

Management of the Nation Building Programme





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TABLE OF CONTENTS

Executive Summary	1
Introduction	2
About the Audit	5
Program design and delivery	6
There was no clear link between the programme and the government’s overall policy and strategic objectives	6
No clear roles and responsibilities were defined for the management of the programme.....	7
The programme had ineffective controls in place.....	9
There was no provision for monitoring and regularly evaluating the programme	10
The Legislative Assembly and the public were not informed about the programme’s objectives or its results.....	10
Payments made from the Nation Building Programme	12
Payments to churches (total paid out 2009-2013 - \$5,002,583):.....	13
Payments to other recipients (total paid out 2009-2013 \$4,364,933)	15
Payments for scholarships (total paid out 2009-2013 - \$3,813,301):	17
Conclusion	19
Appendix 1 – About the audit	21
Appendix 2 - Recommendations	23

EXECUTIVE SUMMARY

From 2009 to June 2013, the Legislative Assembly approved budgets for a transfer payment programme known as the Nation Building Programme. A total of \$13.2 million was paid out in those years under the line items in the approved budgets. Because of significant public interest in how these funds were used, the Office of the Auditor General conducted a performance audit to determine the extent to which these payments provided value to the people of the Cayman Islands. The audit reviewed whether the Nation Building Programme was operated in accordance with expectations for a government transfer payment programme and whether the funds paid to recipients were used for the intended purposes.

The audit found that there was an ineffective control framework in place for the operation of the Programme, which we determined was operated outside the Government's own governance framework. In addition, the audit found there were no standard Government-wide policies and practices in place for this kind of programme during the audited time period. In reviewing how this Programme operated, we found that there was no formal application process and that individual payment amounts were approved by the former Premier and his chief of staff. Government officials whose roles under law were to manage government transfer payment programmes did not fulfill their responsibility to ensure value for money and compliance with legislative authority. They simply signed the cheques to recipients for payments approved by the former Premier.

In reviewing a large sample of payments made over the approximately four years the Programme was operating, we found that there was no accountability for how the funds were used and that, in some cases, funds appear to have been used for purposes other than "nation building". For example, some of the payments were used to subvert legislative controls over the use of funds by other government programmes. Other funds were paid to individuals for activities that made no apparent contribution to the Government's own definition of nation building. Because little documentation was held by the Government or made available to us by the recipients, we were unable to determine how much value was received from \$13.2 million paid out and the extent to which any was misused or abused.

We therefore concluded that the Government mismanaged \$13.2 million in payments made out of the Nation Building Programme. More important, however, we concluded that senior government officials who should have been involved in the management of this Programme failed to carry out the roles required by their employment and the laws they were required to uphold. We have therefore made three significant recommendations to the Government that, if properly implemented, would ensure that a situation like this should never happen again.

The Deputy Governor has assured us that he has taken the findings of this report very seriously and that he will ensure that the recommendations are fully implemented.

INTRODUCTION

1. Governments around the world spend public funds to meet public needs. To do this, they must make difficult and sometimes unpopular policy choices, carry them out effectively and, ultimately, be accountable for their decisions and actions. They are obliged to treat public funds with care and to ensure that the best possible value for money is achieved. There are several different types of government spending; they include, for example, providing public services, investing in certain enterprises, and providing transfer payments to individuals and organizations that benefit society at large. Transfer payment programmes, such as seamen's benefits and social assistance, provide government with the key instruments to promote broad policy objectives by delivering services to the public. In the Cayman Islands, such programmes involve the spending of millions of dollars of public funds each year.
2. The *Public Management and Finance Law (2013 Revision)* describes a transfer payment as a benefit or similar payment for which no output or consideration is provided. From 2009-10 to 2012-13, the Nation Building Programme (NBP) was classified as one of the transfer payment programmes in the budgets of the Cayman Islands Government and was of significant interest to the public. During those years, the Government appropriated a total of \$14.7 million and, as at 30 June 2013, total spending under this Programme amounted to \$13.2 million (see Exhibit 1 below).
3. Due to the public interest and the amount spent by the Government, the Office of the Auditor General selected the NBP for audit.
4. The NBP was approved by the Legislative Assembly in the 2009-10 budget as transfer payment programme (TP 52), with the following description:

“After School, Young Leaders, Sports and Other Assistance – Individual empowerment and community support initiatives; Social care linkages between churches, schools, and community based organizations (sporting, cultural, and other voluntary bodies); and grant support for church-based After School Programmes, and assistance with facilities development.”

5. In the succeeding years, this Programme was described as follows:

“Promotion of Nation Building and Church-Based Support – Support for schools, sporting, cultural and other voluntary organizations; grant support for church-based After School Programmes; grant to NCVO Pines Retirement Home; scholarship grants to young persons; and grants to churches for construction of emergency shelters.”

6. The Nation Building Programme was under the responsibility of the Office of the Premier or the Ministry of Finance, Tourism and Development during 2009 to 2013. There were three categories of payments:
 - grants called Young Nation-Builders Programme (YNBP) scholarships;
 - grants given to churches; and
 - “other grants” for government entities, private organizations, and individuals.

HOW THE PROGRAMME OPERATED

7. We asked Government officials for information about how the Programme operated and for any available documentation, including policies, directives, or manuals. No such information was provided to us, and virtually no publicly accessible information about the Programme or how applications would be processed was available until 2012-13, when YNBP scholarship applications were made accessible on the government website.
8. In order to describe how the Programme worked, we interviewed senior government officials, including the former Chief Financial Officer of the Ministry of Finance, Tourism and Development. In those interviews, we were informed that all decisions about the Programme and how it would operate were made by the former Premier and his chief of staff. We were informed that grant applications for the Nation Building Programme were primarily received, reviewed, and approved by the former Premier or his former chief of staff. Related emails or documentation submitted with applications were then provided to the CFO for payment. Government officials insisted that they did not play any role in the delivery of the Programme except to “write the cheques”.
9. **Grants to churches, and other grants.** We were informed that many applicants addressed their application letters to the former Premier, indicating the purpose of the grant and the amount requested. Some applicants attached supporting documents, including financial reports with a breakdown of expenses; price quotations or estimates from suppliers/dealers; and photographs. However, there were no requirements set out to stipulate what was to be provided.
10. **Scholarship grants.** Prior to 2012, there was no application form and no criteria for the Young Nation-Builders Programme (YNBP) scholarships that were part of the Nation Building Programme. For 2012-13, application forms for the scholarship were available on the government website, including the criteria and guidelines for applying. In July 2013, the YNBP scholarship programme was transferred to the Ministry of Education and, to the extent possible, integrated with the government’s ongoing scholarship programme.
11. The total annual appropriations and payments made under the Nation Building Programme from 2009 to 2013 are provided in Exhibit 1. The Programme did not have a budget for each category of payments within it.

Exhibit 1: Nation Building Programme appropriations and payments

	2009-10	2010-11	2011-12	2012-13	Total
Appropriations	\$2,650,000	\$4,300,000	\$3,069,492	\$4,350,691	\$14,370,183
Payments					
YNBP	17,583	362,896	1,113,481	2,319,341	3,813,301
Church	2,187,000	1,976,285	420,549	418,750	5,002,583
Others	445,417	1,473,555	1,521,855	924,105	4,364,933
Total payments	\$2,650,000	\$3,812,736	\$3,055,885	\$3,662,196	\$13,180,817
Unspent appropriations	-	\$487,264	\$13,607	\$688,495	\$1,189,366

ABOUT THE AUDIT

12. The audit objective was to determine whether the Cayman Islands Government managed the Nation Building Programme effectively and with due regard to value for money, accountability and transparency; and whether program recipients used the funds for the intended purposes.
13. The audit used criteria that were discussed with and agreed to by the Deputy Governor. The criteria describe how a well-functioning transfer payment programme should be operated in a government the size of the Cayman Islands Government.
14. The audit focused on the transfer payments (TP 52) made from the Nation Building Programme by the Office of the Premier and the Ministry of Finance, Tourism and Development between 1 July 2009 and 30 June 2013. This includes all transactions under the appropriations “After School, Young Leaders, Sports and Other Assistance” and “Promotion of Nation Building and Church-Based Support”.
15. As the audit found an ineffective control framework in place for the payment of funds, the Auditor General requested approval from the Governor to access records maintained by the recipients of the Nation Building Programme in order to determine how the funds were used.
16. More information “About the Audit” is contained in Appendix 1.
17. Our findings are presented in the next two sections of the report. First we examine how the Programme was designed and delivered; and then we discuss the results of our review of a sample of 58 individual payments made from the Programme during its operation.

PROGRAM DESIGN AND DELIVERY

THERE WAS NO CLEAR LINK BETWEEN THE PROGRAMME AND THE GOVERNMENT'S OVERALL POLICY AND STRATEGIC OBJECTIVES

18. In the Cayman Islands, while Government programs are developed in many different ways, in the final analysis their authority to operate must come from the Legislative Assembly. Government programs should align with the political agenda set out in the annual Strategic Policy Statement presented to the Legislative Assembly by 1 December each year. In that document, the Government is supposed to set out both its broad outcome objectives and its specific outcome objectives.
19. A minister or a relevant government entity may propose that the Government develop a transfer payment programme as a means of addressing one or more policy objectives. It is important to establish that there is a need for the programme and that it will achieve the desired outcomes. Good practice would require that an analysis be carried out and documented for use in the approval process. In the Cayman Islands Government, such analyses often accompany submissions to Cabinet for its consideration.
20. The *Public Management and Finance Law (2013 Revision)* provides that the annual plan and estimates shall specify the transfer payment categories and explain how the specific outcomes accord with the Legislative Assembly resolution approving the Government's Strategic Policy Statement.
21. In light of these requirements, we expected to see clear links between the NBP and the strategic policy objectives set out in the annual policy statement. However, we were not provided with evidence of any such links.
22. During the initial phase of programme development, coordination with other ministries and government departments is crucial to effective planning. However, we found no evidence that the Ministry of Finance, Tourism and Development had a coordinated strategy with other government entities in order to avoid duplication of objectives among transfer payment programmes including, for example, Education and Tourism Scholarships, other programmes supporting churches, etc.
23. While we were informed that the Nation Building Programme was aligned with the Government's 2012-13 Strategic Policy Statement—namely, “Developing our Youth, Strengthening Families and Preserving our Culture”—we saw no evidence identifying the Programme's goals and objectives and linking them to the Government's overall strategic policy.

24. The Government has the authority to establish programmes and spend public funds, once the Legislature passes an appropriation law. While it would be expected that the Government would provide the Legislative Assembly with information to support the amount presented in the appropriation, we found no evidence of support for how funds were to be spent.
25. A sound transfer payment practice requires clear policies on how the funds are to be disbursed. This includes identification of prospective group or individual beneficiaries; detailed “financial need” analysis; and eligibility and monitoring criteria to support the funding requirement of the programme. However, we found no evidence that the Government had prepared these policies for the Nation Building Programme and presented them to Cabinet for approval.

Recommendation 1: The Government should develop and implement a robust framework for the development and management of Government programmes in order to ensure that they are designed and delivered in line with its overall strategy and objectives and to achieve the desired results.

NO CLEAR ROLES AND RESPONSIBILITIES WERE DEFINED FOR THE MANAGEMENT OF THE PROGRAMME

26. Good governance frameworks demand clearly defined roles and responsibilities for the administration of a public sector programmes. In a transfer payment programme, it would be expected that a senior official, supported by other officials as required, would have overall responsibility for the implementation, management and monitoring of the programme, including:
 - development of clear criteria aligned with the programme objectives for determining the nature and size of grants; and
 - development and implementation of an application process.
27. A typical transfer payment programme might have additional roles in place, for example, someone responsible for receiving, controlling and reviewing applications to determine that they were complete and complied with the programme criteria. Another typical role would include review of projects under way to assess whether the successful applicants were using the programme funds as intended.
28. Clearly defined programme roles and responsibilities such as those described above are best developed prior to the start of a programme. We found no evidence that any of these activities occurred in the management of the Nation Building Programme.
29. We were informed that there were no clear roles in the Programme for any public officials in either the Premier’s Office or the Ministry of Finance. We were further informed that the former Premier and his Chief of Staff were responsible for all aspects of the Programme’s management, which included approving individual applications and determining the amounts granted.

30. The roles of the Premier and the Minister of Finance are clearly outlined in the Constitution and in the *Public Management and Finance Law* (PMFL). Nothing in the Constitution or in other laws of the Cayman Islands confers on the Premier or his or her Office, or on the Minister of Finance, the responsibility to design and deliver government programmes. There are, however, clear roles in legislation for chief officers and their officials to carry out these roles. Therefore, any involvement of the Premier or a Minister in the day to day administration of a government programme, including the design of the control framework, would be unlawful.
31. The PMFL prescribes that during the detailed planning and budgeting phase, each Minister and official member, in conjunction with the ministry or portfolio for which he is responsible, should identify the amount of transfer payments that he or she proposes to influence the specific outcomes agreed by the Cabinet. Similarly, the PMFL and the Financial Regulations include a description of the duties of ministries, portfolios and chief officers to supply the outputs agreed in the annual budget statement, including policy advice on the specific outcomes; and the best mix of outputs, transfer payments and other legislative measures to achieve them.
32. In effect, the PFML and the Financial Regulations provide an overarching framework for the duties and responsibilities of chief officers and other government officials in the management of government programmes. We expected management to follow this framework in order to develop clear lines of responsibility for the administration of the Nation Building Programme. We did not find any policy or document defining specific roles and responsibilities for chief officers, chief financial officers, or other key players in the management of this Programme.
33. As a result, we could only conclude that government officials did not fulfill their roles and responsibilities for the delivery of the Nation Building Programme under the Constitution and laws of the Cayman Islands. In effect, those officials enabled the Programme to be delivered outside the governance framework for financial management, through the former Premier's participation in the payments to recipients.
34. In reviewing payments from the Programme, we determined that two of the staff members involved in the processing of payments, including the former Chief Financial Officer responsible for the payment of funds, were also beneficiaries of the Nation Building Programme.

Recommendation 2: The Cayman Islands Government should ensure that appropriate roles and responsibilities are clearly articulated for all government programmes in line with the framework outlined in the Constitution and laws, and that they are administered by officials to ensure compliance with the law and to avoid the risk of abuse and waste of public funds.

THE PROGRAMME HAD INEFFECTIVE CONTROLS IN PLACE

35. We expected to find a well-conceived and documented application process in place, including publicly available information to assist potential applicants through the process. This would include a clear description of the Programme's criteria and a well-defined application form along with instructions for completing and submitting an application.
36. We found no evidence of a well-defined and publicly available application process or of clear criteria against which to evaluate applications for funds. From the information provided to us through interviews with senior government officials, it would appear that some applicants were identified by officials in the Premier's Office and were asked to apply. Other applicants sent emails to the Premier's Office when they became aware that there were funds available for distribution. While we requested records from officials to substantiate how applicants were notified of the Programme, we could find in some of the files we reviewed only email exchanges between officials in the Premier's Office and applicants. We found no reference to guidelines or policies with regard to the applicant's eligibility for funding.
37. We concluded that the application process for the Nation Building Programme failed to meet any reasonable criteria expected for a government programme. It did not provide for an equitable and fair distribution of funds to individuals or organizations. The absence of clear criteria against which to make effective, objective and impartial decisions afforded a significant opportunity for the former Premier and his officials to provide funding to organizations and individuals identified only by them.
38. The lack of an open, fair and transparent application process with no internal controls allowed for a significant risk of abuse of public funds and corruption. Under the PMFL, it is the responsibility of chief officers to ensure that control frameworks are in place to prevent this kind of situation. We found a complete absence of a control framework and responsibility for ensuring that public funds were safeguarded. As already noted, senior government officials did not fulfill their roles around the design and delivery of the Programme and left all responsibility for the Programme's delivery in the hands of the former Premier and his chief of staff.
39. Another attribute used for the management of an effective transfer payment programme is accountability for use of the funds through signed agreements between the Government and the recipient. Such agreements provide a clear understanding of how the money should be spent, what the recipient is to achieve, and how Government will monitor the programme.

40. In the Nation Building Programme, the Government did not prepare agreements of this nature. Without agreements of any kind in place, the Government could not ensure that payments were used for the intended purposes. This allowed recipients complete latitude to decide how they would spend the funds. We concluded that the Government simply wrote cheques to organizations and individuals without any way of ensuring that they would use the funds for the purposes they had stated when applying.

Recommendation 3: The Cayman Islands Government should develop a framework of policies and practices for the distribution of transfer payments that would ensure fairness and transparency as well as accountability for the use of the funds to achieve government’s policy objectives.

THERE WAS NO PROVISION FOR MONITORING AND REGULARLY EVALUATING THE PROGRAMME

41. Monitoring of funding arrangements is important to ensure that the recipient is managing and using the funds as agreed when the payments were approved. This would include requiring recipients to submit regular progress reports, including total costs incurred to date and the source of any additional funds contributed to the project. It would also include verifying progress reports by means such as site inspections to support the payment of grant installments. We found no evidence of any monitoring in the Nation Building Programme. In effect, funds were given to recipients, with no effort made to determine whether they were used for the intended purpose.
42. Another essential component of any transfer payment programme is an effective performance measurement framework that assesses how well the programme is achieving its objectives and intended outcomes as well as achieving value for money.
43. For the Nation Building Programme, there were no clear objectives or intended outcomes identified at the outset and there was no attempts to measure the impact of the Programme during or after its period of operation. Therefore, the Government failed to meet its obligation to ensure that all public funds be spent with due regard to value for money.

THE LEGISLATIVE ASSEMBLY AND THE PUBLIC WERE NOT INFORMED ABOUT THE PROGRAMME’S OBJECTIVES OR ITS RESULTS

44. The governance framework for the spending of public funds requires legislative approval in the form of statutes or appropriation laws. We would expect that to approve the funding of this Programme, Members of the Legislative Assembly would need information on and an understanding of how the funds would be spent and used to “Nation Build”.

45. We found that the Members of the Legislative Assembly were provided with virtually no information about the Programme's objectives and how it was being operated to achieve those objectives. Therefore, in approving the funding for this Programme, the Legislative Assembly essentially provided the former Premier with a blank cheque to spend the funds for any purpose he decided. As noted above, this is contrary to the financial control framework embedded in the PMFL and its regulations.
46. We would expect that at the end of each year and within the timeframes required by the PMFL, the Government would fully disclose payments made from the Nation Building Programme, through either normal annual reporting by government or a special report on the results of the Programme. We found that the Legislative Assembly and public were only provided information on the payments made from this Programme as a result of a freedom of information request. Members of the Legislative Assembly and the public should not be forced to use the *Freedom of Information Law* to obtain programme information that is required by the PMFL to be made public. In failing to provide annual reports, government officials did not carry out their duties required by the PMFL in this regard.

PAYMENTS MADE FROM THE NATION BUILDING PROGRAMME

47. As a result of the complete absence of due process, equity, transparency and effective controls; the fundamental absence of basic documentation on the operation of the Nation Building Programme; and the clear political involvement we found in all aspects of the Programme, we exercised our powers under the PMFL to determine how this public money had been used. In order to access information about government funds in the hands of individuals and organizations, we requested and received approval from the Governor according to section 60(1)(e) of the PMFL. The request provided the clear rationale for our concerns about the potential misuse of public funds and stated our intent to select a sample of payments charged to the Nation Building Programme to determine how recipients used the funds.
48. Out of a total of approximately 350 organizations and individuals who received payments from the Nation Building Programme, we selected 58 recipients (16.5%) to determine how they used the money. We selected the sample of files judgmentally and ensured that we included different types of payments—to churches, other organizations, and individuals. Our sample represented 70% of the total amount spent over the three years when the Nation Building Programme operated.
49. The objective of reviewing individual files was to determine the extent to which the recipients used the funds for the intended purpose. We understood that this would be a challenge, as the documentation held by Government showing how the funds were intended to be spent was sometimes weak to non-existent. In some cases, it was left up to the audit team to determine from recipients how they had intended to use the money. We asked the recipients for information but did not audit or verify the information, accepting it as provided. We conducted brief interviews with the recipients as needed, confirmed the amount of funds received, asked them for any documentation they had showing how the money was spent and, in some cases, conducted an on-site inspection to see what had been done.
50. We received a total of 54 responses to our letters asking recipients for information—a 95% response rate. Exhibit 2 is a summary of the Nation Building Programme sample sizes and the responses.

Exhibit 2 – Nation Building Programme sample sizes and responses

	Number of samples	Responses received	% of samples to total payments	Sample amount (millions)	Total programme payments (millions)
Church	15	15	94%	\$4.7	\$5.0
Others	17	14	66%	2.9	4.4
YNBP	26	25	37%	1.4	3.8
Total	58	54	68%	\$9.0	\$13.2

51. The next section of the report outlines the general nature of our findings, based on the review of the files we selected for follow-up with the recipients of the three types of payments to: churches, others, and scholarships.
52. We found several examples of misuse and abuse of the funds by recipients. We found instances where funds were used for purposes other than the apparent intended purposes. There were possibly many more such instances that the lack of documentation prevented us from identifying. This is a direct result of the lack of both a clear management control framework and a requirement for accountability for the use of funds by recipients.
53. In the following sections we highlight some examples of the abuse and wasteful government expenditure across the three broad categories of payments from the Nation Building Programme.

PAYMENTS TO CHURCHES (TOTAL PAID OUT 2009-2013 - \$5,002,583):

54. A total of 26 churches received funding from the Nation Building Programme during its three years of operation. We requested information from the churches about the use of funds and, in some cases, we asked to interview key church officials. We did not review or audit the records of the churches, as it was not the purpose of this audit to provide assurance about their operations.
55. When we reviewed the documentation provided by a selected sample of the churches, we found a number of examples of payments used for purposes other than those indicated in the requests for funding. For example, we found payments to one church that were used in part to pay approximately \$5,000 to an individual on the church council as commissions for soliciting estimates and for oversight of the project undertaken. Payments to the same church were used for various other purposes than those described in the church's application, including the purchase of a vehicle and \$3,000 in loans to the pastor that appear to not have been repaid.

56. Without any accountability back to Government, the risk that funds provided to churches were used for other than the intended purposes was very high. While we found just one instance where an individual took payments from the proceeds for personal benefit, there were many other such opportunities that we could not follow up given the lack of record keeping.
57. Most churches requested funds for construction of buildings and infrastructure. We reviewed 15 churches that received funds for this purpose. Some of the requests indicated that the church building could be used as a hurricane shelter. In none of the cases we reviewed could we determine that construction was completed. Our review of files held by the recipients found little documentation to support the funds spent. In one case, the church was not completed; however, the incomplete building shell was being used with primitive pews for services and was also used as a polling site during the most recent election.
58. In another case, funding of over \$1.3 million was provided to a church for construction, without any plan for how the church could obtain the remaining \$3.0 million needed to complete the building. A two-page letter from the church indicated that the Government had made many oral commitments to partner with the church in financing and completing the project, but nothing was agreed in writing. It would appear from the information provided by the church (no detailed records) that some construction occurred, but there is only a very large, deteriorating building shell to show for the money spent. Based on the information from the church, we could not find any benefit derived from the amount provided.
59. Of the total amount of \$5.0 million provided to the churches over the three years, \$950,000 was refunded to the Government. These repayments were made voluntarily when it was clear that the churches receiving the funds were not in a position to use them for the intended purposes. See Exhibit 3 for the amounts refunded.

Exhibit 3: Refunds by churches

Church	Original Grant	Refund Amount
Wesleyan Holiness Church (West Bay)	\$1,300,000	\$728,365
Hillside Chapel (Cayman Brac)	50,000	50,000
Red Bay Church Of God Holiness	108,105	108,105
Webster Memorial United Church	18,300	18,300
Fellowship Baptist Church	45,000	45,000
Totals	\$1,521,405	\$949,770

PAYMENTS TO OTHER RECIPIENTS (TOTAL PAID OUT 2009-2013 \$4,364,933)

60. We found a case where funds were used to top up spending by a government agency. In one of our sample items, we noted that the Information Commissioner's Office was paid an amount of \$49,000 that was not in its authorized budget, in order to cover the cost of legal fees. This payment effectively circumvented legislative authority and provided funding beyond the amount authorized by the Members of the Legislative Assembly for the operations of the ICO. Our examination of the expenditure determined that it was unlawful.
61. Amounts totaling \$45,000 were provided to the Portfolio of Internal and External Affairs to top up funding for the Closed Circuit Television (CCTV) programme. When questioned about receiving funds from the Nation Building Programme for this purpose, the Chief Financial Officer of the Portfolio informed us that he was unaware that the funds had come from that Programme; he had been under the impression that they were approved through a lawful process. Legislative authority was once again circumvented by these payments. It is our view that these payments were inappropriate payments from this government transfer payment programme and should have been properly authorized through the entity's budgetary control process. In other words, these payments were unlawful.
62. Funds of \$40,000 were provided to the Cayman Islands Water Authority to compensate it for the completion of upgrades to a wastewater treatment system in Randyke Gardens, a private strata development. Water Authority officials told us that because of significant operational issues caused by the lack of maintenance by the Strata, the Water Authority had to act to avoid an environmental disaster. The funding was based on a report provided by the Water Authority, which showed how it spent the money to repair the system. Again, we believe that this payment was not the kind of need that was envisioned by the Members of the Legislative Assembly when they approved "Nation Building." The funding should have followed the normal appropriation approval framework to provide the accountability and transparency needed for this kind of transaction. We were not provided with any information about how the funds were used, the effectiveness of the work performed, or whether the Randyke Gardens Strata Corporation was able to maintain the systems that were repaired.
63. The former Premier approved payments of \$130,000 to the Hope for Today Foundation, a not-for-profit corporation "dedicated to helping and supporting recovering drug addicts and alcoholics through transition from prison or treatment to community life." There was no application on file or any evidence of how the amount was determined, how it was to be used, or if it was even needed. This demonstrates a complete lack of respect for the use of public funds and the reasonable demonstration of value-for-money required by the PMFL. Support for this type of initiative is normally processed through the budget of another Ministry and by officials who have an understanding of the need. Again, it is our conclusion that the funding for this initiative was inappropriate and outside the intent of the Programme, and without the proper accountability that would normally be required for payments made from the budgets of government entities.

64. A total of \$240,000 was paid over two years to an organization called Cayman Traditional Arts to provide programmes in schools for teaching heritage activities such as Cayman Island cooking, hat making, catboat building, etc. The amount approved was based on a report prepared by the prospective recipient outlining the people who would be involved and the programmes being offered to the schools. There was no documentation from the schools, including a statement of need. It appears that the programmes were to be offered as part of Government's wider-scope After School Programme, although this was not clear in the documentation. The report is also unclear on what basis the funding was required and what costs were associated with the group's offering. The figures in the report are unsubstantiated and, from the information provided, went unchallenged by the Office of the Premier, which approved the funding. There is no evidence at all to indicate how the projected costs of the programmes were determined and how the funding would compensate the recipient for those costs. There was no requirement for payments to be made only after services were rendered.
65. A total of \$11,000 was paid to the Planning Department of the Cayman Islands Government for building permit fees related to the development of Jubilee Park in downtown George Town (\$5,800) and a private gym in West Bay (\$5,200). For the amount provided to the gym, there is nothing on file indicating how the facility would support Nation Building. There is no application or evidence of review or analysis by anyone in government. There is only a series of invoices and emails from the Ministry of Financial Services and Tourism requesting payment. The fee was paid for the building permit to change a restaurant facility into a gym. A copy of the invoice from the Planning Department was the basis for payment. The invoice indicates that it was the Ministry of Financial Services and Tourism that was billed. We determined that the gym is a privately owned facility located on West Bay Road. We could not find any link between the \$5,200 paid on behalf of this private gym and the general description of Nation Building. Our attempts to obtain additional information from the Planning Department were ignored. From our review of the information provided to us, we believe these payments were an abuse of public funds.
66. An amount of \$80,000 was given to an individual in West Bay over the three years of the Nation Building Programme to teach the history of catboats and the art of building them. The amount was determined and granted based on letters sent to the former Premier. The letters were provided to us by the recipient when we interviewed him. The individual was an officer of the Catboat Club during the period when he received the grants from the Government; however, the payments were made to him personally. The recipient had kept no records showing how the \$80,000 was spent or whether all the proposed services were delivered. As a consequence of the lack of proper practices and the ultimate lack of accountability by recipients, the Government cannot demonstrate that it received value for money and that the funds from the National Building Programme were used for the intended purposes. We noted that the recipient also received grants of approximately \$100,000 from a major donor during this period for the building of a catboat and that, unlike the Government, the private donor required supporting invoices from the recipient before making payments.

PAYMENTS FOR SCHOLARSHIPS (TOTAL PAID OUT 2009-2013 - \$3,813,301):

- 67. Over the three years of the Nation Building Programme, a total of 185 students received \$3.8 million in scholarship funding. As already noted, in the first two years of the Programme there was no application form for scholarships. An application form was provided for the last year, but there were no clear guidelines or a process established to review and approve the amounts paid or to ensure that the funds were used as intended.
- 68. For the 26 sample items we selected, we requested documentation from the Government to determine if the funds were used for the purpose of education. We were unable to determine in every case that the money paid resulted in the education of a student. In one case, the amount provided was given to the Cayman Islands Development Bank to pay off a loan that was supposedly used to fund educational expenses, but we could not confirm this. In another case, we were unable to determine how the money was used as there was no file found to support the payment.
- 69. For 56 amounts paid by the Nation Building Programme, totaling \$682,568, the student recipients also received scholarship funding from the Ministry of Education. The Nation Building Programme had no requirement for students to indicate if they were receiving funding from another government entity, and there were no checks in the system to determine if duplicate amounts were being paid. Exhibit 4 shows the number of students receiving scholarships from multiple sources.

Exhibit 4 – Number of YNBP Scholars also in receipt of scholarships from other programs

Fiscal year	Number of YNBP scholars in receipt of other Scholarships
2009-10	None
2010-11	1
2011-12	18
2012-13	37

- 70. We found instances where children of Government officials, including one in the Premier’s Office, received support from the Nation Building Programme. Given the lack of scrutiny of applications, we believe this practice was inappropriate and provided an opportunity for possible corruption.
- 71. We found that the Government had not put in place appropriate agreements establishing the conditions for funding. Information in the files, including report cards on student performance, indicated that some students received funding despite the fact that they were not performing at school. Despite poor performance, including failing grades in some cases, no action was taken to review whether the continued provision of scholarships was appropriate; funding for those students therefore continued under the Programme.

72. The application form that students had to complete for the last year of the Programme indicated that the maximum amount provided for an annual scholarship was \$25,000. From our interviews of Government officials, this was an arbitrary amount determined by the former Premier. However, we found 42 instances where the annual amount funded was greater than \$25,000, in one case amounting to \$66,000 and in another three cases greater than \$50,000. Children of senior government officials were among those receiving amounts over the \$25,000 maximum.

Exhibit 5 – Number of scholars who received payments excess of \$25,000

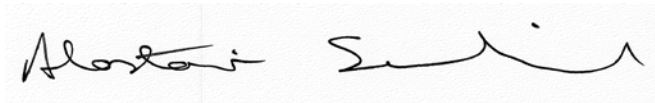
Fiscal year	Number of scholars who received payments in excess of \$25,000	Total payments made
2009-10	None	None
2010-11	6	\$ 177,131
2011-12	12	430,085
2012-13	24	794,076
Total	42	\$1,401,292

73. While we were informed that the Nation Building Programme scholarships were supposed to provide educational opportunities for students, we found that some of the money was paid directly to parents who had made requests to the former Premier for lodging, books, travel, and other expenses related to their children’s education.
74. According to government officials we spoke to, there was no monitoring of the student recipients to assess whether they used the funds for the intended purposes. Once a cheque was sent out, nothing more was done.
75. We did not find a file for one of the YNBP scholarship recipients who received \$30,000. In this case, however, payment was made to a loan company in the United States specializing in student loans. There is no information about the student or about whether the amount paid was reasonable.

CONCLUSION

76. We concluded that the Government failed to effectively manage over \$13.2 million of public money funded under the Nation Building Programme, and this led to a significant waste and abuse of public funds. It also created the potential for corruption, given the ineffective controls and the full discretion of the former Premier's Office over who should receive support. We found that a significant amount of the public funds spent under the auspices of the Nation Building Programme provided no apparent value to the people of the Cayman Islands.
77. We also concluded from our audit that senior government officials failed to discharge their duties to safeguard public funds, failed to protect the public interest and, ultimately, failed in their duties under the law. In effect, senior officials failed to meet their fundamental management obligations.
78. While the program ended in 2013, we believe that the same situation could happen again. The improper behavior we found by politicians and senior government officials can be prevented in the future only if a lack of due regard to the laws relating to the expenditure of public funds for the payments from the Nation Building Programme is clearly acknowledged, with a willingness to implement additional controls in order to prevent a repeat occurrence.
79. From our previous work on governance, we believe that the Constitution, the *Public Management and Finance Law*, and other laws provide a good control framework for ensuring that public funds are spent effectively to achieve the desired results and that accountability for their use is required for reporting back to the Legislative Assembly. We strongly believe that the control breakdown leading to the findings in this report was the result of a public service culture that made it very difficult to challenge Ministers about their actions, even actions clearly outside their roles under the Constitution and laws of the Cayman Islands. We determined that the organizational culture existing during the time of the operation of the Nation Building Programme allowed senior public servants to not fulfil their responsibilities and permit Ministers to overreach and abuse their position.
80. In our recent discussions with the Deputy Governor and his senior officials, we have been assured that there will be no tolerance in future for this kind of situation. We were also informed that there will be no tolerance for officials stepping aside from their required duties while Ministers make decisions outside their own lawful roles regarding the use of public funds.

81. While I acknowledge the Deputy Governor's commitments to support the duties of senior officials responsible for the spending of public funds, I recommend that the Government take further measures to implement the risk management and control frameworks necessary to prevent situations like this. In addition, I recommend that the Deputy Governor and his senior officials provide the Legislative Assembly with ongoing assurance that the control frameworks in place are operating effectively and, to the best of their knowledge and ability, are preventing a repeat of this kind of activity.

A handwritten signature in black ink, appearing to read 'Alastair Swarbrick', written on a light-colored background.

Alastair Swarbrick MA(Hons), CPFA, CFE
Auditor General
George Town, Grand Cayman
Cayman Islands

24 July 2015

APPENDIX 1 – ABOUT THE AUDIT

AUDIT OBJECTIVES

1. The audit objectives for this audit were:
 - to determine whether the Cayman Islands Government managed the Nation Building Programme effectively with due regard for value for money, accountability and transparency, and
 - to determine whether program recipients used the funds for the purpose for which they were intended.

AUDIT CRITERIA

2. Audit criteria are a key component of a performance audit, setting out the expectations for what the auditor will assess performance against and to conclude on the audit objectives. Normally, the criteria reflect regulatory requirements and established business practices that management uses to assess their own performance. In the absence of those practices, it is the auditor's responsibility to develop criteria that are reasonable under the circumstances based on good or reasonable practices and, to the extent possible, obtain agreement from the organization being audited.
3. Below are the criteria of a management framework for this audit which were agreed by management:
 - The programme links to the overall policy and strategic objectives of the government,
 - The programme is clearly described and authorized by the Legislature ,
 - There are clear roles and responsibilities for the management of the programme including the design and operation of an effective control framework,
 - The programme has a transparent and open application process,
 - The government has implemented an effective control framework to ensure compliance with legislative authority, policies and practices,
 - The programme is monitored and adjusted as required and evaluated on a regular basis,
 - Programme operations and results are made public, and
 - Programme recipients used the funds for the purpose for which they are intended

AUDIT SCOPE

4. The audit included all payments made from the “Nation Building Programme” including all funds approved by the Legislative Assembly for the years 2009-10 through 2012-13. The audit focused on the transfer payments (TP 52) made from the Nation Building Programme spending by the Office of the Premier and the Ministry of Finance, Tourism and Development from 1 July 2009 to 30 June 2013. This includes all transactions made from the Appropriations “After School, Young Leaders, Sports and Other Assistance” and “Promotion of Nation Building and Church-Based Support”.

AUDIT APPROACH

5. The audit was conducted in accordance with International Standards on Auditing. The approach to the audit included:
 - obtaining the agreement of management to the audit criteria,
 - interviews with key officials,
 - document reviews,
 - reviews of sample programme files,
 - analysis of audit evidence and assessment against criteria to develop findings, recommendations and conclusions,
 - providing a draft audit report to management s for review of factual accuracy, and
 - presenting a final report of the audit to the Legislative Assembly.
6. In addition, due to the virtual non-existence of documentation with the Government, we examined a sample of payments to follow-up with recipients to determine how the funds were used.
7. The report was cleared through the Deputy Governor’s Office.

AUDIT STAFF

8. The audit was led by Martin Ruben, FCPA, FCGA – Performance Audit Principal assisted by staff from the Office of the Auditor General.

APPENDIX 2 - RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>#1: The Government should develop and implement a robust framework for the development and management of Government programmes in order to ensure that they are designed and delivered in line with its overall strategy and objectives and to achieve the desired results.</p>	<p>This is a sensible recommendation which is agreed. It is noted, however, that there already exists in many if not most instances, forms of programme outlines which establish objectives, deliverables and linkages to priority policy outcomes. However, such frameworks vary in both style and substance and as such a consistent, government-wide framework is better suited to the Cayman Islands Government's current size and complexity.</p>	<p>Office of the Deputy Government (ODG), Ministry of Finance and Economic Development (MF&ED) and Cabinet Office</p>	<p>1 July 2016</p>
<p>#2: The Cayman Islands Government should ensure that appropriate roles and responsibilities are clearly articulated for all government programmes in line with the framework outlined in the Constitution and laws, and that they are administered by officials to ensure compliance with the law and to avoid the risk of abuse and waste of public funds.</p>	<p>This recommendation is agreed. Work had previously been carried out by the Portfolio of the Civil Service within the context of Good Governance to educate senior officials about their respective roles and responsibilities. This work will be expanded in partnership with the Ministry of Finance and Economic Development</p>	<p>ODG & MF&ED</p>	<p>17 November 2015</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>to articulate and provide dedicated training within the context of ensuring proper financial controls to promote accountability and improved value for money.</p> <p>There is a shared commitment by the elected government and the civil service to improve the delivery of government programmes so as to avoid the risk of abuse and waste of public funds.</p>		
<p>#3: The Cayman Islands Government should develop a framework of policies and practices for the distribution of transfer payments that would ensure fairness and transparency as well as accountability for the use of the funds to achieve government’s policy objectives.</p>	<p>The ODG confirms and in our view this audit reinforces the profound truths that:</p> <ul style="list-style-type: none"> (1) Nation building is a desirable objective and ultimately all government expenditures should be aligned with the aim of improving the Cayman Islands and its people, (2) Partnering with Non-governmental Organisations (NGOs) to achieve public policy is both necessary and desirable as the civil service does not hold a “monopoly” on the formulation and delivery of effective solutions to societal problems, and 	<p>ODG & MF&ED</p>	<p>1 July 2016</p>

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>(3) The use of transfer payments is a legitimate and legal instrument for providing relief, particularly to the most vulnerable persons in society or for other charitable purposes.</p> <p>Equally true and borne out by this audit is that however well-intentioned such policy aims may be, where there is improper influence or programmes are ill designed without adequate articulation of (i) the nature of the problem purported to be addressed, (ii) the intervention which was proposed, (iii) how recipients would be selected to receive funding and most importantly, and (iv) how success would be measured and the consequence of failing to achieve the desired outcome, then such aims are destined to failure.</p> <p>The programme in question was concluded some two years ago and while this audit is in some respects a historical account of a programme no longer in effect, the lessons continue to be highly relevant to lawmakers and bureaucrats.</p> <p>This audit presents a real opportunity</p>		

Recommendation	Management Response	Responsibility	Date of planned implementation
	<p>to improve the governance framework for transfer payments with an aim of ensuring proper segregation of roles and responsibilities, adequate internal controls, improved societal outcomes and enhanced public confidence in the government whether elected or career public officers.</p> <p>To this end, the ODG endorses this recommendation.</p>		

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Complaints

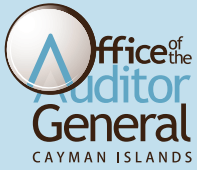
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: garnet.harrison@oag.gov.ky

Freedom of Information

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Media enquiries

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July 2015