The Government Minute—Summer 2001

On the Report of the Standing Public Accounts Committee on the
Report of the Auditor General - Summer 2001
of the Cayman Islands' Government.

By the Hon. Kenneth Jefferson JP, Financial Secretary

Madam Speaker, in accordance with the requirements of Section 74(7) of the Legislative Assembly Standing Orders (Revised), the Government Minute for Summer 2001 is hereby presented.

As Members are aware, the Minute constitutes the Government's response to the Report of the Public Accounts Committee (PAC), on the Report of the Auditor General for Summer 2001 of the Cayman Islands' Government. This particular Minute is in response to the PAC Report that was laid on the Table of this House on 28th February 2005.

As in previous Minutes, the statements contained herein should be regarded as that of the Government, and are based (where necessary) on the views of respective Chief Officers, Heads of Departments and Managers within the Cayman Islands Public Service.

In order to facilitate easy cross-referencing, the heading sequence of this Minute follows exactly that of the related PAC Report.

INTRODUCTION

Madam Speaker, the Government notes the Committee's comments stated in the Introduction of the PAC Report, especially the concerns regarding the operations of the Department of Tourism (DOT) and the need to enhance effectiveness, control and accountability.

It should be noted that the Public Management and Finance Law (the "Law"), supported by Financial Regulations, was implemented by the Government on 1st July, 2004 after the preparation of the Auditor General's Summer 2001 Report. The Law and the Regulations require Government agencies to practise responsible financial management and implement effective and efficient management systems. Since then, Government agencies have been diligently improving and refining their operational systems, policies and procedures and ensuring that they are in compliance with the Law and the Regulations.

PART I – DEPARTMENT OF TOURISM

Madam Speaker, DOT continues to strive to implement efficient and effective management systems that will promote transparency and accountability and endeavor to produce accurate and reliable information.

PART II – PUBLIC WORKS DEPARTMENT - ROADS

Madam Speaker, it must be noted that in the intervening period between the Auditor General's Report of Summer 2001 and now, the responsibility for roads is no longer with the Public Works Department but with the newly-formed National Roads Authority (NRA).

The National Roads Plan is still a work in progress; however a draft road register has been completed by the NRA with the aim of showing the roads by district, their state of disrepair and the priority by which work should be carried out. Unfortunately for capital works, whilst there are several new projects identified, they do not yet form part of a comprehensive formulated National Roads Plan. The Ministry of Communications, Works & Infrastructure has been in continuous discussions with the NRA to complete this document.

The NRA continues to improve the disclosure of road works in the Annual Budget & Estimates ensuring proper transparency and accountability.

The Ministry of Communications, Works & Infrastructure will encourage the Board of the NRA to ensure proper contractual arrangements are in place and that all contracts are complete and accurate.

The Government intends to have statutory authorities comply with the tendering processes specified under Part 9 of the Financial Regulations. In the interim, the Ministry of Communications, Works & Infrastructure encourages the NRA to do a public tender, or failing that, utilize a form of negotiated pricing to ensure that the works secure value for money.

The NRA is cognizant of the importance of practising proper financial procedures and will ensure that proper approval and sufficient funding is obtained prior to the commencement of a project.

Since the NRA is now a legal reporting entity, it is subject to the proper application of generally accepted accounting standards including proper cost allocation principles.

The Ministry of Communications, Works & Infrastructure notes the recommendation on the importance of properly documented legal agreements prior to the grant of physical concessions which was exemplified in the case of the new Esterley Tibbetts Highway (phase 3). In the Auditor General's Report for Summer 2001, the developers paid into the public purse and then the Government carried out the works. However, in the Esterley Tibbetts Highway, the Ritz-Carlton desired that a portion of the roads be done to certain aesthetic standards and is hiring their own contractors to carry out this portion of the work. This approach is expedient, as the Ritz-Carlton is charged with the design and management of its own project. The NRA's responsibility would be to ensure all safety standards are met.

PART III – HEALTH SERVICES DEPARTMENT

The Health Services Department became an Authority since the preparation of the Auditor General's Report. The Health Services Authority (HSA) continues its efforts in becoming a financially-viable institution and is committed to improving its management systems and ensuring that proper accounting and reporting procedures are in place.

PART IV – POSTAL ADMINISTRATION

Since the Auditor General's Report, Madam Speaker, the Postal Department has restructured the Accounts section in an effort to better accommodate the segregation of numerous duties.

All Customer Service Officers and District Managers have been instructed that they are to balance on a daily basis, even when there are no postal sales on a given day. It is the responsibility of the officer's immediate supervisor to check the daily balance sheets and follow-up where necessary. Random sample checks are then conducted at the General Post Office once these documents have been submitted to the Accounts section.

In the years since this Report, customers have been strongly discouraged from paying for postal services with cash through the mail. It is now a rarity to receive cash in the mail. Payments are made by cheques which are first logged into the mail registry system.

In accordance with Financial Regulations, inventory of all stamp stocks is taken at the end of the financial year.

The obsolete stock of stamps was destroyed in Audit's presence. For several years now, the amount of stamps ordered for each new stamp issue have been adjusted to minimize the instances of excessive stock becoming obsolete inventory.

There are less problems with the post office box rental database, but the Computer Services Department ("Computer Services")wants to phase out use of the software. A preliminary inquiry into other IT systems was done by the current Postmaster General. Even though these systems were designed specifically for postal administrations, the remote service from Europe aspect of such systems was considered undesirable by the Postmaster General.

A replacement system for the post office box rental database is still to be identified and the present Postmaster General is liaising with Computer Services on this.

The Postal Department is now using International Postal System (IPS) Light, a mail processing system developed and maintained by the Universal Postal Union. IPS Light significantly reduces the Department's reliance on PerlNet except IPS Light does not produce the customer notifications for Parcel, Express Mail Service (EMS) and Registered Mail as PerlNet does. Therefore, the Postal Department has requested that the Universal Postal Union's IT department develop this aspect of IPS Light. IPS Light also has the capability of linking incoming and outgoing mail dispatches to International Accounts.

PART V – OFFICE OF TELECOMMUNICATIONS (OFTEL) – INVENTORY OF TELECOMMUNICATIONS EQUIPMENT

Madam Speaker, there is a comprehensive database of radios maintained by the Office of Telecommunications (OFTEL). The Motorola "Smart Zone" system contains a complete record

of all radios that operate on the Government radio communication system. The HSA is currently the only pager user and as such they maintain their own database.

With regard to cellular phones, OFTEL does not keep records of other departments' telephone equipment. Cellular phone service is provided by three different carriers and OFTEL's role is to provide recommendations on equipment and service plans upon request by an agency.

The Report of the Public Accounts Committee uses the words "telecommunications equipment" in a general fashion. This term has a very broad meaning and includes items such as telephones, fax machines, modems, etc. OFTEL is not responsible for every item in Government that could be considered "telecommunications equipment". OFTEL is responsible for operating and maintaining the Government-owned radio communications, paging, microwave and related systems (the infrastructure) used by the various departments. All of these specialized systems utilize telecommunications and are a sub-set of telecommunications equipment.

OFTEL will use the Fixed Asset Registers which are now being maintained by government agencies to develop Service Level Agreements and reconcile the two databases. If a unit is not on the fixed asset register it will be disabled by OFTEL.

OFTEL welcomes the recommendation of proper accounting for lost and damaged equipment. OFTEL has previously informed users to report this information to their office when it occurs. However, many departments have failed to report lost or damaged equipment, resulting in discrepancies between OFTEL and agencies' lists.

OFTEL's mission statement includes the provision of high quality technical services ensuring that all Government agencies have modern and reliable telecommunication networks for their wireless voice and data communication requirements. Current staff shortages are causing some problems in addition to the fact that OFTEL currently only recommends equipment. With regards to cellular services, it should be noted that OFTEL has no control of departmental cellular services and that departments rarely ask for advice from OFTEL. The supply of handsets and service could go out to tender— resulting in all staff having the same style phone and service provider.

When the new radio system came into operation in 2004, all government radios had to be reprogrammed and added to the new radio system database. If a subscriber unit was not physically seen it was not added to the system. When it was considered that no more radios were in existence the system was locked, meaning unseen radios were now locked out of the system. Approximately one month later, the remaining radios still in existence were subsequently added to the system after physical verification. OFTEL is currently in the process of conducting another inventory check as these numbers relate to service level agreements.

Paging has virtually become obsolete and only the HSA maintains a pager fleet. HSA's staff is responsible for the database and OFTEL is now only responsible for maintaining the infrastructure. The billing of fixed telephone lines is currently managed by the Lands and Survey Department for all government-owned shared accommodations. With the deregulation of the telecommunications industry many departments now have contracts with different carriers

.OFTEL has no control of these contracts. It is believed that government could negotiate a contract with one carrier to supply airtime minutes; however individual departments may try to resist this.

OFTEL now has firm licence agreements with all external telecommunications providers. These came into effect on 1st October 2005. Revenue from Cable and Wireless is $86,000 per year. Digicel and TeleCayman also have similar agreements.

PART VI – GOVERNMENT INSURANCE – THE PRISON INSURANCE CLAIM

Madam Speaker, with the implementation of accrual accounting on 1st July 2004, all assets are to be recorded in the respective Ministry or Portfolio's financial records in accordance with International Public Sector Accounting Standards (IPSAS). Ministries and Portfolios are therefore responsible for the maintenance of their Fixed Asset Register, ensuring that assets are properly managed and disposed of as required.

Government expenses incurred as a result of Hurricane Ivan were recorded to a separate expense project code in government's computerized financial reporting system, IRIS. This allowed for the tracking of all expenses related to the occurrence. In the event of a future significant event this process would again be used.

Section 11(5) of the Public Management and Finance Law (2005 Revision) provides that in the case of an exceptional circumstance, the Governor in Cabinet may authorize executive financial transactions for which no appropriation exists if the executive financial transactions directly relate to and attempt to remedy the effects of the exceptional circumstance and the total amount authorized is no more than five percent of budgeted executive revenue for the financial year. Such payments would be made at the request of the respective Ministry or Portfolio.

Since the implementation of the financial management initiative in July 2004, the Treasury is no longer responsible for the central storage of invoices on behalf of Ministries and Portfolios. Ministries and Portfolios are now responsible for the storage and maintenance of their invoices and other payment documentation in accordance with the financial record keeping policy.

PART VII – GOVERNMENT'S USE OF CONSULTANTS

With the progress made with the personnel and financial management initiatives since 2001, some of the observations are now obsolete. The old General Orders-type of mandated input control, called for many years "the establishment", no longer exists. Control on expenditure is exercised not through the number of posts allowed a Ministry or Portfolio but on the amount of money approved it through the Budget process. This makes the question of whether one uses a consultant or not in a given situation a decision for the manager to make, providing the fees fall within the allocated budget and other factors are considered.

Having said this, the Government may consider the feasibility of developing a guide for the use of consultants which would ensure compliance with Financial Regulations and tendering

processes, proper expenditure coding in the General Ledger, regular 'consultant' audits by the Auditor General and regular updates with copies readily accessible and available across the Civil Service.

PART VIII – TOURIST ACCOMODATION TAX

It should be noted that since the preparation of the Auditor General's Report, the responsibility for Tourist Accommodation Tax is with DOT and not with the Treasury Department. DOT is continuing to work diligently at improving its systems ensuring that adequate systems, procedures and trained personnel are in place to properly account for the revenue.

PART IX – FARMERS MARKET

The PAC's recommendations are noted although the Farmer's Market has not been operational since Hurricane Ivan. At it's inception in 1988, the Farmer's Market had no business plan, was under-funded and lacked the level of support necessary to function successfully (from the farming community). These problems plagued the Farmer's Market throughout its existence.

PART X – SEAMEN'S PENSION

Madam Speaker, the Government continues to improve its seamen's pension policies and ensure proper financial procedures, eligibility criteria and the enhancement of the database. The Government will also look into the feasibility of undertaking an actuarial valuation of the total long-term liability of the seamen's pension programme.

Acknowledgement

In closing, Madam Speaker, the Government wishes to express its thanks to those Ministries and Portfolios that assisted with the compilation of the Minute and look forward to their support in the implementation of the initiatives contained within.

Thank you.