribution. This situation could lead to the expenditure proving nugatory.

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

134. 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 undermentioned matters which needed to be addressed:

i) *Bank reconciliation*

At the time of audit reconciliation of the beneficiaries' bank account was about two years in arrears. This was blamed on the inadequacy of the software acquired for this process. The management has sought assistance from the Ministry of Finance and Planning to correct this problem.

ii) *Uncollected Cheques*

The large number of uncollected cheques and the inadequate procedure to account for them were causes for concern as they could facilitate irregularities. The management was advised to perform an effective review of the integrity of the current list of beneficiaries with a view of substantially reducing the number of uncollected cheques. The Ministry has advised that where a beneficiary fails to collect cheques for three consecutive months the case is investigated. I was also told that a new system had been instituted for dealing with the distribution of beneficiaries' cheques

iii) *Management Information System (MIS)*

The current Management Information System is inadequate to meet the needs of the programme. It was noted that the management was taking steps to correct this issue.

iv) *Outstanding Payments to the Consolidated Fund*

The Jamaica Dollar equivalent of US\$656,044 received as benefit-in-kind since the inception of the programme was not paid into the Consolidated Fund as required by law. This resulted in the understatement of Government's revenue and expenditure over the years.

v) *Advance Debit Card*

At the time of audit the Ministry of Finance and Planning's guidelines dictating the operation of advance cards used to purchase petrol were not faithfully adhered to. As a result, I was unable to determine the authenticity of transactions costing \$99,208. The management was advised that disciplinary actions should be taken against officers who continue to violate these instructions.

135. **Teachers' Emoluments**

- i) Sixty-seven (67) teachers were overpaid emoluments totalling \$6.4M due mainly to a lack of timely communication of information from the regional offices and errors in calculations. It was again recommended that the Ministry takes appropriate steps to improve the communication system and recover the amounts overpaid.
- ii) Remote allowance totalling \$21.1M was paid to seventy eight (78) teachers at thirteen (13) schools although there was no evidence that the schools were designated as being remote. Included in the amount is \$320,636 paid to teachers who were transferred from remote schools and \$7.2M paid to teachers in schools that were de-listed. The failure of the Ministry to review the status of remote schools since September 1978 was the main contributory factor to the overpayments.
- iii) Personal files for twenty eight (28) teachers and evidence of qualification and other relevant documents for another 156 teachers were not produced for audit. This prevented verification of whether the teachers were properly engaged and were being paid the correct emoluments.
- iv) A sample audit disclosed that personal deductions from salaries totalling \$4.8M were wrongly paid on behalf of 199 teachers whose net salary cheques were cancelled, as they were not entitled to the payments. This amount should be recovered.
- v) There was no indication that overpayments of salaries totalling \$4.9M, mentioned at paragraph 112(i) and (iii) of my 2004/2005 annual report had been recovered.
- vi) Employer's contribution to the National Insurance Scheme totalling \$210.5M for the period June 2003 to March 2006 had not been remitted to the relevant collecting agency in contravention of the related Act. This could have an adverse effect on employees' entitlement to pension benefits and exposes the Ministry to possible legal sanctions.
- vii) A sample check revealed that as at January 31, 2006 two hundred and three (203) former teachers had breached their training bond agreements and as a result owed salary and interest charges totalling \$122.2M. There was no evidence that effective efforts were being made to recover the amounts owed.

- viii) There was no evidence that the authenticity of certificates submitted to substantiate teachers' academic qualifications was being verified. This could facilitate the acceptance of fictitious documents.
- ix) Up to the time of my audit annual returns for statutory salary deductions were not submitted for the 2005 calendar year. This could adversely affect employees' access to certain benefits.

136. ***Breaches of Procurement Procedures***

- i) The audit identified 45 instances in which the procurement of goods and services costing \$69.4M and US\$195,314.17 was done without evidence of compliance with the Government's procurement procedures. As a result the objectives of ensuring equity, transparency and economy in the use of public funds were compromised.
- ii) A contract totalling \$4.4M for the acquisition of computers and accessories for youth information centers appeared to have been fragmented into two separate contracts thereby circumventing the requirement for submission to the National Contracts Commission Sector Committee.

137. ***Other Contract Concerns***

- i) Eleven (11) contracts valued at J\$8.5M and US\$278,200, were awarded without evidence that the requisite tax compliance certificates had been presented
- ii) Evidence of approval of time overruns on eight (8) contracts was not presented; however, liquidated damages totalling \$413,358 were not imposed in accordance with the terms of the contracts.
- iii) A cost of \$217,164 was incurred to construct two wooden security huts at the Ministry in September 2005 which had not been utilized up to the time of this report.
- iv) Information on the benefits to be derived from a contract costing CND\$35,040 per annum since 1999 for the assignment of copyright in four (4) literary works to the ministry was not presented. I was therefore unable to verify whether these benefits were being realized.

Non-payment of Statutory Deductions

138. Despite the directives of the Taxpayer Audit and Assessment Department statutory deductions had not been made from fees paid to board members of the National Youth Month Advisory Committee and basic school teachers totalling \$826.7M.

Schools' Audits

139. 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 ninety-four (94) 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

140. The reconciliation statements for eight (8) bank accounts disclosed numerous unresolved errors made by banks over protracted periods and represented net erroneous debits of \$10.6M. The Ministry was advised to rigorously pursue these matters to safeguard against the possible loss of public funds.

School Cottages and Flats

141. The audit of records relating to school cottages and flats revealed the following deficiencies:

- i) The Ministry presented no documented policy concerning the assignment of cottages and flats and the rental to be collected. This prevented effective control over the use of the premises and the collection of revenue from the schools.
- ii) There was no indication that rental totalling \$1.1M had been collected from twenty three (23) teachers in thirteen (13) schools and that \$402,000 collected from eighteen (18) teachers at two (2) schools was remitted to the Ministry.
- iii) There was also no evidence that the Ministry of Finance's recommendation made in November 2003 that the assistance of the Commissioner of Lands be sought to implement more realistic rental rates had been pursued.

Fixed Asset Inventory

142. Fixed assets acquired at a cost of \$11.1M had not been taken on inventory and the existence of two projectors costing \$146,011 could not be verified as they were not presented for audit.

Suspected Irregularities

143. The Ministry reported two (2) cases of suspected irregularities involving amounts totalling \$2.9M. The matters were reported to the Police.

HEART TRUST/NTA

144. The audit of the captioned entity for 2005/2006 disclosed the following shortcomings:

i) *Gratuity Payments*

Failure to comply with the Ministry of Finance's guidelines resulted in pre-mature gratuity payments of \$2,194,460 to four (4) senior officers.

ii) *Staff Loan*

The required approval of the Ministry of Finance and Planning was not presented for establishing a hurricane assistance loan scheme and for disbursing loans totalling \$4.9M at an interest rate of 5% instead of the stipulated 8%. In addition, the necessary approval was not obtained for disbursing interest free loans for motor vehicle insurance premiums.

iii) *Unauthorized Bank Overdrafts*

The Trust incurred bank charges totalling \$479,507 on unauthorized overdrafts on a bank account. Management was advised to institute appropriate steps to prevent any recurrence.

iv) *Expenditure incurred on Behalf of Portfolio Ministry*

Payments totalling \$8.1M were made on behalf of the Ministry of Education and Youth in breach of the Ministry of Finance's guidelines. This not only understated the Ministry's expenditure, but also by-passed Parliamentary control.

v) *Rental of Motor Vehicle*

Amounts totalling \$522,093 were paid by the Trust for the rental of motor vehicles without evidence of the required approval of the Ministry of Finance and Planning.

COLLEGE OF AGRICULTURE, SCIENCE AND EDUCATION
(CASE)

145. 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 2003/2004 to 2005/2006 had not been submitted to the Ministry as required by the Education Regulations.

ii) *Unauthorized Bank Overdrafts*

Interest charges and overdraft fees totalling \$87,161 were incurred on unauthorized overdrafts on five (5) bank accounts.

iii) *Fixed Assets Inventory*

Weaknesses were observed in the maintenance of the required inventory records which could undermine the College's ability to properly account for and safeguard its assets. In December 2005 payment of \$150,000 was made to purchase a lawnmower, but up to the time of my audit there was no evidence that it had been received.

iv) *Staff Loan*

The required approval from the Ministry of Finance and Planning was not presented for the operation of a staff loan scheme.

v) *Unpaid Statutory Deductions*

The necessary Ministry of Finance's approval was not seen for ex-gratia and incentive payments totalling \$692,380. These amounts as well as board fees and honoraria totalling \$2,298,023 were not subjected to the necessary statutory deductions.

vi) *Breaches of Procurement Procedures*

The procurement of goods and services costing \$3.3M was done without evidence that the required competitive price quotations were obtained.

vii) Overpayment of Salaries

Three (3) officers were overpaid emoluments totalling \$760,582 because of incorrect payment of increments and a lack of timely communication of information from the personnel department.

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

146. 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 for the year under review disclosed a generally satisfactory state of affairs. However, the required annual financial statements since the Project's inception in 2002 were not presented for audit up to the date of this report. Due to the slow pace of Project implementation which was said to be caused by inadequate budgetary support, it was necessary for the management to seek a time extension.

SUPPORT TO THE PREPARATION OF THE
YOUTH DEVELOPMENT PROGRAMME
IDB/GOJ NON- REIMBURSABLE TECHNICAL
COOPERATION NO. ATN/JF-78-5-JA

147. The main objective of the Youth Development Programme was to assist the Inter-American Development Bank (IDB) and the Government of Jamaica to carry out a diagnostic analysis, preparatory studies and stakeholders' workshops, which would allow the development of a focused programme to address the needs of at risk youths in Jamaica. The audit of the accounting records and financial transactions for the year under review disclosed a generally satisfactory state of affairs.

JAMAICA LIBRARY SERVICE

148. The audit of the financial transactions and accounting records of the Jamaica Library Service for 2005/2006 revealed a generally satisfactory state of affairs. However, seven (7) former officers of the Service were overpaid salaries amounting to \$11,967 in relation to their termination pay. Management was advised to take steps to effect recovery and to strengthen the internal check over the preparation of salaries.

NATIONAL YOUTH SERVICE

149. The audit of the National Youth Service (NYS) for the period under review disclosed the following areas of concern:

i) *Overpayments*

A former employee and twelve lecturers were overpaid salaries and fees totalling \$31,560.

ii) *Contracts*

The required National Contracts Committee's approval for the award of contracts totalling \$43.35M was not obtained.

iii) *Internal Control Weaknesses*

There was need for improved control over the use of telephones, custody of blank cheques, receipt books and inventory of fixed assets. These weaknesses could result in waste and misuse of public resources.

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

Outstanding Appropriation Accounts

150. At the time of this report the Appropriation Account for the Recurrent Head for 2004/2005, and the Accounts for the Recurrent and Capital B Heads for 2005/2006 were not received for audit.

Government Housing Accommodation

- 151
- i) Twenty-two (22) tenants were in breach of the Ministry's housing policy by occupying premises for periods of up to 10 years, instead of the stipulated two (2) year limit.
 - ii) The audit revealed that proper rental records were not maintained for tenants and as a result it was not possible to assess the overall status of rental arrears.
 - iii) A test check of the available records disclosed that rental totalling \$481,000 was owed by eight (8) nurses. Of this amount \$299,000 was subsequently recovered.
It was recommended that steps be taken to closer monitor compliance with the rental policy and to institute adequate tenant payment records.

THE PESTICIDES CONTROL AUTHORITY

152. The audit of the captioned Authority for 2005/2006 disclosed that the financial transactions and accounting records were generally satisfactory.

HEALTH CORPORATION LIMITED

153. The Health Corporation Limited reported the theft of a computer processing unit valued at \$55,000. The matter was reported to the police.

HEAD 4234 – BELLEVUE HOSPITAL

Breaches of Procurement Procedures

154. The procurement of goods and services costing \$29.7M was done without evidence that the Government's procurement guidelines were adhered to. Payments totalling \$6.24M were made to two contractors to do electrical works at the hospital. There was no evidence that competitive price quotations were used to select the contractors or that they were on the National Contracts Commission's approved list. Instances were noted in which the related cheques were collected by persons other than the payee without evidence of the necessary written authorisation. It was also observed that in some cases there

were inconsistencies in the endorsement on the cheques paid to one of the contractors. The Hospital was asked to investigate and explain these discrepancies, and to ensure future compliance with the Government procurement rules.

Unauthorised Use of Funds

155. The audit revealed that the hospital received \$2M from a bank as settlement in respect of losses due to irregularities. The amount was lodged to a deposit account and an amount of \$845,000 was improperly used to purchase washing machines. This breached the Financial Administration and Audit Act and circumvented Parliamentary control of public expenditure.

Outstanding Annual Returns

156. Up to the date of this report annual returns for statutory deductions made from employees' emoluments had not been filed for National Insurance and National Housing Trust since 1994 and Income Tax for 2005.

REGIONAL HEALTH AUTHORITIES

Internal Control Weaknesses

157. Weaknesses were noted in the controls exercised over motor vehicles petrol advance debit cards and stores at the Head offices of three Regional Health Authorities and health facilities visited. Corrective measures were recommended as the shortcomings may result in loss to the Government.

Outstanding Financial Statements

158. At the time of inspection the last audited financial statements for three (3) Regional Health Authorities were for the year ended June 30, 2000, and for one (1) Authority June 30, 2001, that is five to six years in arrears. This breached the Public Bodies Management and Accountability Act and prevented a proper assessment of the Authorities' financial affairs. It was again recommended that the Authorities take the steps necessary to have the statements brought up to date early.

Furniture and Equipment

159. Deficiencies were noted in the maintenance of inventory records at three (3) Health Authorities and facilities visited. The auditors of the Western Regional Health Authority reported that they were unable to verify the existence, completeness and valuation of inventories valued at \$16.5M due to insufficient physical count and inadequate documentation. These deficiencies breached the

Ministry of Finance and Planning guidelines and weakened management's control over the fixed assets.

Non-Remittance of Statutory Deductions

160. Statutory deductions from employees' emoluments totalling \$1.1B as detailed below, were not remitted by three Regional Health Authorities to the relevant agencies as required by law. This breached the relevant Acts, could expose the Authorities to possible legal sanctions and could adversely affect employees' entitlement to certain benefits.

<u>Regional Authority</u>	<u>Amount</u>
Southern	524,287,900
South East	539,541,519
North East	<u>82,449,838</u>
	<u>1,146,279,257</u>

Breaches of the Procurement Guidelines

161. Breaches of the procurement guidelines were noted at the North East Regional Health Authority and the Mandeville Regional Hospital in respect of the purchase of goods and services costing \$4.6M. The institutions were advised that the rules should be adhered to in order to ensure economy, equity and transparency.

Breaches of Contract Procedures

162. An examination of certain contracts at the Southern Regional Health Authority revealed the following shortcomings:-

- i) Performance Bonds were not presented for two contracts valued at \$16.8M. In the absence of performance bonds the Authority was exposed to financial risks in the event that the contractors failed to perform satisfactorily.
- ii) There was no evidence that contractors levy totalling \$476,855 was deducted from a number of contract payments. This was a violation of the requirements of the Contractors Levy Act, 1985.
- iii) Costs and time over-runs of \$2.3M and seven months, respectively were noted in respect of a contract for \$29.9M awarded for the renovation of the Black River Accident and Emergency Department. At the time of audit the contract was incomplete but no evidence was seen that these overruns had been approved or liquidated damages imposed.

Renovation of Port Maria Hospital

163. A contract in the sum of \$2.4M was awarded by the North East Regional Health Authority to renovate the Port Maria Hospital. There was no evidence that approval was given for a time overrun of fourteen (14) weeks beyond the stipulated completion date or that liquidated damages of \$294,000 provided for in the contract, had been enforced.

Unsecured Advance

164. A contract valued at \$4.58M was awarded for the renovation of the Laundry and Male Medical ward at the Annotto Bay Hospital. It was noted that an unsecured advance of \$2,002,626 was made to the contractor. The granting of an unsecured advance and an advance which exceeded 10% of the contract sum was in breach of the Government's guidelines and could result in losses that may be difficult to recover.

Losses and Irregularities

165. The under-mentioned losses and irregularities were brought to my attention:-

- i) Two (2) regional Health Authorities reported losses during the financial year totalling \$547,069 due to break-ins, as listed below:

	\$
Western	257,037
Southern	<u>290,032</u>
	<u>547,069</u>

They were reported to the police.

- ii) The North East Regional Health Authority reported three suspected cases of irregularities involving \$156,265. They were also reported to the police and an amount of \$20,125 had been recovered.

Overpayments

166. Reports were received that amounts totalling \$2.5M were overpaid to a company and several members of staff in the following three Regional Offices:

	\$
North East	161,488
Western	196,532
Southern	<u>2,234,865</u>

2,592,885

Up to the date of this report \$1.6M of this amount had been recovered.

Bank Reconciliation Statements

167. Reconciliation of several bank accounts at the Ministry's Head Office and the Regional Offices was in serious arrears. The reconciliation statements seen revealed numerous unresolved discrepancies including erroneous debits totalling \$381,372. The Ministry and the Authorities were advised to take urgent steps to correct the situation as failure to reconcile the accounts and resolve the discrepancies in a timely manner could conceal errors and irregularities.

Unauthorized Bank Overdrafts

168 The St. Ann's Bay Hospital incurred bank charges totalling \$214,645 on unauthorised bank overdrafts. The responsible officers are liable to possible surcharge.

Education Benefits

169. Twenty-five (25) officers were paid education grants totalling J\$1.27M and US\$2,601 although no education grant policy approved by the Ministry of Finance and Planning was seen. It was also noted that an officer was granted day release to pursue studies without the days off the job being charged to the officer's leave entitlement as is the normal public sector policy. The Authorities need to have policies on these matters approved by the Ministry of Finance and Planning.

MEDICAL COUNCIL OF JAMAICA

170. The audit of the captioned entity for the year 2005/06 revealed the following weaknesses:

- i) *Salaries and Wages*
 - a) An inducement allowance of \$83,376 was paid in December 2005 to three (3) employees without the necessary prior approval from the Ministry of Finance and Planning.
 - b) *Duty Allowance*

Two (2) officers were paid duty allowance of \$29, 148 per annum each, contrary to Ministry of Finance and Planning's guidelines. Cessation of payment and recovery of the amounts paid were recommended.

- c) One officer was overpaid \$26,100 in Special Allowance over the period April 2005 – March 2006 due to failure to make statutory deductions.
- d) Honorarium payment of \$81,370 was made to an officer, who is in receipt of Duty Allowance, in breach of Ministry of Finance and Planning's guidelines set out in Circular No. 9 dated March 15, 2005.

ii) *Expenditure Vouchers*

- a) Expenditure vouchers were not presented for twenty-three (23) payments totalling \$438,692. It was also noted that some cheques were signed in blank thereby undermining the intended internal control.
- b) Board members were overpaid fees of \$85,250 resulting from the failure to deduct Income Tax.

iii) *Outstanding Financial Statements*

Financial Statements for the years 2002/2003 to 2005/2006 were not submitted for audit up to the date of this report. This breached Section 3 of the Public Bodies Management and Accountability Act 2003 and Section 12 of the first schedule of the Medical Act.

iv) *Cash Not Accounted For*

Investigations by my officers and those of the portfolio ministry disclosed that funds amounting to \$222,600 were not accounted for.

v) *Inadequate Record Keeping*

Segregation of duties and improved record keeping were needed in the management of blank cheques, receipt books, petty cash and the stamp imprest. The Council was reminded of the related risks and recommendations made to rectify the weaknesses noted.

NATIONAL COUNCIL ON DRUG ABUSE

171. The audit of the accounting records and financial transactions of the captioned entity for the period under review revealed the following areas of concern:

i) *Contracts of Employments*

There was no indication that the employment terms of five senior managers had the necessary approval of the Ministry of Finance and Planning. These contracts were also in breach of the relevant Government guidelines concerning leave and gratuity entitlements.

ii) *Procurement*

There was no evidence that the required competitive price process was adhered to in the procurement of goods. It was recommended that the relevant guidelines be observed to facilitate economy and transparency in the acquisition of goods and services.

iii) *Drug Awareness Week Account*

A written policy was not seen to govern the use of the funds received from various sponsors under the drug awareness week programme and there was no evidence that the Board of Directors approved amounts expended from the related bank account. It was recommended that these weaknesses be addressed.

iv) *Signed Blank Cheques*

Fourteen cheques were seen signed in the blank by cheque signatories. This constituted a serious breach of internal control which may foster irregularities and contribute to the loss of public funds. Additionally, access to blank cheques was not always appropriately restricted. The Council was advised to discontinue these practices.

v) *Other Control Weaknesses*

A number of instances were identified where payments were made without evidence of the appropriate authorization or requisite original supporting documents. Improvement was also needed in the maintenance of the advances ledger, fixed asset inventory and in the lodgement of moneys collected. It was recommended that

these shortcomings be corrected to reduce the entity's exposure to possible losses or irregularities.

vi) *Improper Use of Fleet Vehicle*

One of the entity's fleet vehicles was being used on a daily basis by an officer who was in receipt of a travelling allowance. The stipulated log book was not presented for this vehicle.

vii) *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.

PHARMACY COUNCIL OF JAMAICA

172. The audit of the financial transactions and accounting records of the captioned entity for the year under review revealed certain shortcomings in the procurement process, maintenance of fixed asset records, custody of blank cheques and the lodgement of moneys collected. I was subsequently advised that these weaknesses were addressed.

PROFESSIONS SUPPLEMENTARY TO MEDICINE

173. The audit for the captioned entity for the year 2005/2006 revealed the following weaknesses:

i) *Salaries and Wages*

Written approval of the Portfolio Minister was not seen for the employment of certain officers in contravention of Section 5 of the Professions Supplementary to Medicine Act (1969). There was also no evidence that the Ministry of Finance and Planning had approved the emoluments paid to three officers in keeping with Section 2.04 of the Guidelines for Financial Management in Public Sector Entities. The entity's management subsequently advised that the necessary approvals have again been sought.

ii) *Breaches of the Procurement Guidelines*

Competitive price quotations were not seen for goods procured by the entity. It was recommended that Government procurement guidelines be followed.

HEAD 4220 – REGISTRAR GENERAL'S DEPARTMENT

Outstanding Appropriation Accounts

174. Up to the date of this report, the Appropriation Accounts for 2004/2005 and 2005/2006 had not been presented for audit as required by the Law.

Key Performance Indicators

175. An attempt was made to conduct an assessment of the Department's Key Performance Indicators for 2005/2006. However, the relevant documents required to conduct this audit were not presented. No evidence was seen that the requisite approval was sought from the Ministry of Finance and Planning prior to the payment of staff incentives of \$13.7M related to the 2004/2005 financial year. There was also no indication that the targets outlined in the Agency's Corporate Plan for that period were approved by the Minister of Health making it difficult to place reliance on the targets as presented and the basis on which incentives were paid.

Internal Control Weaknesses

176. Shortcomings were noted in the controls exercised over blank cheques, motor vehicles, fixed assets, and payments to courier service providers. Corrective measures were recommended.

Breaches of the Procurement Guidelines

177. i) Amounts totalling \$24.96M were paid to nine service providers for whom no evidence was presented to indicate that they were registered with the National Contracts Commission or held valid Tax Compliance Certificates at the time of their engagement.
- ii) No evidence was presented that the required approval was obtained from the National Contracts Commission for the engagement of three courier service providers who were paid amounts totalling \$18.85M.

- iii) Written agreements were not presented for payments totalling \$2.61M made to two entities/persons for services rendered over the period 2004/2005 to 2005/2006.
- iv) There was no evidence to indicate that competitive price quotes were obtained in the procurement of goods and services totalling \$1,082,988.
- v) Documentary evidence was not presented to allow verification that the requisite approval was obtained from the Cabinet and the National Contracts Commission for the award of a contract valued in excess of \$20M. There was no evidence that a written agreement was in place. During the period April 2004 to May 2005, the contractor was also paid \$3,879,129 for similar services but no written agreement was seen.

Once again recommendations were made for the Agency to comply with the Government's procurement rules which are intended to facilitate fairness, transparency and value for money.

Unauthorized Payments

178. Despite previous recommendations, there was no indication that the Department obtained the approval of the Ministry of Finance and Planning for travelling allowances paid to the occupants of nineteen posts. This resulted in unauthorized payments of approximately \$2.8M for the 2005/2006 financial year.

Salary in lieu of Vacation Leave

179. A senior officer was paid salary of \$108,852 in lieu of eight days' vacation leave at the end of the first year of a three year contract, in contravention of the Staff Orders.

Statutory Deductions Not Made

180. Statutory deductions totalling \$61,274 were not made from the emoluments of a senior officer for the partial private use of an assigned motor vehicle. Similarly, there was no evidence that the required statutory deductions of \$15,938 were made from fees paid to five board members over the period April 2004 to March 2006. The Department was told to recover the amounts due and to ensure future adherence to the relevant Acts.

HEAD 4235 – GOVERNMENT CHEMIST

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

i) *Outstanding Accounts*

Up to the date of this report the Appropriation Accounts for 2003/2004 to 2005/2006 were not received for audit.

ii) *Control Weaknesses*

Improvements were needed in the:

a) maintenance of the control records for valuables received through the mail and furniture and equipment; and

b) disbursement of salary cheques.

iii) *Analysis of Specimens*

The Department reported that staff shortage and machinery breakdown resulted in the protracted delays observed in the analysis of specimens received. Corrective action was recommended.

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

Irregularity

182. The Ministry reported the improper use of advance debit cards to acquire petrol costing \$524,682. The matter was being investigated with a view of recommending surcharge action against the implicated officers.

AGRICULTURAL CREDIT BOARD

183. The audit of the financial transactions of the Agricultural Credit Board for the year under review revealed a generally satisfactory state of affairs; however,

there was need for improved control over fixed assets, valuables received through the mail, receipt books and blank cheques.

EXPORT DIVISION

184. Audited financial statements for the years 2004/2005 and 2005/2006 were not available up to the date of this report. There was need for improvement in the controls over salaries, valuables received through the mail, payment vouchers, motor vehicle operations and petty cash. I was subsequently advised that corrective measures had been instituted.

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

185. 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 financial transactions and accounting records of the Programme audited for the year under review were found to be generally satisfactory. The concerns raised were adequately addressed.

JAMAICA AGRICULTURAL SOCIETY

186. The audit of the captioned entity for the year 2005/06 disclosed the following matters of concern:

i) *Outstanding Statutory Deductions*

The Society was exposed to possible legal penalties and employees could be denied access to certain benefits because of the non-remittance of statutory deductions of \$20,832,073 made from employees' emoluments during the period 1996 to 2006.

ii) *Unauthorized Bank Overdrafts*

The Society incurred unauthorised overdraft charges totalling \$113,994 on five of its bank accounts for the financial year under

review. In addition, it operated certain bank accounts which were rarely used. Management was advised to prevent future bank overdrafts and to close the unnecessary bank accounts.

iii) *Internal Control Weaknesses*

Deficiencies were noted in the controls exercised over blank cheques, unused receipt books, preparation of salaries, fixed asset inventory and cash receipts. Lack of proper controls may lead to losses, fraud or improper use of government resources. I was subsequently told by the Society that corrective measures were being taken.

JAMAICA 4-H CLUBS

187. The audit of the financial transactions and accounting records of the Jamaica 4-H Clubs for the year under review disclosed the following unsatisfactory features:

i) *Outstanding Financial Statements*

The financial statements for 1999/2000 to 2005/2006 were not submitted for audit up to the date of this report as required by the Jamaica 4-H Clubs Act and the Public Bodies Management and Accountability Act. As a result a proper assessment of the financial operations of the entity has not been possible for several years.

ii) *Improper Payment*

The necessary Ministry of Finance's approval was not seen for the payment of a rental allowance to a senior officer amounting to \$3,919,036 for the period September 1, 2002 to December 31, 2005. This contravened Section 20 of the Public Bodies Management and Accountability Act. Up to the time of this report there was no indication that Ministry of Agriculture's directive that this improper payment be recovered had been complied with.

iii) *Overpayments*

Four (4) officers were overpaid salaries totalling \$67,853 as a result of inadequate internal check. In addition, overpayments to four (4)

ex-staff members totalling \$61,896 mentioned in my 2003/2004 Annual Report had not been recovered up to the date of this report.

iv) *Outstanding Returns*

Up to the date of this report annual returns for statutory salary deductions were not submitted for the 2004 and 2005 calendar years. This could adversely affect employees' access to certain benefits.

v) *Breaches of Procurement Procedures*

Adequate supporting documents were not presented to substantiate expenditure totalling \$254,442. Further there was no evidence that competitive price quotations were used in the selection of suppliers of goods and services as required by the Government's procurement guidelines.

vi) *Fixed Asset Inventory*

There was no evidence that the fixed assets at the Clubs' thirteen (13) parish offices were reflected in the inventory records kept at the Head Office. This could undermine the entity's ability to adequately account for and safeguard its fixed assets.

vii) *Bank Reconciliation Arrears*

The entity was exposed to the risk of errors and irregularities remaining undetected for protracted periods as reconciliation of its two main bank accounts was many months in arrears.

JAMAICA VETERINARY BOARD

188. The audit of the accounting records and financial transactions of the Jamaica Veterinary Board for 2005/2006 revealed a generally satisfactory state of affairs. The few concerns raised were being addressed.

HEAD 5847 – NATIONAL LAND AGENCY

Divestment Policies and Guidelines

189. At the time of this report the divestment policy and manual to give clear guidelines on advertising of properties to be divested, selection of successful applicants, pricing and Cabinet's submission were still incomplete. The Agency was advised to expedite the completion of these documents to facilitate the disposal of Government properties in more transparent, equitable and prudent ways.

Divestment Committee

190. In several instances there was no indication that the disposal of crown properties was advertised or submitted to the National Land Divestment Committee for appraisal. It was therefore not possible to assess whether the process was fair and equitable and protected the public's interest.

Outstanding Land Sale Balances

191. Information presented indicated that as at March 31, 2006, balances totalling \$81M remained outstanding for several parcels of land sold. These amounts were payable in exchange for duplicate certificates of title. Delays were reportedly mainly due to difficulties in producing land titles and obtaining the respective subdivision approvals and in one instance a court action. The Agency was advised to take appropriate steps to remove the impediments and to institute the measures necessary to prevent such future bottle-necks.

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

192. The audit of the financial transactions and accounting records of the captioned Ministry for 2005/2006 revealed a generally satisfactory state of affairs.

PETROLEUM COMPANY OF JAMAICA (PETCOM)

193. A review of the financial transactions and accounting records of the captioned company for the period under review disclosed the following shortcomings:-

- i) *Use of Credit Cards*

Two officers were reimbursed \$365,562 for entertainment and fuel expenses for which the necessary evidence was not presented to allow assessment as to whether they were incurred for official purposes. The Company subsequently advised that the system for verifying that credit card transactions are for official purposes would be reviewed, and that past transactions would be re-assessed and any amounts paid for private use recovered.

ii) Procurement of Goods and Services

Amounts totalling \$4.2M were paid to a company to provide training and other services. There was no evidence that the company was registered with the National Contracts Commission or that a valid Tax Compliance Certificate had been submitted as required by the Government's procurement rules. The Company has since indicated that the Procurement Officer and all senior managers have been told to ensure future compliance with the rules.

UNIVERSAL ACCESS FUND COMPANY LIMITED

194. A review of the financial transactions and accounting records of the Universal Access Fund Company Limited for the period under review disclosed the following matters of concern:

i) Breach of the Constitution

Section 114 of the Constitution of Jamaica and Section 7 of the Financial Administration and Audit (FAA) Act, require that Government revenues collected should be paid forthwith into the Consolidated Fund unless some other Act provides otherwise. It was noted however that contrary to these legal stipulations a levy imposed on incoming international telephone calls was paid to the captioned company. This arrangement improperly excluded Parliamentary Control over the use of these funds. The Company was advised to bring funds derived from this levy in full compliance with the requirements of the Constitution and the FAA Act. The Ministry subsequently advised that legislative change would be sought to exempt the levy from being paid into the Consolidated Fund.

ii) Levy Collectable

An examination of the records revealed that the levy received from thirty-six carriers during the period June 2005 – July 2006 was \$1.4B. However, the levy collectable was not ascertained as there was no mechanism in place for the company to verify this figure. Instead, the company relied on the integrity and accuracy of the carriers to remit the correct levy due. It was recommended that steps be taken for provision to be made for the company to have the levy payable verified.

iii) Payment of Professional Fees

A legal firm was paid amounts totalling \$23,390,019 to provide various legal and other services during the period June 2005 to July 2006. There was no evidence that a written contract existed setting out the deliverables and agreed rates. There was no indication that the selection of the firm, a partner of which was a member of the Company's Board of Directors, was done in the required competitive basis or the necessary approval of the National Contracts Commission and Cabinet obtained. There was also no evidence that payments were made on the basis of deliverables provided in keeping with written terms of engagement. Given these breaches of the Government's procurement rules, I was unable to satisfy myself that the charges incurred were fair and reasonable.

CONSUMER AFFAIRS COMMISSION

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

SELF START FUND

196. An audit of the financial transactions and accounting records of the captioned agency for 2004/2005 revealed a number of instances of serious loans arrears. The Fund subsequently advised that corrective measures were being implemented.

DEPARTMENT OF CO-OPERATIVES AND FRIENDLY SOCIETIES

197. The audit of the Department of Co-operatives and Friendly Societies for 2004/2005 disclosed weaknesses in the maintenance of the cash book, furniture and equipment inventory, motor vehicle control records and fuel advance cards. It was also noted that eighty-two Societies were in arrears for audit fees amounting to \$4,055,043, some from as far back as February 1992. The Department advised that efforts would be made to write off some balances and collect others through payment plans.

Anti-Dumping and Subsidies Commission

198. The audit of the accounting records and financial transactions of the captioned Commission for 2005/2006 revealed the following shortcomings:-

i) *Salaries*

An officer was employed at emoluments of \$2.14M per annum without the necessary Ministry of Finance approval, in breach of section 20 of the Public Bodies Management and Accountability Act.

ii) *Unauthorized Payments*

Gratuity of \$710,915 was paid to an officer, who only served one year and four months of a three-year contract, in contravention of Ministry of Finance guidelines. This represented disbursement of funds to which the officer was not entitled.

iii) *Breach of Scholarship Bond*

An officer who received study leave benefits worth \$866,080 was bonded for one year instead of the four (4) years required by existing Government policy. The officer left the Commission after serving the one year bond. The Commission indicated that this breach was due to the fact that it was not aware of the policy.

FAIR TRADING COMMISSION

199. The audit of the financial transactions and accounting records of the Fair Trading Commission for 2005/2006 revealed a generally satisfactory state of affairs.

SCIENTIFIC RESEARCH COUNCIL

200. In my Annual Report for the financial year ended March 31, 2004, I raised concerns about the captioned Council paying emoluments to certain employees at rates in excess of those approved by the Ministry of Finance and Planning. The matter has since been referred to the Ministry of Finance and Planning for appropriate action to be instituted against the negligent officer in accordance with Section 25 (1)(f) of the Public Bodies Management and Accountability Act, 2001.

HEAD NO. 5238 – COMPANIES OFFICE OF JAMAICA
(formerly Office of the Registrar of Companies)

201. The audit of the financial transactions and accounting records of the Companies Office of Jamaica for the period under review disclosed the following matters of concern:

i) *Salary Overpayment*

A former employee was overpaid emoluments totalling \$44,425. The Office was advised to effect recovery. I was subsequently advised that the Ministry of Finance and Planning gave retroactive approval for the payment. I was however not satisfied as to the rationale for this decision.

ii) *Unauthorized Salary Payment*

Despite previous surcharge proceedings, the Agency continued to remunerate a senior officer at a higher level than that approved by the Ministry of Finance and Planning. This resulted in improper payments totalling \$902,790 during the period March 2005 to August 2006. This matter has again been referred to the Ministry of Finance and Planning and the Office of the Services Commission for further surcharge proceedings and disciplinary action against the negligent officer.

iii) *Staff Benefits*

The Agency provided uniforms to staff at a cost of \$697,096 in contravention of the directives of the Ministry of Finance and Planning and the parameters of the Wage and Employment Memorandum of Understanding. The Agency also failed to secure its interest by way of liens over motor vehicles which were purchased with loans made to staff despite this stipulation in the loan policy approved by the Ministry of Finance and Planning.

ON-LINE APPLICATION SYSTEM

General Comments

202. The Companies Office of Jamaica's online application system was implemented in collaboration with the USAID and is aimed at improving customer service by providing global access to information on registered companies and other e-services. A review of the system was conducted to determine whether adequate controls were implemented and that funds collected and transactions undertaken were accurately recorded and processed. The audit revealed weaknesses in the reconciliation of payments received, the monitoring of subscribers accounts and accuracy of reports generated by the system.

System Error

203. Investigations revealed that during the period December 2005 to February 2006 a script error resulted in amounts being credited to the wrong subscriber accounts. The problem was rectified and recovery of sums incorrectly deposited to these accounts was effected. The system is capable of generating a report that can be used to verify whether deposits were credited to the correct accounts. The audit recommended that periodic checks of this report be undertaken. This recommendation was accepted.

Lack of Independent Check

204. It was observed that in addition to creating users, crediting deposits to users' accounts and monitoring usage of subscribers, the System Administrator could also transfer deposits from one subscriber's account to another. It was also noted that there was no evidence that periodic independent checks of transfers between subscribers' accounts were being undertaken. I recommended that such checks be instituted.

Ad hoc Assignment of Receipt Numbers

205. Investigations disclosed that receipt numbers were assigned to entries used to reverse amounts posted to the wrong subscribers' accounts. It was observed that in some cases the numbers of previously used receipts were assigned to such transactions thereby resulting in duplications. I recommended that a unique reference number other than receipt numbers be used to fulfill the above-mentioned requirement. I was subsequently advised that this was corrected.

Improper Testing Environment

206. A contractor was engaged to design and maintain the web application system. Investigations disclosed that this company was given access to the database and the live environment to conduct tests including the creation of fictitious subscriber accounts. I recommended that the COJ establish a controlled testing environment preferably on a server other than that used for processing live data. The Office has since indicated that corrective action would be taken.

Non- Reconciliation of System Reports

207. Investigations revealed differences in the amounts reflected as deposited and used by subscribers in the separate reports generated by the accounting system and that of the web application system for the financial year 2005/2006. The accounting system report showed a deposit balance of \$663,752 more than that on the web application report. The amounts credited to revenue based on the usage by subscribers was \$14,075 more on the accounting system report than that on the web application system. The COJ was unable to satisfactorily explain the cause of the differences. I recommended that a reconciliation of the reports be done. I was subsequently informed that this problem was being worked on.

Activity Log

208. Investigations disclosed that the system does not produce an activity/control log that reflected users' activities. In the absence of such a log it was difficult to determine whether system access was restricted to authorized users. I recommended that all levels of access attempts, that is, successes and failures be logged and reported. In addition, periodic reviews of system-generated logs by senior management, independent of IT operations, should also be undertaken. The Office has since advised that this concern will be addressed when the system is upgraded.

HEAD 5239 – POST AND TELECOMMUNICATIONS DEPARTMENT

Outstanding Financial Statements

209. The Appropriation Account for 2005/2006 and the Annual Revenue Statements for 2003/2004, 2004/2005 and 2005/2006 remained outstanding at the time of this report in contravention of the Financial Administration and Audit Act.

Security Services

210. An examination of the payments made to two security firms revealed that in one instance a formal contract was not presented and in the other there was no evidence of the required competitive tenders in the selection process.

Overpayment to Supplier

211. A supplier of stamps was overpaid £750 (J\$87,757). The Department was advised to effect recovery.

Internal Control Weaknesses

212. There was need for improvement in the maintenance of the main ledger and in the controls exercised over motor vehicles, furniture and equipment and the cash lodgements made by some post offices.

Bank Reconciliation

213. i) Permission was given to the Department by the Ministry of Finance and Planning to open a new revenue bank account in April 2006 due to the chronic arrears in the reconciliation of the old bank account. At the time of audit the reconciliation of the new bank account was already five months in arrears.
- iii) The salaries bank account was unauthorisedly overdrawn resulting in bank charges of \$22,100.

Fraudulent Encashed Cheque

214. In a letter dated 5th October, 2003, the United States Postal Administration (UPA) requested acknowledgement of receipt of US\$100,000 sent in October 2001 to the Jamaican Postal Administration. The letter indicated that the cheque was encashed on November 8, 2001 and returned to them. At the time of audit, there was no evidence that the matter was resolved as the Jamaican Postal Administration denied receiving the amount and the United States Postal Administration refused to accept liability. The Department subsequently informed that the advice of the Ministry of Finance and the Attorney General had been sought as to how this matter should be pursued.

Loss of Cash

215. During the period under review, the Department reported that \$875,000 in cash was stolen from a Postmaster while on her way from the bank without the required security personnel as escort. This constituted a breach of the financial regulations.

Rental of Private Letter Boxes

216. Rental arrears for letter boxes amounting to \$192,500 were noted at five (5) post offices visited. It was recommended that appropriate steps be taken to collect the amounts overdue.

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

Outstanding Accounts

217. Up to the time of this report the Appropriation Accounts for 2005/2006 had not been received for audit.

Petro Caribe Fund

218. Investigations disclosed the following information in relation to the use of certain funds provided under the Petro Caribe arrangement with Venezuela.

- i) The Ministry received \$394,248,476 from the Petroleum Corporation of Jamaica and the National Works Agency received \$850,690,425 from the Urban Development Corporation and \$148,000,000 from the Ministry. The amounts received by the National Works Agency were to settle outstanding bills arising from Hurricanes Ivan, Dennis and Emily, to commence a flood mitigation programme and to undertake new works including the Norman Manley Airport Road and Section 1 of Segment 2 of the Northern Coastal Highway Improvement Project.
- ii) No related loan agreements were presented in respect of these transfer of funds and no information provided as to when and how these resources would be repaid.

Because the funds were being used for public works, in all probability it is Central Government which will be required to repay these amounts to the Petro Caribe Fund, and therefore the amounts should constitute a part of the public debt. It was recommended that in keeping with the requirements of the Constitution and the Financial Administration and Audit Act appropriate budgetary provision should be approved by Parliament and the necessary cash transfers made between the implementing Ministry and the Consolidated Fund. Central Government's obligations to repay these amounts should be reflected as part of the Public Debt. Appropriate loan agreements should also be entered into between Central Government and the Petro Caribe Fund.

The Ministry of Finance and Planning subsequently advised that as soon as the Petrocaribe Development Fund was passed into law, the intention is to have a formal loan agreement executed between the Government and the Fund and to seek Parliamentary approval in the Supplementary Appropriation Act for 2006/2007 to cover the related expenditure.

Heads 6300, 6300A & 6300B –
MINISTRY OF WATER AND HOUSING

Housing Fund Revenue

219. The Housing Fund is a statutory fund established under the Housing Act 1966, to provide a source of capital for housing development. An audit of the Fund for the year under review disclosed the following concerns:

i) *Outstanding Administrative and Legal Fees*

The records disclosed that as at March 2006 land payments, and administrative and legal fees totalling \$77.68M were owed to the Ministry by twelve (12) developers who had not complied with the stipulated payment schedules. It was disclosed that delays in the registration of land, failure of developers to produce pre-checked plans to facilitate splintering of titles, and extensive flooding in one project were the main causes for non-compliance. The Ministry was advised to take appropriate corrective measures.

ii) *Outstanding Land Payments*

Information seen suggested that as at June 2006 amounts totalling \$47.5M were overdue from ten (10) purchasers of land based on their agreed payment schedules. It was recommended that the necessary steps be taken to ensure that purchasers fulfill their obligations on a timely basis.

iii) *Other Revenue Arrears*

The Ministry's Rapid Response Unit carries out water distribution on behalf of the National Water Commission, National Irrigation Commission and Parish Councils. Statement of accounts disclosed arrears of collection from these agencies totalling \$47.6M as at 31st March, 2006. In addition, \$559,937 was owed by a sales agency, contracted for the purpose of leasing advertising space on the Rapid Response vehicles, and a lessee. The Ministry advised that the contract with the agency was terminated and legal advice

sought on the matter. It was recommended that concerted efforts be continued to recover the outstanding amounts.

NATIONAL HOUSING DEVELOPMENT CORPORATION

220 The audit of the captioned Corporation for the period under review disclosed the following matters of concern:-

i) *Servicing of Debts*

A review of certain loans raised by the Corporation revealed that they were not being serviced in accordance with the related agreements. The Corporation indicated that this was due to cash flow problems. I was subsequently advised that a comprehensive funding proposal was being formulated for submission to Cabinet.

ii) *Vacant Post of Managing Director*

At the time of audit, two (2) officers were being paid the emoluments attached to the vacant post of Managing Director since June 2005 without evidence of the special approval of the Ministry of Finance and Planning for this arrangement. The monthly salary paid to one of the officers was inclusive of gratuity, which should only be paid on satisfactory completion of the two year contract. The Corporation has subsequently asked this officer to repay \$1,438,899 which had been disbursed for gratuity over the period June 2005 to May 2006.

iii) *Engagement of Consultants*

There was no evidence that the required competitive process was used to engage a consultant who was paid amounts totalling \$2.6M. The contract did not specify the deliverables, and invoices on which payments were made did not indicate the work done. I was therefore unable to determine whether value for money was obtained. It was also noted that the Corporation paid the emoluments for a person said to have been employed as an adviser to the Minister. This breached the guidelines issued by the Ministry of Finance which stipulate that a Government entity should only incur expenses related to its own business. I was subsequently advised that the adviser's tasks included doing work for the Corporation and that half the payment made to him would be recovered from the portfolio Ministry.

iv) *Contract of Employment*

The audit disclosed that the contract of an employee came to a premature end but a consulting firm in which he was principal was immediately employed by the Corporation. The former officer was paid notice pay of \$1.53M although no documentary evidence was presented to indicate that he had been dismissed. The Corporation was asked to justify this payment. The officer was also overpaid motor vehicle allowance and vacation leave pay of \$262,265. The Corporation was told to effect recovery.

v) *Use of Credit Cards*

The necessary supporting invoices were not presented to substantiate expenditure of \$314,414 incurred by the use of credit cards. It was therefore not possible to ascertain whether this represented proper use of public funds.

vi) *Security Payments*

An individual was engaged by the Corporation to provide security services to three (3) of its officers and a former Permanent Secretary of the portfolio Ministry. There was however no indication that the selection was done on a competitive price basis. I was therefore unable to determine whether the best value was received.

vii) *Fuel Advance Cards*

The supporting receipts for charges totalling \$99,888 in respect of fuel purchased for the Company's vehicles were not presented for audit, thereby preventing verification.

viii) *Advances and Loans*

There was no evidence that advances to staff amounting to \$714,648 were being recovered. The Corporation has promised to take corrective action.

NORTHERN COASTAL HIGHWAY IMPROVEMENT
PROJECT – SEGMENT 2
GOJ/IDB LOAN NO. 972/OC-JA

221. The captioned Project aims to improve the infrastructure in tourism centers along the north coast of Jamaica. Segment 2 covers approximately 97 kilometres of road between Montego Bay and Ocho Rios. En route it links the parishes of St. James, Trelawny and St. Ann. It also includes the relocation of utility poles and water pipelines. The planned improvement will be executed through three (3) components namely; civil works, an environmental protection plan and resettlement programme, and a pilot road maintenance programme. The revised estimated cost of US\$131.1M is jointly funded by the Inter-American Development Bank (IDB) through a loan of US\$59.5M and the Government of Jamaica (GOJ) in the sum of US\$71.6M. The audit of the financial transactions and accounting records of the project for the year under review disclosed the following concerns:

i) *Progress of the Project*

At the time of my audit the revised completion date of the project was set at November 2006. Delays in the project's progress were due primarily to design and realignment changes, tardiness in facilitating the removal and relocation of utilities, and site management and financial problems of the contractor. On the 7th December, 2006, I was advised that the expected completion date had been further shifted to March 2007.

ii) *Transfer of Properties to the Commissioner of Lands*

Up to the date of this report sixteen (16) properties acquired were not transferred to the Commissioner of Lands. Management was advised to expedite this process.

AERONAUTICAL TELECOMMUNICATION LTD.

Engagement of Consultant

222. There was no indication that the required competitive process was used to engage a consultant who was paid \$1,998,225.

Motor Vehicle Control and Advance Debit Cards

223. There was need for improvement in the controls exercised over the use of motor vehicles and fuel advance debit cards as the related log books and register were not faithfully maintained. The stipulated periodic evaluation of the operational efficiency of each fleet vehicle was also not being done neither was there evidence of the required verification of petrol charges incurred. The Company subsequently advised that corrective measures had been instituted.

Payment of Board Fees

224. The records disclosed that Board members were overpaid fees totalling \$214,420. The company has since indicated that this matter was being reviewed.

Staff Loans

225. The required Ministry of Finance and Planning's approval was not presented for a 100% rebate on staff loans for studies completed successfully. The company has since indicated that the Ministry of Finance and Planning was reviewing the loan policy.

JAMAICA RAILWAY CORPORATION

226. The audit of the captioned corporation for the period under review disclosed the following matters of concern:

i) *Audited Financial Statements and Annual Reports*

Up to the date of this report there was no indication that Audited Financial Statements and Annual Reports were submitted to Parliament for many years. This breached the Jamaica Railway Corporation Act and the Public Bodies Management and Accountability Act.

ii) *Emoluments*

The audit disclosed that all permanent posts at the Corporation had been abolished since February 1993 and the contracts of the temporarily employed officers had expired December 31, 1995. There was no evidence of new contracts for seventy-four (74) persons who were still employed. The required approval of the Ministry of Finance and Planning for the operation of these posts or the emoluments paid was not presented.

iii) *Outstanding Rents*

The records showed that at December 31, 2005 amounts totalling \$10,354,906 remained outstanding for rental of the Corporation's properties. The Corporation had engaged the services of a collecting agency, however difficulties were experienced as \$468,779 of the amounts collected were not remitted to the Corporation. The matter was reported to the police. The Corporation advised that attempts, including court action and termination notice, to collect the amounts owed continued.

iv) *Board of Directors*

Information provided was that the tenure of the last Board of Directors expired in March 1992 and one had not since been appointed. As a result the regulations of the Jamaica Railway Act and the Public Bodies Management and Accountability Act 2001, were not being complied with.

v) *Breach of Motor Vehicle Policy*

Contrary to the Government Revised Comprehensive Motor Vehicle Policy, a motor vehicle acquired for \$4,043,750 was assigned to an officer on a fully maintained basis. The Corporation was advised to comply with the policy.

MARITIME AUTHORITY OF JAMAICA

Outstanding Audited Financial Statements

227. Up to the date of this report audited annual financial statements were outstanding for 2004/2005. This breached the Public Bodies Management and Accountability Act and prevented a proper assessment of the Authority's financial state of affairs

WATER RESOURCES AUTHORITY

228. The audit of the financial transactions and accounting records of the Water Resources Authority for the year under review revealed the following deficiencies:

i) *The Inter-American Dialogue on Water Management*

A firm to which a Board member is connected was engaged to provide certain consultancy services for which payments of US\$13,005 and J\$360,515 were noted. No evidence was presented to indicate that the disclosure requirements of Section 17.2 of the Public Bodies Management and Accountability Act were satisfied. Additionally, there was no indication that the required competitive pricing process was followed in the selection of this consultant or that a written contract was in place. I was therefore unable to assess whether the cost incurred was reasonable relative to the service(s) rendered.

ii) Proper supporting evidence was not presented for a payment of \$789,000. The Authority was asked to provide the necessary information.

HEAD 6550 – NATIONAL WORKS AGENCY

Internal Control Weaknesses

229. Deficiencies were noted in the controls exercised over disbursements, journal vouchers, valuables received through the mail, advances made and fixed assets.

Outstanding Receivables

230. The records revealed that at March 2006, outstanding receivables totalled \$528.8M of which \$435M was due from the portfolio ministry for periods dating back to June 2001.

Security Contracts

231. The Agency failed to present copies of security licences for four (4) security Companies engaged, as required by the Private Security Act of 1993, for inspection. The Agency was told to have this matter regularized.

Fuel Advance Cards

232. Receipts for petrol acquired in December 2005 at a cost of \$325,393, were not presented to allow verification of the authenticity of the transactions.

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

233. The audit of the Ministry's accounting records and financial transactions for the period under review disclosed a generally satisfactory state of affairs. However, the following matters of concern were noted:-

i) *Outstanding Accounts*

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

ii) *Accounting Weaknesses*

Weaknesses persisted in the controls exercised over the motor vehicle operations, the use of the telephones and fixed assets. The Ministry was told to implement appropriate controls without further delay.

iii) *Overpayment of Salaries*

Three (3) persons were overpaid salaries amounting to \$75,842. The Ministry was advised to effect recovery.

NATIONAL SOLID WASTE MANAGEMENT PROGRAMME
GOJ/IDB LOAN NO. 1185/OC-JA

234. The National Solid Waste Management Programme was jointly funded by the Government of Jamaica and a loan from the Inter-American Development Bank and was implemented by the Ministry of Local Government, Community Development and Environment. The main objectives of the Programme were to improve the environment 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 countrywide Solid Waste Management Programme. The audit of the Programme's financial transactions and accounting records for the year under review disclosed a generally satisfactory state of affairs. It was noted however that the Programme was suspended by the Bank as the delivery of the intended outputs continued to be seriously constrained due to inadequate cash flow allocation and failure of the administrators to provide the Bank with a satisfactory business plan to develop the Riverton Landfill. In addition, the Jamaican Dollar equivalent of US\$2,024,000 received by the Programme as benefit-in-kind was not paid into the Consolidated Fund as required by law. This resulted in the understatement of Government's expenditure and loan revenue.

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

235. The Parish Infrastructure Development Programme is jointly funded by the Government of Jamaica and a loan from the Inter-American Development Bank. It seeks to promote changes in the legal and institutional framework that will strengthen local government, strengthen the financial viability and institutional capacity of parishes to carry out their responsibilities, strengthen the capacity of the Ministry of Local Government to support and promote Parish Councils, encourage community participation in local decision-making, and finance the rehabilitation of basic priority infrastructure in the parishes, thereby fostering their economic development. The audit of the accounting records and financial transactions of the Programme for the year under review disclosed a generally satisfactory state of affairs. However, the Jamaican dollar equivalent of US\$4,686,585 received as benefit-in-kind was not paid into the Consolidated Fund as required by law. This resulted in the understatement of Government's expenditure and loan revenue.

GOLDEN AGE HOME

236. The audit of the captioned entity for 2005/2006 disclosed the following shortcomings:

i) *Salaries and Wages*

a) *Overpayments*

Five (5) officers were overpaid salaries totalling \$368,141 due mainly to the incorrect methodology used in the calculation of acting allowance and the payment of increment. The entity was advised to effect recovery. I was subsequently advised that \$21,316 of this amount had since been recovered.

b) There was no evidence that the staffing positions operated by the Home were approved by the Ministry of Finance and Planning in keeping with section 20 of the Public Bodies and Accountability Act 2003. Management was instructed to seek the necessary approval.

ii) *Procurement Breach*

The concessionaire who operated the Home's kitchen received payments amounting to \$16,450,050 for the financial year under

review without a written contract in place. As previously reported there was no indication that a competitive tender process was used in the selection of the concessionaire, neither was the requisite approval of the National Contracts Commission and Cabinet seen. The Home subsequently advised that corrective measures were being taken.

iii) *Breach of Payment Procedures*

Several payment vouchers were not appropriately certified and authorized, neither were the requisite supporting documents presented for payments totalling \$32,000. Consequently, the risk of improper payments was increased. Management was advised to ensure that all payment vouchers are certified and authorized prior to disbursement, and to produce for audit the necessary supporting documents.

iv) *Staff Loan Policy*

No evidence was provided to indicate that the required Ministry of Finance and Planning's approval was obtained for the staff loan policy.

v) *Internal Control Weaknesses*

There was still need for improvement in the maintenance of the fixed assets and stores control records. There was also need to improve the controls over blank cheques, cash receipts and access to cash and other valuables stored in the vault. The entity was reminded of the possibility of irregularities and losses and to take corrective measures.

HEAD 7248 –
NATIONAL ENVIRONMENT AND PLANNING AGENCY

Outstanding Appropriation Accounts

237. The Appropriation Accounts for 2004/2005 and 2005/2006 were not received for examination up to the date of this report. This contravened the Financial Administration and Audit Act.

Expenditure Vouchers

238. Payments for goods and services costing \$86,806 were made using estimates and quotations as supporting documents instead of the original suppliers' bills/invoices. As a result, the authenticity of these payments could not be verified. The Agency was told to obtain the original documents and to desist from this practice as it could lead to improper payments.

Rental/Lease Agreement

239. Valid rental/lease agreements were not presented for four (4) of the offices occupied by the Agency. It was advised to regularize the situation as it could lead to controversy in the event of any dispute. The Agency subsequently advised that corrective action was being taken.

Improper Payments

240. Acting allowance totalling \$177,950 was paid to eight (8) employees although their acting engagements were for less than the stipulated minimum period of twenty (20) working days. The Agency was told to recover the amounts incorrectly paid.

Bonded Officer

241. An officer was granted study leave and should have served a bond period of three (3) years upon completion of the studies. However, the officer resigned from the Agency and although most of the amount owed for the unserved bond period was paid, a figure of \$40,801 remained outstanding. The Agency was asked to recover this amount.

Un-remitted Statutory Deductions

242. Information received from the Inland Revenue Department revealed that Education Tax and Income Tax deductions totalling \$5,524,522 made from employees' emoluments between 2003 and 2005 had not been remitted to the collecting agency. This exposed the Agency to possible legal penalties.

Contracts Breaches

243. i) Payments totalling \$2,400,426 and \$1,134,600 were made to a security and janitorial services companies during the period under review. However, no formal agreement was presented. The absence of a written contract could leave the Agency without recourse in the event of unsatisfactory performance.

- ii) Mobilization advances ranging from 12 ½ % to 50% of the jobs/contract sums were paid to some contractors/consultants although cabinet policy stipulated a limit of 10%.
- iii) No documentary evidence was presented to indicate that the requisite tax compliance certificates (TCC) were submitted by a number of contractors/consultants although this was a pre-requisite for their engagement. In addition, goods and services were procured from some suppliers not registered with the National Contracts Commission. The Agency was reminded that these were breaches of the Government's Procurement Guidelines and compliance should be observed.

Internal Control Weaknesses

244. Deficiencies were noted in the controls exercised over the use of fuel advance debit cards and stationery stores. It was recommended that steps be taken to address these weaknesses as they could expose the Agency to losses and abuse.

JAMAICA FIRE BRIGADE

Outstanding Financial Statements

245. Up to the date of this report audited financial statements for the financial years 1998/1999 to 2005/2006 were not available. This situation continued to prevent a proper assessment of the entity's financial state of affairs. I was subsequently informed by the Brigade that the audit of the statements for the years ended March 1999 to 2001 had been completed.

Advance Debit Cards for Fuel

246. The prescribed reconciliation between the charges claimed by the debit card provider and the sales receipts obtained from service stations was not being done. As a result of this breach, a proper assessment as to whether payments amounting to \$718,000 accurately reflected the value of fuel supplied to the Brigade's vehicles was not possible. It was recommended that this concern be addressed. The Brigade has since advised that this problem had been corrected.

Fixed Assets

247. There was no evidence that assets acquired during the year under review costing \$4,819,945 were recorded in the inventory records; while some items were not appropriately marked. This breached the Ministry of Finance's guidelines and weakened management's control over such assets.

Expenditure Vouchers

248. 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. In addition, goods and services costing \$501,574 were paid for using estimates and pro forma invoices as supporting documents instead of the required original suppliers' bills/invoices. These weaknesses could compromise the Brigade's ability to safeguard against improper or duplicate payments. It was recommended that this practice be discontinued.

Breach of Procurement Procedures

249. A review of payments totalling \$67.7M disclosed breaches of the procurement guidelines. In one instance Cabinet's approval was not obtained for a contract in excess of \$15M while in a number of cases there was no indication that:

- a) The suppliers were on the National Contracts Commission's approved list of contractors.
- b) Contractors were selected through a competitive process.
- c) Contracts valued at \$250,000 and above were appropriately advertised.

Management was told to comply with the procurement guidelines aimed at ensuring economy, fairness and transparency in the use of public funds.

Inadequate Controls Over Spare Parts

250. Despite concerns raised at paragraph 212 (ii) of my 2004/2005 annual report the control over the stock of motor vehicle spare parts continued to be inadequate. It was recommended that effective controls be implemented without further delay to prevent abuse. The brigade subsequently advised that corrective measures were being instituted.

Telephone Facilities

251. Due to the inadequacy of controls, I was unable to determine what portion of \$13.5M spent on telephone charges for the period under review was for official business. It was also noted that payments amounting to \$164,000 were made for the rental of telephone lines which were said to have been out of service for approximately two years. The Brigade was advised to institute appropriate corrective measures. It subsequently indicated that this was being done.

KINGSTON AND ST. ANDREW CORPORATION

252. *Salaries*

- i) Only one officer was employed in the payroll section. This prevented the necessary segregation of duties and internal check. The Corporation was advised to correct this problem.
- ii) The use of incorrect rates resulted in salary overpayments of \$13,427 to two officers. It was recommended that recovery be effected.

Outstanding Bond

253. An officer's resignation resulted in the forfeiture of a training bond agreement and the Corporation being owed \$200,092. The Corporation was advised to continue its effort to recover this amount.

Unauthorised Overdraft

254. The Corporation incurred bank charges totalling \$361,811 for the financial year under review as a result of an unauthorised bank overdraft.

Rental of Properties

255. The records revealed that as at August 2006, thirteen (13) tenants of the Corporation's properties owed arrears of rental amounting to \$1,908,500 for periods ranging from two (2) to sixty-one (61) months. Rental agreements were not presented for eleven (11) of the tenants.

Contracts

256. A test check of contracts awarded during the period April 2005 to January 2006 disclosed 15 instances in which there was no evidence that the required competitive pricing process was used in the selection of contractors. Four cases were also noted in which the awardees were not on the National Contracts Commission's approved list of contractors. It was recommended that the Government's guidelines be strictly observed.

Inventory of Fixed Assets

257. The controls exercised over furniture and equipment was inadequate as the stipulated inventory records were not faithfully maintained.

**KINGSTON AND ST. ANDREW PARISH
DEVELOPMENT COMMITTEE PROJECT**

258. The Kingston and St. Andrew Parish Development Committee Project which is jointly funded by a grant from the Cities Alliance Programme and other co-financing partners aims to guide the re-development and management of the City of Kingston over the next twenty (20) years. The audit of the financial transactions and accounting records of the Project for the year under review disclosed the following inadequacies:-

i) *Internal Control Weaknesses*

There was insufficient separation of duties to ensure that the Project achieved its objectives in an economical and efficient manner, that it provided reliable financial and other information, and the necessary checks and balances were in place to prevent and detect errors and fraud. This apparently contributed to irregularities amounting to \$592,005 discovered by the KSAC's internal auditor. The money was subsequently recovered.

ii) *Bank Reconciliation*

Reconciliation of the two (2) bank accounts was in serious arrears. No reconciliation had been done for one account and the other had not been reconciled for more than two years.

iii) *Foreign Exchange Bank Account*

A balance of US\$2,101 reflected for the captioned account at June 30, 2006 could not be verified due to inadequate documentation and record keeping.

CLARENDON PARISH COUNCIL

259. The audit of the financial transactions and accounting records of the Clarendon Parish Council for the year under review disclosed the following unsatisfactory features:

i) *Outstanding Financial Statements*

Up to the time of this report, the financial statements for the year 2005/2006 were outstanding.

ii) *Arrears of Revenue*

At the time of audit the records reflected that the Council was owed arrears of revenue for rents/leases totalling \$1,631,302.

iii) *Procurement Breaches*

a) There was no evidence that a competitive tendering process was employed in the selection of six (6) contracts for goods valued at \$1,826,790 as stipulated by the government procurement guidelines.

b) Evidence was not presented to indicate that the prescribed Finance Committee's approval was obtained for the award of contracts for works with a value of \$5.9M.

iv) *Expenditure Vouchers*

The nature of payment was not reflected on eight (8) payment vouchers totalling \$2,462,795 making it difficult to justify the related expenditure. The Council was asked to provide the necessary particulars.

v) *Outstanding Matter*

Overpaid salaries to five (5) Councillors amounting to \$1,655,172 for periods when they were absent from Council meetings without the required approval and which were included in a report I submitted to the Council in November 2003, remained outstanding.

HANOVER PARISH COUNCIL

260. Up to the date of this report I had not received any response from the Hanover Parish Council to audit reports issued for the years 2002/2003, 2003/2004 and 2004/2005.

At the time of audit the records reflected that the Council was owed arrears of revenue for rents/leases totalling \$2,249,600. It was noted that the Council had retained the services of an attorney to pursue recovery of the outstanding amounts.

MANCHESTER PARISH COUNCIL

261. The audit of the financial transactions and accounting records of the Manchester Parish Council for the year under review disclosed weaknesses in the preparation of payment vouchers, and the procurement of goods and

services. The records also showed arrears of rental from lessees of the Council's properties totalling \$1,062,601. The annual financial statements for 2003/2004 to 2005/2006 were also outstanding up to the date of this report.

PORTLAND PARISH COUNCIL

262. The audit of the Portland Parish Council for the year under review disclosed the following shortcomings:-

i) *Un-remitted Statutory Deductions*

At the time of audit the records revealed that statutory deductions from employees' salaries totalling \$5,073,367 made between April 2003 and March 2004 had not been paid over to the relevant authorities.

ii) *Outstanding Financial Statements*

Financial statements for the years 2004/2005 and 2005/2006 were outstanding at the date of this report.

iii) *Arrears of Rent and Rates*

At the time of my audit arrears of rental owed to the Council by lessees of properties totalled \$2,082,624; while a sample of the records of nine districts supplied with domestic water by the Council, disclosed arrears of water rates totalling \$2,226,790.

iv) *Improper Payment*

An officer who was paid a fixed motor car allowance was also paid \$116,103 for home visits while on temporary transfer, in contravention of the Ministry of Finance and Planning's instructions. The Council was told to recover this amount.

PORTMORE MUNICIPAL COUNCIL

263. The audit of the financial transactions and accounting records of the Municipality for the year under review disclosed the following areas of concern:

i) *Un-remitted Contractors' Levy*

Up to the time of the audit there was no evidence that contractors levy amounting to \$360,569 deducted from contract payments over the period March 2005 to March 2006 was paid over to the relevant authority as required by the Contractors Levy Act.

ii) *Procurement Breaches*

a) There was no indication that the required competitive price quotations were used in the selection of five (5) contractors for goods/services costing \$249,549.

b) Two (2) contractors whose names did not appear on the NCC's list of Registered Public Contractors were awarded contracts amounting to \$2,430,120.

iii) *Expenditure Vouchers*

The procurement of goods and services costing \$184,015 was done without evidence of the required certification that goods were received in good condition and that services were satisfactorily performed. In addition, there was no evidence that contractors levy amounting to \$39,804 was deducted from certain contract payments made.

iv) *Contracts Register*

The stipulated contract register to facilitate the monitoring of the award and implementation of contracts was not properly maintained. This matter was also raised in my 2004/2005 Annual Report. The Council subsequently advised that this concern had been addressed.

v) *Inadequate Control of Telephones*

The control exercised over the use of the telephones was unsatisfactory. For the period under review unidentified calls amounted to \$162,485 or 54.35% of the cost of calls made.

vi) *Inadequate Control of Motor Vehicles*

The required motor vehicle inventory was not maintained and there was no evidence of the stipulated quarterly evaluation of the operating efficiency of the vehicles.

vii) *Income Tax on the Private Use of Motor Vehicle*

An officer was provided with a fully maintained motor vehicle. However, Income Tax amounting to \$54,495 for the partial private use of the vehicle was not deducted from his emoluments and paid over to the Inland Revenue Department as required by the Income Tax regulations. The Council subsequently indicated that this will be corrected.

ST. ANN PARISH COUNCIL

264. The financial transactions and accounting records examined for the year under review were found to be generally satisfactory. However, the following areas of concern were observed:

i) *Arrears of Revenue*

At the time of audit the records reflected that the Council was owed arrears of revenue for rents/leases totalling \$2,655,206.

ii) *Procurement Breaches*

There was no evidence that the required competitive price quotations were used in the selection of thirteen (13) contractors for the procurement of goods and services costing \$3,511,526. The Council advised that it had been under the mistaken belief that its procurement activities were still guided by Circular Instructions issued by its portfolio Ministry in August, 1994.

ST. CATHERINE PARISH COUNCIL

265. The audit of the financial transactions and accounting records of the St. Catherine Parish Council for the year under review disclosed the following unsatisfactory findings:

i) *Outstanding Financial Statements*

Up to the time of this report, the financial statements for the years 2004/2005 and 2005/2006 remained outstanding.

ii) *Responses to Audit Queries*

Up to the date of this report the Department had not received responses to audit reports for the years 2002/2003, 2003/2004 and 2004/2005.

iii) *Unremitted Statutory Deductions*

There was no evidence that Contractors Levy amounting to \$474,909 deducted from contract payments during the period August 2005 to January 2006 had been remitted to the Inland Revenue Department in keeping with section 4(1) of the Contractors Levy Act.

iv) *Bank Reconciliation*

The reconciliation statements for four (4) bank accounts disclosed unresolved discrepancies including erroneous debits amounting to \$434,002 dating back to January 2000. The reconciliation of the Salaries Bank Account at the time of audit was one year in arrears.

v) *Arrears of Revenue*

At the time of audit the records reflected that the Council was owed arrears of revenue for rents/leases totalling \$548,946.

vi) *Procurement Breaches*

a) Two (2) contractors whose names did not appear on the NCC's list of Registered Public Contractors were awarded twelve (12) contracts amounting to \$4,093,475.

b) There was no evidence that the required competitive price process was used in the procurement of goods and services costing \$3,345,569.

c) A contract for garbage removal services had expired since June 2003, however, the contractor continued to provide services.

vii) *Inventory Control*

Furniture and equipment costing \$1,433,406 acquired during the year under review were not reflected in the inventory records. This could result in abuse or loss.

ST. ELIZABETH PARISH COUNCIL

266. The audit of the captioned Council for 2005/2006 disclosed the following matters of concern:-

i) *Arrears of Rental*

Lessees of the Council's properties owed arrears of leases/rentals amounting to \$1,131,530.

ii) *Telephone Calls*

Deficiencies were noted in the control exercised over the use of telephones.

iii) *Non-Taxing of Pension Payments*

Income Tax was not deducted from payments made to four pensioners as required by the Income Tax Act.

The Council subsequently advised that corrective measures were being instituted.

ST. JAMES PARISH COUNCIL

267. The audit of the financial transactions and accounting records of the St. James Parish Council for the year under review disclosed the following unsatisfactory features:

i) *Un-remitted Statutory Deductions and Annual Returns*

Up to the time of the audit there was no evidence that contractors levy amounting to \$714,911 deducted from contract payments for the period October 2005 to July 2006 and Income Tax amounting to \$10,567,637 deducted from employees' emoluments for the period January 2002 to July 2003, were paid over to the Inland Revenue Department. Additionally, there was no indication that the stipulated annual returns for statutory deductions in respect of the years 2002 to 2005 were remitted to the relevant agencies.

ii) *Bank Reconciliation*

The reconciliation of three (3) bank accounts disclosed several erroneous debits amounting to \$129,038 which had remained unresolved for periods dating back to June 1994. This situation could cause the loss of the Council's funds.

iii) *Arrears of Revenue*

At the time of my audit the records reflected that the Council was owed arrears of revenue for rents/leases totalling \$382,652.

iv) *Procurement Breaches*

a) There was no evidence that the required competitive price process was used in the purchase of goods costing \$2,156,330.

b) One contractor whose name did not appear on the NCC's list of Registered Public Contractors was awarded a contract for \$3,162,835.

v) *Expenditure Vouchers*

Suppliers' bills were not presented to substantiate four (4) payment vouchers amounting to \$3,160,708. I was therefore unable to verify whether these payments were properly supported.

vi) *Unauthorised Overdrafts*

Interest charges and overdraft fees totalling \$506,622 were incurred on bank overdrafts for which the necessary prior Ministry of Finance approval was not seen. The Council advised that control measures have since been implemented to prevent a recurrence.

ST. MARY PARISH COUNCIL

268. The audit of the accounting records and financial transactions of the Council for the year under review disclosed that lessees of the Council's properties owed rentals amounting to \$655,806, the telephone register was not faithfully maintained and two officers were paid subsistence allowance amounting to \$146,291 in contravention of the Staff Orders.

ST. THOMAS PARISH COUNCIL

269. The audit of the St. Thomas Parish Council for 2005/2006 disclosed the under-mentioned shortcomings:-

i) *Financial Statements*

Financial statements for financial years 2000/2001 to 2004/2005, which were returned for corrections in December 2005 as well as the statements for 2005/2006 were outstanding at the date of this report.

ii) *Statutory Deductions*

Amounts totalling \$13,911,275 representing statutory deductions made from employees emoluments between December 1999 and February 2006 were not paid over 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.

iii) *Non-taxing of Pension Payments*

The records disclosed that Income Tax was not deducted from payments to four pensioners as required by the Income Tax Act.

iv) *Education Assistance*

The required approval of the Ministry of Finance and Planning was not seen for the payment of tuition fees amounting to \$60,000 to an officer of the Council.

TRELAWNY PARISH COUNCIL

270. The audit of the Trelawny Parish Council for the year under review disclosed that it did not maintain the required fixed assets control records for the Infirmary. This could undermine the Council's ability to properly account for and safeguard its assets.

WESTMORELAND PARISH COUNCIL

271. The audit of the captioned Council for 2005/2006 disclosed that rental totalling \$646,783 were owed by lessees of the Council's properties.

ACKNOWLEDGEMENT

272. I take this opportunity to record my appreciation to 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 during 2006.

ADRIAN P. STRACHAN, CD, FCCA, FCA, JP.
AUDITOR GENERAL
18th December, 2006

OUTSTANDING APPROPRIATION ACCOUNTS
AS AT 8th DECEMBER 2006 IN RESPECT
OF FINANCIAL YEARS 2004/2005 TO 2005/2006

2004/2005

<u>HEAD</u>	<u>MINISTRY/DEPARTMENT</u>
0600	Office of the Services Commissions
2011	Accountant General
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
3000	Ministry of Foreign Affairs and Foreign Trade
4000	Ministry of Labour and Social Security
4000B	Ministry of Labour and Social Security
4100	Ministry of Education, Youth and Culture

HEAD

MINISTRY/DEPARTMENT

4200	Ministry of Health
4235	Government Chemist
6500A	Ministry of Transport and Works
6500B	Ministry of Transport and Works

2005/2006

0100	His Excellency the Governor & Staff
0200	Houses of Parliament
0600	Office of the Services Commissions
1600	Office of the Cabinet
1600A	Office of the Cabinet
1600B	Office of the Cabinet
2000	Ministry of Finance and Planning
2000A	Ministry of Finance and Planning
2000B	Ministry of Finance and Planning
2011	Accountant General
2012	Customs Department
2019	Pensions
2041	Taxpayer Audit and Assessment Department
2042	Taxpayer Appeals Department
2044	Tax Administration Services Department

HEAD

MINISTRY/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
3000	Ministry of Foreign Affairs and Foreign Trade
4000	Ministry of Labour and Social Security
4000B	Ministry of Labour and Social Security
4100	Ministry of Education, Youth and Culture
4100A	Ministry of Education, Youth and Culture
4100B	Ministry of Education, Youth and Culture

HEAD

MINISTRY/DEPARTMENT

4200	Ministry of Health
4200A	Ministry of Health
4200B	Ministry of Health
4234	Bellevue Hospital
4235	Government Chemist
5200A	Ministry of Commerce, Science and Technology
5200B	Ministry of Commerce, Science and Technology
5239	Post & Telecommunications Department
5800	Ministry of Land and the Environment
5800A	Ministry of Land and the Environment
5800B	Ministry of Land and the Environment
6300	Ministry of Water and Housing
6300A	Ministry of Water and Housing
6300B	Ministry of Water and Housing
6500	Ministry of Transport and Works
6500A	Ministry of Transport and Works
6500B	Ministry of Transport and Works
7200	Ministry of Local Government, Community Development and Sport
7200A	Ministry of Local Government, Community Development and Sport
7200B	Ministry of Local Government, Community Development and Sport

