

Cayman Islands

SPECIAL REPORT OF

THE AUDITOR GENERAL

ON

THE REVIEW OF THE GASOLINE CHARGES INCURRED BY PEDRO ST JAMES AND THE POLICIES AND PROCEDURES IN PLACE FOR THE PERIOD OF JULY 2003 TO APRIL 2007

Cayman Islands Audit Office

January 2009

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EXECUTIVE SUMMARY

Overview

1.1 Our investigation of the charging of fuel by employees of the Pedro St. James (PSJ) during the period July 2003 to April 2007 revealed that there were a number of irregularities and departures from what is deemed as good business practices.

1.2 The examination showed that there was an evident increase in the amount of fuel being charged to the PSJ gas account after the company vehicle was written off in December 2003. The timing of this increase coincides with the period when employees were allowed to charge for fuel on the PSJ account for their personal vehicles on the basis that they were being reimbursed for doing PSJ business with their own personal vehicle.

1.3 Our investigation revealed that this practice was conducted without any adequate policies or controls in place.

1.4 Our Analysis in the report shows that the average amount of fuel charges on a monthly basis rose from $244/month in 2003 to $677/month in 2006. This equates to an increase of 177% in usage over a three year period.

Internal control weaknesses

1.5 We are of the view that the internal control weaknesses identified in this investigation could have been prevented if effective policies had been put in place to control and monitor the charging of fuel.

Tourism Attraction Board (TAB) Management comments:

Tourism Attraction Board's position is that the person who has primary responsibility to ensure that there are proper controls to monitor the charging of fuel at Pedro St James is the General Manager for PSJ.

1.6 Instead, the process was conducted in a haphazard manner with employees in some instances being given only verbal approval to charge gas and not being required to provide any formal documentation or identification other than a signature to the gas station in order to receive fuel on the PSJ charge account.

1.7 One of the weaknesses observed was the practice of only providing a signature, as opposed to a printed name and vehicle plate number as well as the signature. This weakness resulted in over $6,000 in charges on the PSJ account which we could not positively linked to a particular employee as the signatures provided were illegible.

1.8 Another significant control weakness was allowing employees to charge fuel for their personal vehicles.

1.9 It is appreciated that there may be legitimate cases where an employee uses their personal vehicle for occasional business purposes or on a regular basis due to the nature of their job. In such cases, a reimbursement would be warranted.

1.10 However, the manner in which the PSJ fuel charge account was used, and the absence of proper controls, raises the issue of segregating fuel consumption between personal usage and business usage.

1.11 Our investigation revealed that PSJ did not have an adequate system in place to effectively address this issue.

Lack of Management Oversight

1.12 One of the key components of good internal controls systems is having appropriate policies and procedure in place. Such systems however become deficient if there is no management oversight present to ensure that the policies and procedures are enforced. Without good enforcement, even a good system may not achieve the desired results.

1.13 In the case of PSJ, it is our opinion that both sound policies and management oversight were lacking with regards to the charging of fuel.

1.14 The investigation did not reveal any attempts by the Management of PSJ to address the rising use of fuel or to regularise the process in order to obtain better control of the usage of the charge account. Although purchase orders were used on occasion, it was not a consistent practice. In many cases, people were allowed to charge PSJ for fuel for their personal vehicles without being authorized in advance.

1.15 This lack of proper management oversight and control is further highlighted by the General Manager (GM) of PSJ confirmation that he granted employees permission to charge fuel and on some occasions granting this permission verbally with no evidence of a formal authorization. The granting of permission in this manner is a clear departure from standard government regulations and presented the opportunity for misappropriations.

Gas Allowances

1.16 From our investigations we noted that the Deputy General Manager of PSJ received a vehicle allowance for the fiscal years ended June 2005 and June 2006. However, no gasoline charges were identified. It was also noted that the Events Co-ordinator also received an allowance for the fiscal year ended June 2006.

TAB Management comments:

The Coordinator was paid an allowance and he also charged gas.

1.17 During these periods the General Manager, though entitled to an allowance, did not receive it and instead was charging fuel on the PSJ account. This highlights some inconsistency in the manner in which fuel usage was being compensated at PSJ.

1.18 It must be pointed out that the General Manager's fuel charges for the period investigated (July 2003 to April 2007) of CI$9,619 accounted for 52% of the total charges of CI$18,513. The amount charged was CI$3,869 more than what would have been paid to the General Manager if he was receiving a vehicle allowance during the period as per his contract.

Conclusion

1.19 It is clear that due to the absence of proper policies and procedures the amount of fuel charged to the PSJ account rose significantly during the period under investigation. The lack of proper controls which was evident in the manner in which approval to charge gas was granted allowed for the possible abuse of the account and the subsequent spiralling in the average fuel consumption by employees of PSJ, including the General Manager.

1.20 As of May 16, 2007, Tourism Attraction Board (TAB) Management has suspended the Savannah Texaco Charge Account and adopted a Mileage Reimbursement Policy based on Central Government's current policy. This is seen as a positive move towards ensuring better controls over the fuel charges incurred by PSJ. However it is unfortunate that such measures were not implemented in a more timely manner.

Given the nature of the investigation, we have given both The Pedro St James management and the Tourism Attraction Board management the opportunity to have their comments included within this report.

TAB Management comments:

The new control measures were implemented immediately after the TAB office became aware of the problem.

PSJ Management general comments:

If TAB management had a problem with the gas charges, why did they sign the cheques?

PSJ prints the cheques and a TAB management staff member co-signs so they saw all the invoices. From September 2004 – May 2006, TAB management would usually check the invoices and sign the cheques relating to Pedro St. James. PSJ management would usually sign the cheques after TAB management. They knew exactly why gas was increasing – they signed all the cheques for PSJ.

TAB management was working up at PSJ from September 2004 – May 2006 and there are minutes of a meeting held with PSJ staff held on May 23, 2006, where TAB management states that it will no longer be running the day to day operations.

I admit that there are weaknesses. This is a small office; these charges are from 2 years ago. 2005 was an extraordinary year; nothing went properly.

We are not like a regular government department – not a 9 to 5 office. We had a lot of business after the storm.

had a lot of business after the storm.

TAB Management general comments:

The above statement is taken out of context and is essentially false. Minutes of the referenced meeting will show that the CEO did not say he would no longer be running the day to day operations. What the CEO said was he had overseen the reconstruction of Pedro after Hurricane Ivan and with the reopening of the facility would be turning it back over to the PSJ management. The GM was never relieved of his responsibility for the day to day operations, only its reconstruction. With the exception of the Gift Shop being open and the catering for a few events, Pedro was closed during its reconstruction.

The Financial Comptroller may have seen all the invoices but not necessarily all the charge sheets with signatures.

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SCOPE OF INVESTIGATION

2.1 The Cayman Islands Audit Office (CIAO) conducted a special investigation of the fuel charges incurred by Pedro St. James for the period 1 July 2003 to 30 April 2007 in accordance with the International Standards on Related Services applicable to agreed-upon procedures engagements

2.2 The decision to investigate this matter was as a result of a request by the CEO of the Tourism Attraction Board Management based on concerns raised regarding the manner in which fuel charges were incurred by Pedro St. James employees following the discovery of irregularities during a budget review and our preliminary review of related documentation, which suggest that a departure from appropriate procedures may have occurred.

2.3 One key point raised in our preliminary review that was addressed in the investigation was the impact the write off of the company vehicle in December 2004 had on the amount of fuel charged by employees of Pedro St. James.

Fuel Charge Analysis

3.1 For this investigation, CIAO conducted an analysis of the Pedro St. James (PSJ) fuel charge records for the period July 2003 to April 2007 that were available from the Texaco gas station in Savannah Newlands. Our analysis focused on the signatures of persons using the charge account during the relevant period, as well as on the trend of usage.

Summary of charges

3.2 For the period under investigation the total amount charged for fuel based on the records examined was CI$18,583. This amount is summarized by year as part of our analysis.

Summary of Charges

Period	Amount CI$	Percentage Change
July - Dec 2003	1,456.23	
Jan - Dec 2004	2,642.79	81%
Jan - Dec 2005	5,213.52	97%
Jan - Dec 2006	8,133.88	56%
Jan - Apr 2007	1,136.74	
	18,583.16	

3.3 From this analysis it was noted that the charges increased steadily from January 2004 to December 2006. The most significant increase occurred in 2005, where fuel charges were almost double that of the prior year.

Signatures on Charge Account

3.4 From our examination of the signatures on the fuel charge records and the respective charge amounts, it was determined that approximately half of the charges were attributable to the general manager of PSJ, 16% were attributable to other employees of PSJ and 32% were related to signatures which could not be accurately identified.

Analysis of signatures and related charges

Name	Amount CI$	Percentage
Carson Ebanks	9,619.86	52%
G A Ebanks	657.19	4%
Nancy Whittaker	613.00	3%
Milton Byfield	607.03	3%
Merita Connor	518.06	3%
David Powery	435.51	2%
Aubrey Jackson	68.80	0%
Sonia Hydes	15.00	0%
Francisco Carter	15.00	0%
Illegible	6,033.71	32%
	$ 18,583.16	**100%**

3.5 A large percentage of signatures could not be determined. In some cases signatures overlapped each other and in other cases the signatures did not readily match those of the employees listed in the table above or to other known employees of PSJ.

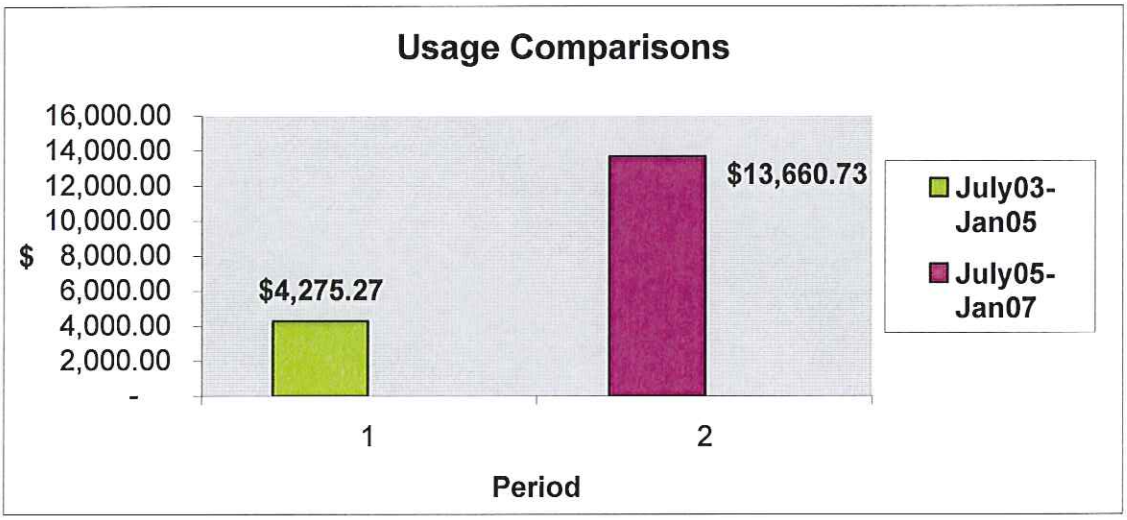
Usage Comparison

3.6 As part of our analysis we compared the fuel usage for the 19 month period July 2003 to January 2005 against the 19 month period July 2005 to January

2007. The former represents a period when the company vehicle was in use and the latter a period subsequent to it being written off.

3.7 This analysis showed that there was a 69% increase in fuel charges for the period July 2005 to January 2007 compared to the period July 2003 to January 2005.

Analysis of Fuel Charges – July 03 - Jan 05 vs. July 05 – Jan 07



3.8 There are a number of factors which should be taken into consideration when assessing this increase. These include:

- During the period July 2003 to January 2005 there was the passing of hurricane Ivan, as a result there was no usage for September 2004. In addition the records for October and November 2004 were missing and hence usages for those months are not reflected in the analysis. The impact of the missing records is that the expenditure for the period July 2003 to January 2005 would be understated by two months.

- Following hurricane Ivan in September 2004 Pedro St. James was closed until April 2006. The closure of PSJ indicates that for both periods there are a number of months during which the fuel charges were attributable to activities not deemed as normal operations of PSJ. This point is corroborated later in this report by employees who stated that fuel charges were incurred for picking up replacement items for PSJ that were lost during the hurricane.

- The consumer price index annual averages (years ending December) for Transportation and Communication (changes in fuel prices are incorporated into this category) increased by 3.9% in 2005 compared to 2004. There was an increase in fuel prices of 6.5% in 2006 compared to 2005.

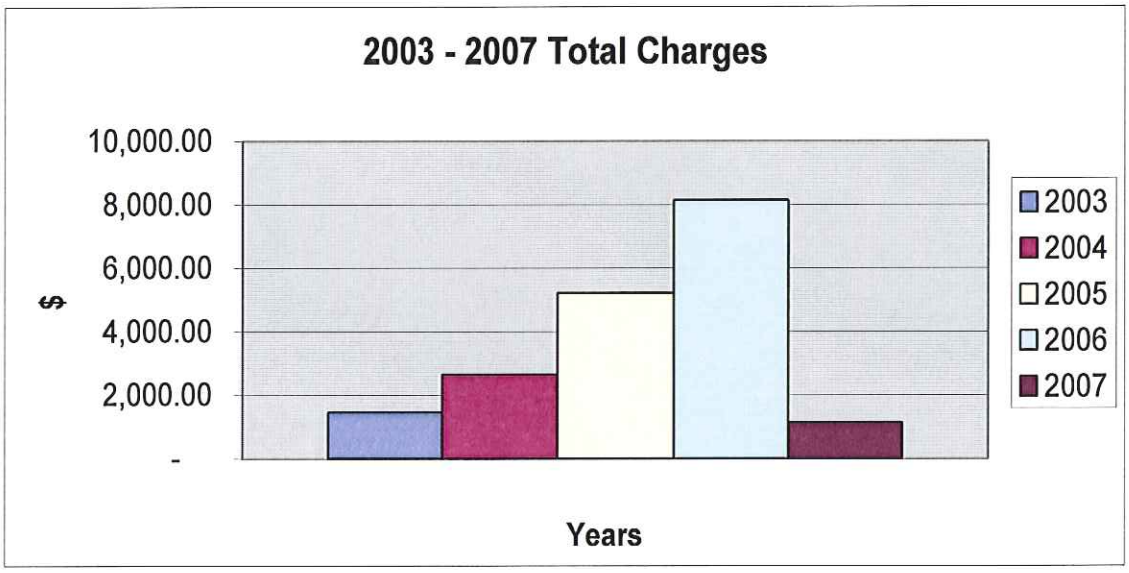
3.9 Although these factors would have had an impact on the variance, these impacts alone are not deemed significant enough to justify such a variance in fuel charges. It is our conclusion that there was significantly more usage of gasoline when the controls over who received it were reduced.

Overall Usage Analysis

3.10 As noted in the above analysis, there were a number of months during the periods under investigation when the data was either not available or PSJ was not operation under normal conditions as it was closed following hurricane Ivan in September 2004.

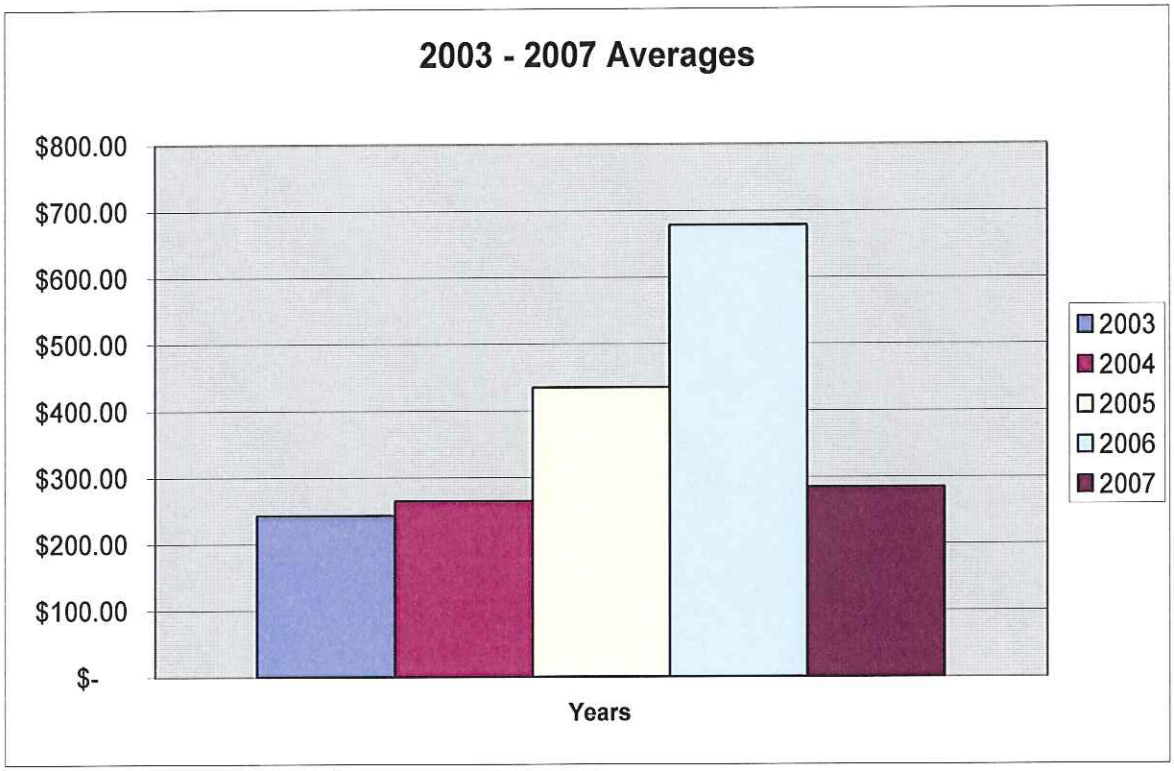
3.11 As a result, in addition to assessing the total annual charges, an analysis of fuel charges on an average monthly basis for each year from 2003 to 2007 was conducted and compared to the overall annual usage.

Analysis of Fuel Charges – Total Annual Charges



3.12 The analysis of the total charges showed that charges were $1,456 for the six month period July 2003 to December 2003, and increased each subsequent year, peaking at $8,133 for the twelve month period January 2006 to December 2006. This peak was followed by a decline to $1,136 for the four month period January 2007 to April 2007. As it is during this time period that TAB management began to query the gasoline charges, it is suggestive that this could have contributed to the decrease.

Analysis of Fuel Charges – Average Monthly Charges



3.13 The analysis of the averages showed that the average monthly charges were $242.71/mth for the six month period July 2003 to December 2003, and increased each subsequent year, peaking at $677.82/mth for the twelve month period January 2006 to December 2006. This peak was followed by a decline to $284.19/mth for the four month period January 2007 to April 2007.

3.14 This analysis confirms that the level of fuel charges dramatically increased following the write off of the company vehicle in December 2004. It must also be pointed out that concerns surrounding the usage of the fuel charge account were raised by management of The Tourism Attraction Board in February 2007 and it is from that point that a decline in usage was noted resulting in the average for the four months in 2007 of $284.19/mth. Usage for January 2007 and February 2007 were $489 and $338 respectively, and dropped to $155 and $150 for the two following months.

Conclusion

Risk of misappropriations

3.15 Granting employees permission to charge fuel to a company account with the only requirement being a signature opens up considerable risk of misappropriations. If for some reason such wide usage of PSJ charge account was deemed absolutely necessary, then at the minimum a requirement for printed names and registration numbers on the charge account records should have been mandatory.

3.16 Being able to use the PSJ charge account without formal identification to acquire gas for private vehicles presented opportunities for persons not employed at PSJ to use the account, and creates difficulties in confirming the legitimacy of all charges.

3.17 An example of such difficulties is demonstrated by the inability of the CIAO to accurately identify the person or persons who have used the PSJ account and charged approximately $6,000 in fuel which cannot be readily linked to a specific employee due to ineligible signatures.

3.18 The use of printed names and registrations numbers would have prevented this situation.

Lack of management control

3.19 It is disappointing that management of PSJ did not see it necessary to regularize the manner in which the charge account was being used in light of the escalating usage.

3.20 Managers of government companies are charged with the responsibility of ensuring

that policies and procedures are implemented and adhered to in order to provide means of accountability and prevent wastage and abuses of government resources.

3.21 Allowing such wide usage of the fuel account and not addressing the significant rise in average charges demonstrates that such controls were either completely absent or inactive.

PSJ Management Response:

Verification of signatures was not fully discussed with PSJ management. PSJ management could identify the signatures on the records from the Texaco account. The general manager reviewed the charges and is comfortable with the signatures on the records.

There were three reasons as to why the gasoline charges increased.

i. We had to rent everything for all the events we were hosting; these items had to be picked up and returned.

ii. The truck that was being used was bigger than the PSJ truck that was written off and used twice as much gas.

iii. Much more trucking was being done. We were picking up items for the contractor, food for the staff, ice, drinks etc. Everything had to be brought in. The general manager of PSJ knew the gas was going up and knew why.

During January – April 2007, the general manager of PSJ was using his own funds to cover the gasoline charges, which is why the amounts decreased; the decrease was not due to the investigation. TAB management should not be given credit for the gasoline charges reduction.

TAB Management general comments:

What proof was presented to substantiate this claim?

The GM demonstrated no responsibility whatsoever for the charge account. There was definitely no supervision or attempt to prevent possible wastage and abuse of government resources. The GM abused the system and allowed his subordinates to do likewise.

INTERVIEW SUMMARY- PSJ Employees

4.1 During the course of the investigation, three PSJ employees in non-managerial roles who signatures were observed on the charge sheets were interviewed in relation to their usage of the Texaco account.

The following points were obtained from these interviews:

Use of Charge Account

4.2 All of the individuals interviewed stated that they had used the Texaco charge account at some point between July 2003 and April 2007. In most cases the charge account was used to replenish fuel to their personal vehicle after using it for company business.

4.3 All individuals indicated that the use was for legitimate PSJ business, and provided the following examples:

- Buying gas for all the (maintenance) vehicles and various tools used at PSJ.
- To do the shopping for anything that PSJ needed that could not be delivered
- After Hurricane Ivan personal vehicles were used to replace items that were destroyed
- Weekly purchases of items that can not be bought in bulk e.g. spoilable items

TAB Management comments:

Pedro was closed for business during reconstruction except for the Gift Shop and a few events. Exactly what weekly purchases are referred to here?

Permission to use the Charge Account

4.4 Persons interviewed indicated that the charge account was never used without some form of permission being granted by management of PSJ. However responses received from interviewees indicate that there was no formal process in place regarding who granted such permission and the manner in which it was given.

4.5 All of the respondents stated that permission was received from any member of management that was present at the time, but with regards to the form in which such approval was giving the responses varied from "*I never charged gas without a purchase order from someone in management"* to *"most times I received a purchase order but there were times that the approval was just verbal"* to *"For the most part the approvals were verbal, at times management would provide a purchase order".*

4.6 These variances in responses highlight the lack of consistency that existed and the absence of concise procedures.

Identification to use the Charge Account

4.7 No formal type of identification was required by persons using the PSJ charge account. This point was corroborated by interviewees who stated that the logo on their PSJ shirts was deemed as adequate identification by personnel of the gas station. One interviewee also stated that if provided, the purchase order served as identification.

Policies and Procedures

4.8 We noted that there was no established set of policies and procedures in place at Pedro in relation to the charging of gas. This was reiterated by the interviewees, all of whom stated that they were not aware of any policies regarding the use of the gas charge account.

INTERVIEW SUMMARY – Management

5.1 In addition to the non-managerial employees, the General Manager (GM) of PSJ was also interviewed regarding the charge account.

The following points were obtained from this interview:

Background Information

5.2 A truck was purchased for PSJ usage in 1997 and the charge account at the Texaco gas station was opened in 1998. The truck was for use for PSJ business, e.g. trucking, errands for functions, deliveries etc.

5.3 The GM stated that no policies and/or procedures regarding the use of the charge account were provided or communicated to him.

5.4 The truck was written off in 2004, and because there was a need of a vehicle to carry out Pedro's business, the GM rented a truck on his personal credit card for over CI$2,000.

Gas Allowance

5.5 Based on our investigations we have determined that the GM was aware that he was entitled to a motor vehicle allowance as per his contract; however he did not receive this allowance for the period of July 2003 – April 2007.

5.6 The GM also confirmed that he did not receive verification from Management of the Tourism Attraction Board that it was acceptable for him to use the charge account rather than taking the allowance that was due to him.

5.7 From our investigations we noted that the Deputy General Manager and the Events Coordinator of PSJ had been given a motor vehicle allowance in 2006 of $125 per month. Assuming that the motor vehicle allowance due to the GM was $125 per month (consistent with other PSJ managers and with Cayman Islands Government General Orders) the amount payable to the GM for the period under investigation would have been $5,750.

5.8 Based on our analysis of signatures on the charge account that could be identified it was determined that $9,619 was charged by the GM of PSJ during the period under investigation. This amount is $3,869 in excess of the calculated allowance above.

5.9 For the period subsequent to the company vehicle being written off (January 2004 to April 2007) the monthly average of fuel charged by the GM was $255/month. This amount is double the gas allowance that was due to the GM on a monthly basis.

5.10 The GM of PSJ also stated that he did not take the allowance because he was using the company truck (prior to it being written off) to run PSJ errands. And in his opinion it would not have been right to be taking an allowance when he was using a government vehicle, and a charge account had been set up to fuel that vehicle.

5.11 It was further stated by the GM that he continued to charge gas and not take the allowance after the truck was written off as he was using the truck that he had rented for PSJ business.

Granting Permission to use the Charge Account

5.12 During our discussions with the general manager of PSJ, he confirmed that from time to time he had authorized employees to use the charge account for PSJ business, and this authorization would have been given either verbally or by purchase orders.

5.13 He also stated that it was never communicated to him that the charge account was for his use only and from the time that the account had been opened it was for use by PSJ staff for PSJ business, and as the General Manager he could authorize staff usage.

Communicating with TAB Administration

5.14 As part of our investigation we asked the general manager of PSJ if at any time after the original truck was written off, he had discuss PSJ's need for a new truck with the TAB Administration.

5.15 In response the GM stated "*it was mentioned but I knew we did not have the funds - we would have to forgo salaries to get the truck. Everyone knew I was using my truck for Pedro and I had no objections knowing the financial situation we were in starting after mid 2003. Pedro was saving because it did not cost anything for maintenance, which it would have if we had our own truck. I did this because I wanted the site to succeed.*"

5.16 The point in the GM statement regarding saving is not consistent with data presented in PSJ 2004 financial statements. These financials for the fiscal year July 2003 to June 2004 showed that the total expense for vehicle repairs for that period was $1,750 and the gas and oil expense was $3,225 totalling $4,975. This is less than the expenses incurred by PSJ for the 12 month periods January 2005 to December 2005 and January 2006 to December 2006 during which time fuel charges alone

were $5,134 and $8,188 respectively.

Conclusion

Policies and Procedures

5.17 Again, we must point out that there were no adequate policies and procedures in place to control the use of the PSJ fuel account.

5.18 It must also be stressed that in our opinion, it is unacceptable that the GM of a government company to give verbal permission to employees to incur company expenses on a charge account and to personally use that account in such a manner that has resulted in excessive fuel expenditure being incurred by PSJ.

5.19 Such excesses could have been avoided if management of PSJ had ensured that an appropriate system of internal controls was in operation to effectively monitor the fuel reimbursement process. And in the event of abuse or risk of abuse, management should have developed additional strategies to mitigate or manage such risk and ensure that such strategies were implemented.

PSJ Management Response:

It is not right to equate it (the gas allowance) to gas charged/used. That was not meant for transportation of items.

That allowance equates to gas usage when coming to work, going to meetings etc – not to pick up the items that had to be picked up.

As of the date of this report, the general manager of PSJ has not received a car allowance.

TAB Management general comments:

Firstly, we disagree with the definition given for the use of the gas allowance. We believe that the gas allowance is intended to cover general activities required of an employee in the normal course of his or her employment. Secondly, it is disappointing to find that if there are no policies or procedures in place a senior member of staff cannot be held accountable or liable for inappropriately handling government resources. An experienced government employee is expected to understand the importance of reducing costs and maximizing savings. It is our contention that any responsible GM should know what action to take if placed in such a situation. Finally, the GM has repeatedly said that the practice of charging gas was started when he first went to work at Pedro. We believe that the GM had an obligation to disclose the fact that he was charging gas and not taking the motor car upkeep allowance during the renewal of his contract in December 2003. This fact was material to his compensation under his contract and should have been made known to the CEO, who was new to the Agency and unaware of such an arrangement.