

November 9, 2015

Honourable Mr. Winston Jordon  
Minister of Finance  
Ministry of Finance  
49 Main & Urquhart Streets  
Georgetown

Dear Minister,

**Re: Forensic Audits of the National Insurance Scheme**

Following our meeting on June 8<sup>th</sup> with the Minister within the Ministry of Finance, Mr. Jaipaul Sharma, and our subsequent engagement to carry out the subject audit, I am pleased to submit our final report of the National Insurance Scheme (NIS or the Scheme) for your information.

**The objectives and Scope of the Audit are:**

- a) To determine the entity's adherence to and fulfillment of principles of corporate governance in all aspects, including its interpretation of its mission, adherence to legal or statutory and policy instruments and good practices;
- b) Assess and test systems and detect any instances of corporate malfeasance and inefficiency for remedy and/or judicial interventions and systems realignment;
- c) Determine the authenticity and validity of significant commercial and financial transactions entered into by the entity with related parties, suppliers and customers, and measure the extent of potential prejudice the entity may have suffered through such dealings, if any;
- d) Carry out a comprehensive financial systems review which should look at all systems, decisions and practices which have underpinned the entity's finances, and test and assess financial discipline at all levels. Without limitation, the Consultant should:
  - (a) Review and examine all financial books and records of the entity as required to undertake such review and to obtain such clarifications and explanations as may be required in relation to such books and records;
  - (b) Review all contract administration and approval processes in relation to the expenditure of funds;

- (c) Review all material expenditures and contracts made by the entity and obtain all necessary information and explanations relating to such expenditures and contracts;
  - (d) Examine all areas, including budgeting, financing, expenditure, management of revenue inflows, trade terms, procurement or purchase decisions and supply chain management;
  - (e) Examine the entity's assets management system, including its fixed assets, their disposal and management or deployment;
  - (f) Examine the entity's marketing, production and commissioning policies, systems and agreements to determine their integrity, efficacy and responsiveness; and
  - (g) Examine the entity's archiving policy both by way of records keeping and as a performing asset that yields revenue for the entity; and
- e) Recommend statutory, legal or organizational changes required to identify and prevent any recurrence of improprieties.

### **1. Audit period under review**

This audit focused on activities during the period of December 2011 to May 31, 2015 although information and data have been included from earlier periods to enable the intended users to have a more comprehensive understanding of the Scheme from the inception to present.

### **2. Background**

The National Insurance Scheme (NIS) came into being in accordance with the National Insurance Act in September 1969. The Scheme extends Social Insurance Coverage on a compulsory basis, to all persons between the ages of sixteen (16) and sixty (60) years who are engaged in Insurable Employment. Coverage is also extended on a voluntary basis, to persons who cease such employment before reaching age sixty (60) years, until the attainment thereof. Employed persons outside this age range who are in insurable employment are also covered but for Industrial Benefits only. However, self-employed contributors are not covered for Industrial Benefits.

Both the Employer and Employee pay contributions into the Scheme based on a 'Payroll System'. The current total contribution for employed contributors is 14% of the actual wage/salary paid to the Employee. This is derived from a 5.6% deduction from the Employee's pay, and the remaining 8.4% is paid by the Employer on behalf of the Employee. The actual wage/salary is, at present, subjected to a ceiling of \$200,000.00 per month or \$46,154.00 per week for National Insurance purposes. The rates used before, were 5.2% for employees, and 7.8% for employers.

Self-employed persons contribute 12.5% of their declared Income as contributions, while Voluntary Contributors pay 9.3% of their insurable earnings as determined from the last two years of their employment.

### **3. Locations**

The Scheme has two locations in Georgetown and branches in Melanie, Fort Wellington, New Amsterdam, Port Mourant, Corriverton, Pouderoyen, Leonora, Anna Regina, Lethem, Bartica, Linden, Mabaruma, and Mahaicony.

### **4. NIS-MISSION**

“To establish and maintain a system of Social Security through which enough income is secured to take the place of earnings when such are interrupted by sickness or accident.  
To provide for retirement through age, sudden death of a breadwinner and to meet exceptional expenses as those concerned with birth and death.  
To ensure that monies collected which have to be used for future payments are invested in such a manner that the economy and the country would reap maximum benefit.”

### **VISION**

“To improve the organization’s performance through the commitment and involvement of all employees to fully satisfy agreed customer requirements through the continuous enhancement of the service, processes and people involved.”

### **5. Corporate Governance**

**Corporate governance** essentially involves a framework of rules and practices by which a Board of Directors (BODs) ensures accountability, fairness, and transparency in a company's relationship with stakeholders including its contributors, beneficiaries, employees, management, the communities and the government.

The NIS does not have a formal Governance Code but management has confirmed that they do follow good governance, principles of accountability, transparency, participatory and dynamism, as articulated by the International Social Security Association (ISSA). It has a Board of Directors consisting of nine members who are paid modest fees. The Board is supported by Sub-committees: Public Relations & Customer Service, Investment, Administration & Audit and Finance. Both the Board and Sub-committees meet monthly and decisions taken are documented.

The last Board was chaired by the Cabinet Secretary to the previous Government and included members none of whom had any actuarial or insurance background except for the General Manager. In fact, many of the members had served on the Board for many years but when the minutes of the BODs for the last four years were reviewed, they confirmed that critical decisions, in particular those for investments, were made by Cabinet and not the BOD. This is not what the NIS Act intended as it provides guidance on how the Board of Directors should be appointed and regulates its proceedings. In addition, one of ISSA's aims is ***'The ISSA promotes excellence in social security administration through professional guidelines, expert knowledge, services and support to enable its members to develop dynamic social security systems and policy throughout the world.'***

In determining how independent the BODs were, we examined the National Insurance Scheme (NIS) Act and make reference to the following Sections:

Section 3(2) of the NIS Act states:

*"The Board shall consist of the following members, namely:*

*(a) A Chairman, who shall be appointed by the Minister*

*(b) The General Manager of the Board, Ex-officio, who shall be the Deputy Chairman.*

*(c) Seven other members appointed by the Minister, from among persons appearing to him to be qualified as having experience of, and shown capacity in, such matters which he considers will be beneficial to the functioning of the Board."*

Section 9 of the NIS Act states

*"Subject to the provisions of this Act, the Board has the power to regulate its own proceedings."*

In addition, the BODs are supported by key management personnel including the General Manager, Medical Advisor, Assistant General Manager-Administration & Operations, Finance Manager and Chief Management Auditor.

During our review of the BODs minutes for the years 2011 to 2015, we noted instances where the Chairman reported Cabinet's decisions which were accepted. The minutes did not record any discussions, objections or alternatives to these decisions. Example:

- (a) Included in the Minutes of the 448<sup>th</sup> meeting of the BODs held on July 30, 2012, the General Manager informed the Board that Cabinet made a decision for the Scheme to purchase a property in Paramaribo, Suriname for €535,000. There was no evidence that the Board had deliberated before agreeing on this investment nor was there any evidence that a feasibility study was done to determine whether the price paid was consistent with the value of the property. An appraisal was subsequently done by GITI, Suriname, dated

20/12/2013 in which it is stated that the voluntary sales value of the property was €670,000.

- (b) In the minutes of the 445<sup>th</sup> BODs' meeting,  
*"The Chairman informed Directors that approval was given by Cabinet for NICIL to sell 950,000 preference shares held in the Berbice Bridge Company Inc. to NIS at par value.*

*Cabinet decision was countenanced by Directors".* In effect, directors made no attempt to determine whether the investment was in the best interest of the Scheme.

- (c) Extracted from minutes of the 479<sup>th</sup> meeting,  
*"The Finance Controller reminded that the acquisition of the 950,000 Preferred Shares was based on a Cabinet Decision"*

*It was resolved after further discussion that:-*

- *Cabinet be requested to provide guidance on NIS response to BBCI since the 950,000 Preferred Shares were acquired based on an instruction by Cabinet"*

- (d) Extracted from minutes of the 444<sup>th</sup> meeting.  
*"A director said he took the opportunity to get the latest annual report of BBCI and he gathered from this report that the profits are reasonable. He doubted however that the profits could support payment to bond holders.*

*He made reference to the annual report which gave the maturity date of bond 1 as 30<sup>th</sup> June, 2013 and of bond 2 as 30<sup>th</sup> June, 2017.*

*He alluded to the 20% share capital and 80% loan financing arrangement by BBCI.*

*The finance controller said she seemed to recall the maturity date of bond 1 being stated on the bond certificate as 30<sup>th</sup> June, 2018.*

*The Chairman expressed concern about the inordinate risk concentrated in the portfolio and the bridge not being fully insured.*

*Directors expressed a disinterest in the BBCI investment offer."*

Subsequently, the directors of BBCI made a significant change to the accounting policy for depreciation whereby they agreed to reclassify the bridge from a fixed asset to a 'concessionary asset' consistent with the 'Concession Agreement' thereby eliminating the depreciation period of 70 years for an amortization policy of twenty one (21) years. This resulted in BBCI's financial statements for the years 2010 and 2011 being restated to reflect the change causing significant losses in these years.

It should be noted that the BODs had approved Mr. Maurice Solomon, a director as its representative on the BCCI's Board. In addition, another director, Mr. Paul Cheong sat on the BCCI's board yet there was no report of the position they took in representing the Scheme's interest as evident from the minutes of the BODs over the last four years.

The above are indications that Cabinet had significant input over the Board and made certain decisions which the directors accepted without any discussions, analysis and due diligence to determine the merits of the decisions. These decisions and the unfortunate investments in CLICO are having a severe impact on the Scheme's cash flows and the recoverability of these investments.

The Scheme's investments were supposed to have been managed by a Framework for Prudential Investments approved by Cabinet on September 20, 2005 and amended in September 2006. *The Framework* was prepared by Mr. Patrick Van Beek, a consultant to the Government of Guyana through the Ministry of Finance, and issued in July 2006. The Minister of Finance, Saisnarine Kowlessar in his covering letter dated August 9, 2006 to the then GM of the Scheme informed him- 'Please be advised that the management of the Scheme is now required to implement the Revised Framework and the recommendations made by the Consultant'. Again, it seems that the Board had no say in this investment framework handed down to them.

During the review of the board minutes for the years 2011 to 2015, it was noted that several of the minutes were not approved by the Secretary to the Board. The following are the numbers of the board minutes not approved: 439<sup>th</sup>, 441<sup>th</sup>, 442<sup>th</sup>, 443<sup>th</sup>, 448<sup>th</sup>, 449<sup>th</sup>, 450<sup>th</sup>, 451<sup>st</sup>, 452<sup>nd</sup>, 453<sup>th</sup>, 460<sup>th</sup>, 463<sup>rd</sup>, 464<sup>th</sup>, 465<sup>th</sup>, 466<sup>th</sup>, 467<sup>th</sup>, 469<sup>th</sup>, 470<sup>th</sup>, 471<sup>st</sup>, 472<sup>nd</sup>, 473<sup>rd</sup>, 474<sup>th</sup> and 477<sup>th</sup>.

In addition, the following investments are potential losses to the Scheme:

- a) CLICO's investment of \$5.1 billion
- b) The loss of an estimated \$1.9 billion in interest income for the years 2009 to 2014 relating to the \$5.1 billion which the last Parliament promised to repay the Scheme.
- c) The investment of \$2.59 billion in the BCCI, a company which is making losses and which has many issues surrounding its going concern. At the time of this audit, the company is facing bankruptcy due to the Government's decision to allow 'water taxis' to traverse the Berbice River which is having a direct impact on vehicular traffic using the Bridge.

Based on the foregoing, it can be concluded that the objectives of Corporate Governance were not followed primarily due to the Board's inability to retain its autonomy in making key decisions. The board minutes certainly did not record meaningful discussions among the directors on investments and other key decisions. It appeared that the directors just accepted Cabinet decisions when presented to them.

## **Recommendations:**

The BODs need to consider the following to enhance Corporate Governance:

- a) Follow the NIS Act as regards to regulating its own proceedings.
- b) Immediately review the Act in its entirety to determine whether there is scope to amend it to make it more relevant.
- c) Implement policies and procedures to eliminate bias and conflicts of interest. If these are already in place, ensure that they are followed.
- d) Provide overall direction for the Scheme, its managers and employees by making strategic decisions and discussing current and future concerns.
- e) Provide some level of leadership oversight and monitor and evaluate decisions and actions of the GM and other executive officers. This ensures that leaders act in the best interest of shareholders and stakeholders.
- f) Ensure that systems and procedures are reliable and easily manageable for the benefit of contributors, beneficiaries and stakeholders.
- g) Key performance indicators (KPIs) must be reviewed monthly to ensure that the Scheme is on target and objectives are achieved.
- h) Transparency in directors' and key management personnel actions and disposition reduce the opportunity for mismanagement and unethical practices.
- i) The minutes of directors and sub-committee meetings must include the substance of their discussions on all major decisions and decisions taken.
- j) Within one day after each meeting, an 'Action Sheet' should be sent out to the directors/managers of the respective departments that actions need to be followed through with. They must then report to the BODs in time for the next meeting or earlier if there is need to.
- k) Minutes of board meetings should be precise and to the point and they must be signed by the Chairman and Board Secretary.
- l) Sub-committees must be comprised of managers and at least one director. Their reports must be summarised to include the scope of work, basis for their decisions and decisions taken.

## **6. Investments**

At the end of June, 2015 the Scheme's investments stood at G\$30,001,930,000 comprising of: Short term investments valued \$20,312,628,000 mainly of treasury bills, fixed deposits and CLICO; medium term investments valued \$1,693,359,000 mainly overseas investments in Government's foreign account and a loan to CARICOM and long term investments valued \$7,995,943,000. Included in the long term investments are shares in companies and BBCI. The cost of the investment in BBCI is \$2,562,228,000 which represents 8.5% of total investments.

The NIS Act provides for BODs the autonomy to make investment decisions. However, as explained under Corporate Governance, the Board accepted decisions made by Cabinet in

particular investments in the BBCI and the acquisition of a property in Suriname without proper due diligence.

The 8<sup>th</sup> Actuarial Review prepared for the period ended December 31, 2011, five years after the last review was done and in accordance with the NIS Act, indicated that the Scheme's average yield on returns was 4.7% compared with average inflation rate of 6.3% which resulted in a negative real rate of return of 1.8% over the five year period reviewed. Since then, the average yield on returns for the years 2011 to 2014 has been 3% whereas inflation has been 2.2% a positive net return of .80%. Had the Scheme been receiving returns on its investments in CLICO and the BBCI's ordinary shares (dividend), the rate of returns for the last four years would have been significantly higher.

Based on the last audited financial statements (2013) the Scheme's total investment in proportion to total assets was 93% and in proportion to Reserves was 95%.



**(a) Review of the Investments**

The high risk investments are as follow:

Type of Investment	Capital Value				Returns on Investments by Value			
	2011 G\$ 000's	2012 G\$ 000's	2013 G\$ 000's	2014 G\$ 000's	2011 G\$ 000's	2012 G\$ 000's	2013 G\$ 000's	2014 G\$ 000's
Berbice Bridge Shares	80,000	80,000	80,000	80,000	-	-	-	-
Berbice Bridge Bonds	1,560,000	1,560,000	1,560,000	1,532,228	158,000	158,000	158,282	156,740
Berbice Bridge Preference Shares	-	950,000	950,000	950,000	-	59,388	104,500	114,000
CLICO	5,148,710	5,148,710	5,148,710	5,148,710	-	-	-	-
Guyana Pegasus	1,137	1,137	1,137	1,137	-	-	-	-
Property Holdings Ltd.	88,000	88,000	82,000	30,000	-	-	-	-
Guyana National Printers	5	5	5	5	-	-	-	-
Properties – Clico	609,900	1,268,300	1,268,000	1,670,000	-	-	120,000	69,440
	<b>7,487,752</b>	<b>9,096,152</b>	<b>9,089,852</b>	<b>9,412,080</b>	<b>158,000</b>	<b>217,388</b>	<b>382,782</b>	<b>340,180</b>

During our audit, we reviewed and verified 100% of the Scheme's investments which stood at \$29.9B at December 31, 2014. **See appendix 1.** The unaudited balance at May, 2015 was \$30B.

- i) As noted in appendix 1, the investment face value for Neal and Massy Limited (now Massy limited) was impaired from \$100M to \$20M. This has resulted in the return from this investment being 166% on average for the years 2011 to 2014. The Scheme received an average of \$33M per year during 2011 to 2014 compared to the face value of the investment of \$20M. This is an indication the investment should be revalued considering the returns and the fact that it was impaired by \$80M prior to 2011.

The BODs should look into this investment with a view to ensure that it is reported at fair value. The GM should write Massy Limited for them to confirm the value of its shares or if the company's shares are traded, then each year the investment should be reviewed to determine whether the shares have been appreciated or depreciated.

#### **i) CLICO Investment**

The balance owed by CLICO Guyana according to the Scheme's financial statements is \$5,148,710,367 at December 31, 2014. On February 26, 2009, in response to a petition by the Commissioner of Insurance, the High Court of Guyana issued an Order placing CLICO (Guyana) under judicial management pursuant to the provision of the Insurance Act 1998, until further Order of the Court. On March 5, 2009, Ms. Doreen Nelson, General Manager (Ag), wrote to Ms. Maria Van Beek, Judicial Manager of CLICO Guyana and Commissioner of Insurance, requesting that priority be given for NIS to recover the value of its investments in CLICO which was \$5,647,782,551 at the time. To date, neither the former Commissioner nor the subsequent Commissioner has responded. Ms. Nelson pointed out in the letter that 'the repayment of these investments (in full) is essential for the continuing operations of NIS as a viable entity'. **See Appendix 2 for the letter.**

Subsequently, the Ninth Parliament of Guyana through Resolution No.82 passed on March 12, 2009, explained that the Government undertakes to take all possible actions to secure the investments made in CLICO (Guyana) by the NIS on behalf of its contributors and beneficiaries to prevent any consequential loss in benefits to them. **See Appendix 3 for Resolution.**

However, this Resolution did not address key issues such as the repayment period, the method of repayment, returns on the investments from the time CLICO went under liquidation, etc. The Scheme has not received any return on the investment since 2009. The funds were invested to earn returns at a rate of 6.25% per annum. At this rate, the Scheme is losing \$321,794,000

annually and to date the accumulated loss is \$1,930,766, or over \$2billion if the unpaid interest is included with the principals when computing interest.

In 2011, the title to a property owned by CLICO deemed to be valued at \$600M was transferred to NIS. The property was the former GUYSUCO's head office on Camp Street, Georgetown now being rented by the Guyana Revenue Authority from the Scheme for \$5M per month.

### **Recommendations**

- a) The BODs should seek the Government's commitment to honour its undertaking in accordance with Resolution No 82. Alternatively, they can pay the Scheme the interest consistent with the original investment until the amount is repaid.
- b) Engage a realty valuator to determine whether the former GUYSUCO's property is worth the \$600M it was transferred to the Scheme at in view of the ongoing disquiet amongst employees about the fungus infested building.
- c) Review the rent paid to determine whether it is fair considering the size and location of the building.
- d) Sell the building, if the Scheme can recover more than the transfer price and the rent cannot be increased.
- e) Determine whether the Commissioner of Insurance acted in the best interest of investors in particular, the Scheme.

### **ii) Berbice Bridge Companies Incorporated (BBCI)**

*The Scheme has the following investments in the BBCI:*

- (a) Corporate bonds - \$1,060,000,000
- (b) Subordinated Loan - \$500,000,000 (which is a **debt** that ranks after other debts if a company falls into liquidation or bankruptcy).
- (c) Preference Shares - \$950,000,000
- (d) Common Shares - \$80,000,000

The ability of BBCI to pay interest/dividends/capital repayment will depend on its ability to generate profits; to-date it has made accumulated losses of \$1,507,062,759 based on its 2014 audited financial statements. As a result, the investment in BBCI's Common Shares may now be

impaired as the current net worth of an ordinary share is (\$2.77) based on its 2014 audited financial statements.

As explained at note 8 in the 2014 audited financial statements “The company signed a ‘Concession Agreement’ with the Government of Guyana for the design, construction, development, operations and maintenance the Berbice Bridge pursuant to the terms and conditions established within this agreement. The agreement is for a period of 21 years, unless terminated or extended by mutual agreement or in accordance with any other provisions within the agreement.

When the 2012 audit was finalized in May 2015, it became known to management that the company does not own a bridge but instead a licence to operate a bridge even though the Scheme had two of its directors on the company’s board. This resulted in the auditors reclassifying the cost of the bridge and a building from Fixed Assets to ‘Concession Assets’ and restated the 2010 and 2011 audited financial statements. The effect of the reclassification resulted in those years which had declared taxable profits now showing significant losses. These losses arose because the Concession Agreement is for a period of 21 years therefore the bridge is now amortised over that period whereas it was previously depreciated over a 70 year period.

A copy of the Concession Agreement was not available for our review.

In the auditors’ 2014 report, they included an ‘**Emphasis of matter**’ paragraph which described management’s representation regarding the company’s ability to continue as a going concern.

The paragraph reads as follows:

“We have considered the representations of management as outlined in Note 29 regarding the prospects of the company. The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. At December 31, 2014, shareholders’ deficit was \$1,107,062,759. The Company continued to make losses. **Continuation of the Company as a going concern is dependent on the ability of the Company to make substantial profits in the future and to generate a steady cash flow to meet liabilities as they fall due. We have considered management’s representation and have concluded that there is material uncertainty that casts significant doubt on the entity’s ability to continue as a going concern** and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.”

In effect, the auditors’ conclusion after taking management’s representations into consideration is that there is a material uncertainty that casts significant doubt about the entity’s ability to continue as a going concern. It means therefore, that the Scheme’s investment in the BCCI’s is

almost certain to be negatively affected. Already, the ordinary shares have been impaired to a negative value, the subordinate loans preference shares may also have been impaired. The Company's CEO has already written the Scheme indicating its inability to pay the dividend on preference shares.

In the event that BBCI becomes insolvent because of its current loss making position, its issues with the Government regarding the lowering of the bridge toll, its inability to generate adequate cash flows to meet its obligations and the fact that the company does not own a bridge, then the investors' investments will be at severe risk of not being recovered.

BBCI's CEO, Mr. Omatat Samaroo in his letter dated May 22, 2015 to the Scheme's GM, requested a reduction in interest rate for Bonds Tranche 1 from 9% per annum to 7.5% per annum (free of all taxes), Bonds Tranche 2 from 10% per annum to 7.5% per annum (free of all taxes), Subordinated Loan Stock from 11% to 7.5% per annum (tax free), and Preference Shares from 11% to 7.5% (tax free) The CEO explained in his letter that 'to achieve our cash flows objectives, we propose to restructure our loans under a new interest-rate regime so that we may be able to achieve our objectives without increase in bridge tolls'. ***See appendix 4 for the CEO's letter.***

If NIS management accepts this proposal, it stands to lose \$611M over a twelve year period. **See appendix 5**

BBCI's CEO again in a letter dated December 29, 2014 informed the Scheme's management that no preference dividend will be paid for the year ended December 31, 2014 due to continued operating losses. Management then reminded the CEO of the terms and conditions of the preference agreement, which resulted in the company withdrawing its letter of December 29, 2014 and acknowledged through another letter dated June 1, 2015, of the company's responsibility to pay the dividend. In the same letter, the CEO informed the GM that every effort will be made to make payment of preference dividend of 11% and a 1% penalty for late payment by the 4<sup>th</sup> Quarter of 2015. Based on BBCI's current situation, it is highly unlikely that the dividend will be paid, if at all. ***See appendix 6 attached***

Further, at the time of our audit the Finance Controller advised us that BBCI is in verbal communication with management to possibly extend the period of redemption of the Preference Shares from the year 2026 to a future date.

The 'Concession Agreement', which we did not see, we understand will end in June 2027, at which time the company will be required to hand over the bridge to the Minister responsible. Over the remaining years, the company must make '**substantial**' profits, as emphasized by its auditors, during the remaining years to pay off all debt obligations and compensate its ordinary investors. Realizing this, the company is now seeking approval from the Government to extend

the 'Concession Agreement' by another 21 years. At the same time, seeking an increase in bridge toll as set out in the 'Concession Agreement'.

### **Recommendations**

- a) In view of the forgoing, the new Board will need to assess the risks and returns of investments held in BBCI. In addition, it needs to have proper representation on the BBCI's board since it is the largest investor in the company. In our opinion, the Scheme should have a minimum of two representatives on the board one of which should be the Chairman/Chairperson.
- b) BODs must carry out their own investigation to determine the value of the Bridge which was reported at G\$6,284,045,483 net or US\$29,924,026 at December 31, 2014 in the audited financial statements.
- c) The Scheme's Investment Committee must meet with the BBCI's management to determine the Competitive Advantage the Bridge has if the fare drops to \$1,900. This can be done by past and current flow of traffic by category; potential for increase in traffic flow at a reduced fare of \$1,900 and closure of the Bridge to vehicular traffic only in the night. This will ensure that traffic flows continuously during the day.
- d) Restructure the existing 'Concession Agreement' which will allow NIS to have a more dominant role in view of its shareholdings.

### **iii) Guyana Pegasus**

On December 17, 1997, the Company Secretary of The Guyana Pegasus wrote the GM of the Scheme advising him that based on a letter received from him dated November 12, 1997, shares owned by the Government of Guyana in The Guyana Pegasus was transferred to the NIS. The share certificate was forwarded to the GM as an attachment to a cover letter and copied to the then Minister of Finance Mr. Bharrat Jagdeo, and the then Government Director of Pegasus Hotels of Guyana, Mr. Maniram Prashad. ***See appendix 7 attached.***

It should be noted that the original value of this investment was \$45,480,000 of which \$44,343,000 was written off. This investment does not generate revenue and the company's shares are not listed on the Guyana Stock Exchange. The Finance Controller revealed that the Investee no longer submits audited financial statements to the Scheme or confirm any balances. We were also informed that the previous BODs were in communication with the Registrar, Deeds Register to access information filed by the investee without any success.

## Recommendations

- a) The BODs should find out whether the owners of The Guyana Pegasus sold the hotel or the company? If the company was sold to the majority shareholder then the Scheme should vigorously pursue its investment.
- b) Management should pursue the current status of this investment to determine the value of the shares and why dividend has not been declared. In addition, management should pursue why they have not been invited to the company's annual general meetings.
- c) The BODs should request from the directors of The Guyana Pegasus copies of its audited financial statements to determine whether the investment is beneficial to the Scheme or has been impaired in accordance with IAS 39 Section 58 and 63 and IAS 32.
- d) If the investment is not impaired then management should also consider whether it is in the interest of the Scheme to hold the investment which currently does not earn any revenue.
- e) If dividends were paid over the years, the BODs must demand that the Scheme receive its share.

### iv) Property Holdings Inc.

This investment represents shares in Property Holding Inc. (PHI). PHI is a company that was incorporated on October 5, 1999 for the specific purpose of managing or disposing of properties owned by Guyana Stores Limited (GSL). The principal owner of PHI at the time of its creation was GSL, which itself was owned by the Government of Guyana under the control of the National Industrial and Commercial Investments Limited (NICIL).

There is currently an ongoing court dispute between the GSL and NICIL. The Finance Controller confirmed that PHI no longer submits audited financial statements to the Scheme or confirm any balances. We were also informed that the previous Board communicated with the Registrar, Deeds Register to access information filed by PHI without success.

It should also be noted that this investment initially had a face value of \$120M and was later written down prior to 2011 by \$32M to \$88M.

## Recommendations

- a) The BODs must now consider whether this investment is now fully impaired in accordance with IAS 39 Section 58 and 63 and IAS 32. If not, management will need to consider whether the investment should be retained since no revenue is earned from it.

### **(b) Management of the Investments Portfolio**

The Scheme's investments are supposed to be managed by a Framework for Prudential Investments approved by Cabinet on September 20, 2005 and amended on September 2006. ***See appendix 8 for the Framework of Prudential Investment.***

A study was done in 2006 and a report was submitted on July 14, 2006 by Mr. Patrick van Beek, who was retained as a consultant. The report was titled “**Support for the implementation of the National Insurance Scheme Investment Framework**”. The main objective of this study by Mr. Patrick van Beek was to provide the Government of Guyana with the information and analysis to fully implement a Prudential Investment Framework for NIS funds. The study seeks to achieve the following:

- (a) An assessment of the Prudential Investment Policy Strategy (PIPS) recently approved by Cabinet and Drafting of necessary adjustments.
- (b) Development of Investment Policy Guidelines to be approved by the NIS Board to make operational the Prudential Investment Policy Strategy.
- (c) An assessment of the current investment management capabilities of the NIS.
- (d) Analysis of NIS investments portfolio.
- (e) Guidelines to assist the NIS to implement an Investment Management Unit.

This report was approved by the then Minister of Finance, Mr. Saisnarine Kowlessar and forwarded to the then General Manager, Mr. Patrick Martinborough on August 9, 2006 for implementation. However, the report was not implemented in its entirety.

Appendix VI to the report proposed a Unit for the management of the Investments, including an organizational chart and reporting structure of management in the UNIT. This was not implemented, instead management of the investments is limited to record keeping and monitoring, while the authority for investment is with the National Insurance Board. ***See appendix 9 for extract of the recommended Investment Unit.***

### **(c) Compliance with the Prudential Framework**

Based on analysis prepared by management and reviewed by us, it was noted that the Prudential Framework for Management of the Scheme's investments were not complied with. At June 2015, the following were noted:



- (i) Short term investments were 62.22% at May, 2015 compared to a recommended maximum of 50% according to the Framework.
- (ii) Medium-term investments were 14.79% below the Minimum indicated in the Framework
- (iii) Long-term investments were 20.38% below the Maximum indicated in the Frameworks

The above is an indication of over-investment in short term investment which have been generating minimum returns for the Scheme. The Finance Controller indicated that when opportunities for long term investments were available, the BODs were slow in responding resulting in lost opportunities. **See appendix 10 for a list of investors who had submitted proposal for financing by NIS.**

#### **(d) Returns on Investments**

The total income from investments over the last **four years** was \$3,736,943,000 of which \$3,349,652,779 was received leaving a balance of \$387,290,688. At the end of August 2015, this balance was still outstanding. **See appendix 11 for outstanding balance of investment income.**

We analysed the Scheme's returns on investments to determine whether they are generating maximum returns. During the period 2011 to 2014, 89% of the investments were generating average annual returns of 2% which is below the average annual inflation rate of 2.22% a negative real return of .22%. **See appendix 12 for analysis.**

Further, the overall Scheme's investments generated an average of 3% return for the same period. This average of 3% is down from the average of 4.7% as reported in the 8<sup>th</sup> Actuarial Review to December 31, 2011. The 1.7% is due mainly to the loss in returns from CLICO which had generated 6.25% per annum before bankruptcy. No return has been received after 2009.

This is an indication that the Scheme's investments were not managed with a view to maximize annual returns as recommended in the Framework for Prudential Investments.

In addition, the guidelines as set out in ***the Framework for Prudential Investment Statement as approved by Cabinet in September 2005 and amended in September 2006***, states 'the objective of the Statement is to ensure that the Fund is diversified and managed so as to accrue the optimum Returns on Investments without undue risks'. Unfortunately, the Scheme now has two major high risk investments, CLICO and the BCCI. In the case of BCCI, the BODs had viewed this investment to be high risk as documented in 444<sup>th</sup> minutes of Board meetings.

In our opinion, investments in public companies shares would have yielded between 3-4% per annum. The BODs need to look at investment opportunities in and beyond Guyana and to consider the diversification of risks.

### **Recommendation for Investments**

- (a) The Board should reconsider the recommendations submitted by Mr. Patrick van Beek, in his report titled “Support for the implementation of the National Insurance Scheme Investment Framework”.
- (b) The Board should also seek to up-date Mr. Van Beek’s report given that it was done in 2006 to take into consideration recent economic conditions and opportunities now available.
- (c) The Board should carry out a thorough assessment of the investments to determine returns and risks associated with them.
- (d) Full compliance with the Prudential Framework should be address immediately until the Framework is reassessed.
- (e) The BODs should also consider the possibility of establishing a Financial Institution for the purpose of issuing both short and medium term financing to Guyanese.

## **7. Debt Management**

At the time of our audit and through discussions we had with the Operations Manager (OM), it was confirmed that the Scheme currently does not have a written policy on Debt Management. In reviewing the BODs minutes, we noted that there were ongoing discussions in 2014 to draft a Debt Management Policy. Subsequently, a document referred to as the ‘Procedure for Debt Management Unit’ was prepared in August 2014 but to date it has not been approved for implementation.

Recorded in the BODs minutes dated March 30, 2015, the Chairman emphasized that “No records, no Debts”, meaning if there are incomplete records and/or inappropriate systems in place, the Scheme cannot take legal actions against defaulters.

In reviewing the ‘Procedure for Debt Management Unit’, which was prepared by the Research and Planning Department, we noted that the contents included a number of procedures to be followed to recover debts owed to the Scheme. This document should now be reviewed by a special committee of the BODs to ensure that the procedures will allow management to pursue defaulters in a more efficient and cost effect manner. In fact, the document should be vetted by

an Attorney-at-Law to ensure that the procedures are enforceable and are in the interest of the Scheme.

Currently, the Debt Management Department consists of four employees who are overseen by the OM. This department also deals with refunds to Contributors and as result sufficient attention is not placed on debt collections because addressing refunds is easier to deal with than to pursue defaulters.

During the audit, we observed that tasks performed by this department are done manually with considerable amounts of paper work. This approach reduces efficiency and the quality and quantity of output. The OM explained that the NIS's budgets have been 'cut' every year which has severely affected the setting up of a proper Debt Management Unit with adequate staff and resources to effectively pursue defaulters.

In addition, NIS does not have a legal department; instead reliance is placed on the Inspectors to take defaulters to Court. This has proven to be a huge challenge as defaulters, we are told; often use 'high profile' lawyers to deal with their cases whereas the Inspectors are not versed in law to prosecute effectively. At the moment, management only engages lawyers for significant cases.

We have verified that Contributors who have lapsed one month in the payments of their contributions are included in the debtors' list whilst those who have lapsed for two years with no movements are included in a dormant list.

Presently, the unit is still sending reminders to defaulters with the hope that they will pay. This has been an ongoing situation which has deteriorated and has allowed Contributors to feel that management will either do nothing more or cannot move against them.

One of the amendments was *"Every employer or self-employed person who applies for a government licence or permit to conduct business, to trade as a source of reportable income when submitting the application shall submit a certificate of compliance in Form 1 in Schedule A in respect of employers and in Form 2 in respect of self-employed persons, issued by the General Manager to the effect that he is currently in compliance with this Act in relation to the collection or payments of contribution."*

## **Recommendations**

- a) The BODs should immediately review the draft 'Procedure for Debt Management Unit' to ensure that the procedures are consistent management's approach to recover debts owed to the Scheme and are enforceable.
- b) Establish a Sub-Committee of the Board to meet fortnightly until the collection of debts is under control or sufficient actions have been taken to engage with the defaulters on a continuous basis.

- c) The BODs need to establish an accurate list of debtors/defaulters in order to prioritize the approach to debt recovery.
- d) Debtors should be aged and identified by locations/regions: those with indebtedness less than 6 months, greater than 6 months but less than 1 year and continue at six months intervals. This will help to determine the course of action to be taken against current and older debtors.
- e) The existing NIMS is outdated and most likely cannot provide an accurate listing of debtors and their balances. The draft 'Debt Management Unit Procedure' make reference to 'presumptive debts'. A database for receivables should be acquired/developed; possibly a receivables module could be purchased for ACCPAC or customization could be done to NIMS.
- f) Integrate with the Guyana Revenue Authority and the Registrar of Companies over the medium and long term to ensure that debtors/defaulters do not enjoy services if they intentionally default in deducting and remitting statutory deductions.
- g) Engage with debtors to determine that their indebtedness is correct by verifying their records including payrolls and submission forms.
- h) Outline a course of action to be taken to recover the debts and this can be done by a combination of: engaging with the debtors to settle their debts within a reasonable time; pursue legal actions to recover the debts and or hold tangible assets until the debts are recovered. The course of action to be taken against each debtor must be one which would be in the best interest of the Scheme's debt recovery plan
- i) Strengthen the Debt Management department with additional staff, training, equipment including computers and more vehicles so that they can effectively carry out their mandate to recover debts. Ideally, targets should be set
- j) Establish a legal department and employ at least two Attorneys-at-Law to assist with the process of debt collection and for them to review and strengthen the 'Debt Management Unit Procedure.
- k) Systems should be implemented to ensure effective communication with the Accounts Departments who would supply information on defaulting Contributors. Management should also explore the possibility of integrating this database with NIMS. However, the NIMS must be operating on an accrual basis before this is done.
- l) The BODs should change the Scheme's policy of accounting for contributions from 'cash basis' to 'accrual basis' to comply with the International Financial Reporting

Standards (IFRSs). At present management do not post contribution statements to the NIMS if payments are not made

m) Timely statements should be sent to defaulting Contributors.

### **Determining actual debt**

Contributors who have been submitting monthly returns but have not been paying over deductions and their portion of contributions owe the Scheme over \$2.5 billion. GUYSUCO is the largest defaulter with an indebtedness of over \$1.5 billion.

In addition, the current system is not designed to determine the actual or near actual contributions from employers/self-employed/employees that are not registered. During discussions with the Operations Manager and visits to Branches across the country it was reported that the Scheme has limited human resources to cover the areas that fall within the jurisdiction of each office.

The Inspectors are tasked with the responsibilities of ensuring that those on the dormant list are in existence, taking defaulters to Court, checking on those not submitting returns, looking for employers/self-employed persons who haven't registered, etc. With this much responsibilities, the Inspectors cannot carry out their responsibilities effectively and at the same time cover the areas assigned to them. Contributors that have not been effectively targeted include micro businesses, miners, farmers, construction workers, mini bus and hire cars operators, freelance workers/consultants etc. The BODs is now tasked with finding solutions to capture those sectors/category of employers/workers who have not been complying with the NIS Act and at the same time pursuing all defaulters.

The 8<sup>th</sup> Actuarial review reported that 40% of the informal sector workforce is not contributing to the Scheme. The Operations Manager informed us that no report was ever done on the potential loss of contributions from self-employed and employees not contributing to the Scheme. The BODs need to address these matters urgently and to ensure that the Debt Management Unit is staffed and trained to document those categories of self-employed and employees not registered.

### **Audited financial statements**

Over the years, the BODs continued to appoint the auditors without any procurement or Value for Money (VFM) process. At the 478<sup>th</sup> meeting, *“Chairman mentioned TSD’s engagement as external auditors for yet another year and spoke of the need to ensure there was no conflict of interest.”* During a meeting held on September 24, 2012, the Directors approved the existing auditors for the

financial year 2012. An extract from the minutes of this meeting reads “*Directors noted that there were no adverse reports on previous audits done by the Company.*” The auditors are also the auditors for the Berbice Bridge Company Inc., and in 2015 restated the BBCI’s financial statements for 2010 and 2011 because of the misclassification of a major financial statements’ component as is required under IFRIC 12.

The audited financial statements provided limited explanations on the accounting for receivables from Contributors. In addition, the auditors’ report states that the financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) and present a true and fair view in all material respects. In accordance with IFRS and the Conceptual Framework issued by the International Accounting Standards Board, financial statements must be prepared in accordance with the Accrual Concept.

Note 3(b) in the 2013 audited financial statements states “*Employers’ and employees’ contribution are recognised as contribution income only when received*”. This means that contributions owed to the Scheme are not recorded, notwithstanding part of it would have been impaired over the years. As a result, the financial statements are not materially correct because over \$2.5 billion in contributions are outstanding over the years from Contributors who have submitted their contribution schedules but have not made payments. GUYSUCO is the largest defaulter with indebtedness of over \$1.5 billion. In addition, while the contribution is recognised on a cash basis, the investment income and expenses are recognised on an accrual basis, which indicates inconsistency in applying accounting principles. Further, the financial statements do not include adequate notes to explain the reasons for not accruing for outstanding contributions.

**Individual receivables**

Management has never been able to maintain an accurate/comprehensive listing of receivables from the inception of the Scheme. The Operations Manager presented to us a list of receivables totalling \$1,091,172,705 at August 2015 which does not include GUYSUCO’s whose indebtedness is \$1,574,283,889 for the period September 2014 to April 2015. ***See appendix 13 and 14 respectively.***

Included in the listing are several companies many of which have ceased operations and or are no longer in existence. In addition, there are some companies/businesses/individuals for various reasons have not been paying their contributions. Some of these balances date back to 1970.

In addition, it was noted that some public personnel are included in the list as shown below:

<b>Reg. #</b>	<b>Employer</b>	<b>Contributions</b>	<b>Interest</b>	<b>Total outstanding</b>

B - 11090487	Pauline Sukhai	1,050,032	582,983	1,633,015
GL – 174867	Mohabir Anil Nandlall	2,146,878	2,265,394	4,412,272
B - 13967849	Raphael Trotman	367,899	186,951	554,850
17546	Charles Ramson	91,800	27,439	119,239
A – 2631810	Charles Ramson	570,441	375,186	945,627

Extracted from the receivables listing are 42 debtors whose owe in excess of \$4,000,000 totalling \$686,781,422. **See appendix 15**

There are also several debtors with payment plans who have defaulted on their payments. They are, as extracted from the BOD’s minutes. **See appendix 16**

A perusal of the Scheme’s audited financial statements for 2013 revealed that sundry receivables were \$168M part of which dates back to 2001. Included in this amount, is a balance of \$116M owed by Ministry of Finance and an amount of \$38M which represents dishonored cheques from contributors. Further, over \$20M of the \$38M are in excess of five years. Management has advised that these balances were referred to the Guyana Police Force but were sent back to the Scheme to be dealt with under their debt recovery policy. **See appendix 17**

The BOD needs to determine whether the sundry receivable balance should not be impaired in accordance with IAS 39.

### **Amendments to the NIS Act**

The Operations Manager shared with us a copy of a Bill which was prepared in 2009 aimed at implementing several amendments to the National Insurance and Social Security Act.

*One of the amendments was “Every employer or self-employed person who applies for a government licence or permit to conduct business, to trade as a source of reportable income when submitting the application shall submit a certificate of compliance in Form 1 in Schedule A in respect of employers and in Form 2 in respect of self-employed persons, issued by the General Manager to the effect that he is currently in compliance with this Act in relation to the collection or payments of contribution.”*

The Bill was eventually passed in the National Assembly in 2009 and Gazetted in January 2010 excluding the above paragraph. The Operations Manager emphasized that had this amendment been approved then a wider proportion of the working population would have been forced to comply with the law and thus result in improved income for the Scheme. Indeed, it would have made it mandatory for all mini bus, taxi drivers, vendors, etc. to comply with the Scheme’s Act.

## **Bad debt policy**

As noted above, the Scheme currently does not recognize outstanding contributions. As a result, there is no policy on receivables management.

## **Recommendations**

- (1) The Scheme should complete an assessment on loss revenue and establish an effective and efficient Debt Management Unit.
- (2) A debt management policy should then be implemented to recover the loss revenue
- (3) A forecast and budget should be completed for the Unit. This will provide guidance for the Unit and can be adjusted as situations arise that were not contemplated.
- (4) The Unit's staff should receive appropriate training so that they can effectively carry out their mandate
- (5) A database for receivables should be acquired/designed; possibly buy a receivable module for ACCPAC. The database should be able to show ageing of receivables and other key analytical information as may be required.
- (6) The database should be kept up to date with all receivable balances.
- (7) Systems should be implemented to ensure effective communication with the Accounts Departments who would supply information on defaulting contributors. Management should also explore the possibility of integrating this database with NIMS. However, the NIMS must be operating on an accrual basis before this is done.
- (8) Timely and regular statements should be sent to defaulting contributors.
- (9) A legal department should be set up to assist the Debt Management in recovering debts.
- (10) Contributors who do not respond to statements sent should be referred to the legal department for follow up action.
- (11) The Legal Unit should have adequate resources to deal with legal matters in a timely manner.
- (12) The NIS branches should be adequately staffed with inspectors so that the wider population not contributing can be pursued.
- (13) Systems should be in place to rotate inspectors to reduce possible discrepancies that may arise due to collusion between the inspectors and defaulters.



(14) The Board should consider the omitted paragraph mentioned above for inclusion to the NIS Act.

8. **Benefits:** The Scheme provides the following benefits:-

**Long Term**

- Old Age Benefit, Invalidity Benefit, Survivors Benefit and Funeral Benefit

**Short Terms**

- Sickness Benefit, Sickness Benefit Medical Care and Maternity Benefit

**Industrial**

- Injury Benefit, Disablement Benefit and Industrial Death Benefit

We requested and received an electronic database from the Information Technology and Statistics Department of all payments of benefits over \$25,000 for the period November, 2011 to December 2014. Based on this database, the following were done:

- A sample of 383 claims' records totaling an amount of \$157,071,227 was requested for the year 2012 out of which 170 or 46% were received for examination. The remaining 213 or 56% were not presented for examination as they could not have been located. **See appendix 18**
- A sample of 31 claims' records totaling an amount of \$34,973,062 was requested for the year 2013 out of which 15 or 48% were received for examination. The remaining 16 claims or 52 % were not presented as they could not have been located. **See appendix 19**
- A sample of 58 claims' records totaling an amount of \$49,877,440 was requested for the year 2014 out of which 23 or 40% were received for examination. The remaining 35 claims or 60% were not presented as they could not have been located. **See appendix 20**

*Issues encountered after claims requests were made*

- Into the second and third week after making the request for the 2012 claims, follow-ups for the outstanding claims were made. Based on the amount of time that this took and because of time constraints further examination of the claims was not possible. Specifically, the claims that are classified under the long term category and pensions units were the claims that took an excessive amount of time to be presented or feedback to be received.
- Of the claims that were not presented for examination, some were either at the out of town locations or just could not be found due to an overcrowded, ineffective filing system.

**Incomplete information in files presented for audit**

Based on the files examined, there were missing information as included under ‘**Comments**’ below which prevented us from determining the accuracy of the computed amounts paid to the following persons:

<b>National Insurance #</b>	<b>Type</b>	<b>Insured Person</b>	<b>Claim #</b>	<b>Voucher #</b>	<b>Amt. (\$)</b>	<b>Date paid</b>	<b>Comments</b>
B17363185	DSP	Radesh Ramsingh	20063491	15082352 , 15082353	140,316 165,828	2-May-12 2- May 12	Wages sheet for calculation of INB and DSP not in file
A13945456	DSP	Abdul Hassan	20109440	15222965	121,968	21-Aug-12	Documents not present in file to perform checks
A13155072	DSG	Lucille James	21178442	8776051	257,634	22-Aug-12	Documents not present in file to perform checks
B16548323	INP	Audaipaul Bhagwandas	98052012	14919028	263,274	25-Jan-12	Action sheet not in file to verify calculations
B1771328	OAP	Elaine C. Mootoo		15294051	1,926,854	31-Oct-12	Action sheet not in file to verify calculations
B4012464	OAP	Pauline Simon	20767286	15130204	1,339,214	4-Jun-12	Action sheet not in file to verify calculations
A0613778	FUG	Jane Mariatte	21144829	8725883	25,080	18-Jan-12	Documents not present in file to perform checks

A1460450	FUG	Ramsundar Mansingh	21145461	8726662	25,080	20-Jan-12	Documents not present in file to perform checks
A3678737	FUG	Bhagwande n Lowakul	21095161	8728817	25,080	26-Jan-12	Documents not present in file to perform checks
B3236049	FUG	Kelly Benjamin	21151351	8729507	25,080	1-Feb-12	Documents not present in file to perform checks
A0796110	FUG	Parbattie	21150097	8730577	25,080	7-Feb-12	Documents not present in file to perform checks
B0714303	FUG	Haripersaud	21149602	8731439	25,080	9-Feb-12	Documents not present in file to perform checks
B4038923	DTP	Seepersaud Beharry		15079047	106,650	24-Apr-12	Action sheet not in file to verify calculations
B2752509	DTP	Jasodra Singh		15118015	213,489	29-May-12	Documents not present in file to perform checks
A3753670	DTP	Rahila Gonsalves		15145877	107,926	19-Jun-12	Action sheet not in file to verify calculations
A10338852	DTP	Davika Mohan	96016077	15182248	165,616	10-Jul-12	Action sheet not in file to verify calculations
B3449063	DTP	Colin Ross		15244590	245,117	4-Sep-12	Action sheet not in file to verify calculations

A1265891	DSP	Charan Persaud	20112603	15801151	604,996	29-Aug-13	Action sheet not in file to verify calculations
A18120519	DTP	Uland Cummings	21217388	15918173	585,837	17-Dec-13	Action sheet not in file to verify calculations
A2631471	SUP	Baharally Rudolph	96021650	16239981	701,901	10-Jul-13	Action sheet not in file to verify calculations

In addition, we verified that over/under payments were made in the following cases:

NI #	Type	Claimant	Amt. Paid	% Ass.	INB	Annuity	Grant	Variance	Comments
A5061379	DSG	Patricia Bourne	538,938	10%	20,000	260	519,994	18,944	Overpayment
A14228118	DSG	Denninson Bowman	170,976	10%	12,143	260	315,709	(144,733)	Underpayment
B10706265	DSG	Umrao Naipaul	127,982	7%	5,640	260	102,654	25,328	Overpayment

- \* **INB** – Injury Benefit
- \* **% Assessed** - % of disablement determined by Medical Board.
- \* **Annuity** – Used in formula to calculate Disablement Grant and is calculated as 5 years X 52 weeks.
- \* **Grant** – Using the formula, this amount is what should have been paid to the claimant.

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These findings were discussed with the Supervisor of the 'Disablement Pension Section', Ms. Hodge. She indicated that these are genuine cases of over/under payments. She also indicated that the staff would have used the already calculated injury benefit amounts (which are based on the claimant's wages earned) computed by the Short Term Benefits Section and recorded in NIMS. Subsequently, we sought clarification from the staff and one of the supervisors of the Short Term Benefits Section said they concluded that the calculations of the injury benefits as recorded in NIMS are incorrect.

This indicates that information entered into NIMS by the Short Term Benefit department may not have been re-checked for mistakes and accuracy. Consequently, this will result in the Disablement Pension Section using the incorrect calculations to derive at the Disablement Grant/Pension to be paid. **At the time of the audit, it was not possible to determine the amount that would have been over/under paid to the claimants and management are not aware of the errors of the claims unless an audit is done on each benefit paid.**

Apart from not receiving all benefit claim files requested, the conditions of the files were poor, sodden due to flooding in the Registry causing many of the documents to be illegible. Most of the files were not kept up to date with relevant documentation such as action sheets, wages sheets, which are needed for the calculation of benefits to be paid. Ms. Hodge was also informed of this and she indicated that the documents should have been in the files or in the 'Claims Unit' but she could not say where they were located.

**Other findings**

- It was noted that for the Injury Medical Care that falls under the Industrial Benefit category, there is no capped ceiling as compared to Medical Care Contributors which has a ceiling of \$1,136,000. During a discussion with the Operations Manager, Mr. William Boston, he indicated that in many instances, Injury Medical Care claimants are given full reimbursements which are in excess of the Medical Care Contributors ceiling. There is also no limit to the number of claims per year for which a contributor can make. Approvals for these reimbursements are done by the Board. A list of a few of these claimants, identified by their NI #, are:-

NIS #	Claim Type	Claim #	Cheque #	Payment Amt.(\$)	Date of Issue
A11064532	IMC	21041390	8663292	25,350	05-APR-2011
A11064532		21041464	8663293	34,540	05-APR-2011

A11064532		21041471	8663295	66,500	05-APR-2011
A11064532		21068629	8679592	272,700	16-JUN-2011
A11064532		21090978	8694430	46,930	23-AUG-2011
A11064532		21090981	8694432	36,600	23-AUG-2011
A16759813	IMC	21290907	8824207	608,000	05-APR-2013
A16759813		21291600	8824208	360,666	05-APR-2013
A18779538	IMC	21490451	8961403	1,214,839	22-DEC-2014
A18779538		21490458	8959754	26,800	15-DEC-2014
A17579111	IMC	21504782	8978594	575,332	3-MAR-2015
A17579111		21530136	8986771	1,200,000	14-APR-2015
B17111386	IMC	21166923	8742748	972,300	30-MAR-2012
B17111386		21166927	8745129	25,740	13-APR-2012
B17111386		21202470	8765588	47,800	29-JUN-2012
B18569285	IMC	21442288	8937446	500,000	8-SEP-2014
B18569285		21456202	8937447	447,364	8-SEP-2014

- For Medical Care Contributors, the ceiling is set at \$1,136,000 per claim. This means that contributors can make several claims for this type of benefit during the year. Advances of up to \$1,000,000 can be given to claimants with the cheques being written in the names of the Hospitals or Medical Centre where the treatments are being received.

A sample of claimants identified by their NI# is as follow:-

NI #	Type	Claim #	Amount	Date paid
B4900163	MCC	21237905	1,136,000	22-Oct-2012
		21358462	1,136,000	20-Nov-2012
B12652921	MCC	21141634	1,136,000	29-May-2012
		21184916	1,136,000	22-Jun-2012

- Falling under the long term category is the Survivor's benefit. The Scheme's policy states that this benefit is payable to the dependants of a deceased person. One of the qualifying conditions states that the dependants have no other sources of income and are fully incapable of maintaining their livelihood. During a discussion with the Operation's



manager, Mr. Boston, he indicated that this isn't the case with some of the claimants in this category. Some of the claimants of the Survivor's benefit/pension reside overseas and do not make a claim until they return to Guyana after a few years. This clearly indicates that the dependant's livelihood was sustained by other sources of income. In addition, the NIS policy on Survivor's states that this type of pension is payable only when the General Manager is satisfied that the dependants' circumstances have changed either by remarriage or otherwise in which case the pensions should not have been paid to dependants who reside overseas and make a claim a few years later. He indicated that in some case these persons have remarried overseas with NIS having no knowledge of this and further, it is difficult to determine the sustainability of their livelihood of these persons.

Section 14(2) of the old NIS Act states:

*"A person failing to make a claim for benefit within the prescribed time shall be disqualified from receiving:*

*(c) in the case of old age benefit, invalidity benefit, survivor's benefit, disablement benefit and death benefit:*

*(i) where such benefits consist of a pension, benefit in respect of any period more than three months before the date on which the claim is made"*

However in accordance with Section 14(2)(ii) this condition will be waived if the claimant can prove;

*"that throughout the period between the earlier date and the date on which the claim was made there was good cause for delay in making such claim"*

However if this is granted no amount should be paid in excess of six months before the date of making claims as stated in Section 14 (2) below:

Provided further that no sum shall be paid to any person on account of:

*(i) Sickness benefit, injury benefit or maternity benefit or on account of old age benefit, invalidity benefit, disablement benefit, death benefit or survivor's benefit where such benefit consists of a pension, in respect of any period more than six months before the date on which the claim therefore is duly made."*

These Sections were removed from the Act due to representations made by the Consumer's Affairs Bureau in Guyana. Had these Sections remained in effect, then overseas claimants especially those claiming survivors' benefit would not have the opportunity to misuse the system whereby they can make a claim long after or whenever they come to Guyana.

Consequently the new BODs may want to rethink the validity of these Sections which were repealed.

Based on the audit work carried out on the files with **complete documentation**, we noted that they were in compliance with the Scheme's policy and that benefits paid were accurately calculated with the exception of the few claims in the Disablement Grant category.

### **Old Age Pension**

Included in its Mission Statement, The National Insurance Scheme seeks "To provide for retirement through age..."

Old Age Benefit is payable to insured persons who would have attained the age of sixty years and also fulfilled the required qualifying conditions. The Benefit can be paid in the form of a pension or grant.

During the period November 2011 to 31<sup>st</sup> July, 2015, the Scheme recorded a total of eight thousand seven hundred and sixty nine (8,769) persons who would have attained the age of sixty years. However, out of this total only five hundred and two (502) persons achieved the required amount of seven hundred and fifty (750) contributions to qualify for old age pension. Six thousand three hundred and eighty one (6,381) persons satisfied the requirement of fifty contributions to qualify for the old age grant. The remaining one thousand eight hundred and eighty six (1886) persons accumulated less than fifty contributions and were therefore not eligible to claim for the old age grant/ pension.

At July 31, 2015, the Scheme has on record seven hundred and thirty three (733) active pensioners aged ninety and older. Active pensioners are those who have been in continuous receipt of pension. Some pensioners who would not have collected their pensions for a period longer than one year are still categorized as active pensioners. Only when death certificates are submitted then would pensioners' cases be closed and removed from the active list.

Ms. Holly Greaves informed us that the verification process of a pensioner's status 'is not always an easy task'. She further advised us that efforts are usually made to contact pensioners via telephone and the mailing system but unfortunately responses are not always received. In cases like this, it is difficult to determine whether a pensioner is still alive or deceased.

A table showing the number of active pensioners by benefit types for the period 2011 – May 2015 is as follows:-

<b>Benefit Types</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>May, 2015</b>
Old Age Pension	32,899	34,398	31,093	32,112	32,373
Invalidity Pension	1,894	1,867	623	584	567
Survivors' Pension	13,268	13,762	11,624	12,310	11,642
Industrial Death Pension	469	467	281	273	265
Disablement Pension	1,789	1,790	1,144	1,115	1,102
<b>Total</b>	<b>50,319</b>	<b>52,284</b>	<b>44,765</b>	<b>46,394</b>	<b>45,949</b>
<b>Total costs (G\$000)</b>	9,390,085	10,258,650	11,136,506	13,472,536	5,780,056

An analysis of the pension distribution by Branches at June 2015 is as follows:

<b>Office</b>	<b>Disablement Pension</b>	<b>Death Pension</b>	<b>Invalidity Pension</b>	<b>Old Age Pension</b>	<b>Survivor's Pension</b>	<b>Total</b>
Bartica	11	4	4	237	75	331
Corriverton	52	10	27	955	526	1,570
Essequibo	38	15	28	1,196	626	1,903
Fort Wellington	57	15	29	1,337	707	2,144
Georgetown	363	102	196	16,039	4,205	20,905
Klein Pouderoyen	84	12	54	1,898	709	2,757
Leonora	125	14	47	1,905	952	3,043
Linden	61	12	18	1,813	611	2,515
Lethem	3	1	0	82	12	98

Mabaruma	8	1	1	141	47	198
Melanie Damishana	145	26	78	2,463	1,131	3,816
Mahaicony	12	7	4	404	193	620
New Amsterdam	75	27	38	2,197	865	3,202
Port Mourant	68	19	43	1,733	984	2,847
<b>Total</b>	<b>1,102</b>	<b>265</b>	<b>567</b>	<b>32,373</b>	<b>11,642</b>	<b>45,949</b>

Within the NIMS's database, there are individuals who have attained the age of 60 years and also accumulated the required seven hundred and fifty (750) contributions but have not submitted a claim to receive their pension.

Below is a summary of the number of persons who have not made a claim at August 31<sup>st</sup>, 2015:

<b>Year of Attaining Age 60</b>	<b># of persons having at least 750 contributions</b>
2006	102
2007	123
2008	114
2009	127
2010	151
2011	135
2012	159
2013	145
2014	126
2015	154
<b>Total</b>	<b>1,336</b>

The Scheme also pays pension to persons who reside overseas. A summary of active and inactive pensioners at May, 2015 is as follows:

Status of overseas pensioner	Number of pensioners	Total Cheque value 2011-2015 (Cheque value over \$25,000) \$
Active	13,688	11,180,084,966
Inactive	834	338,702,934
Total	14,522	15,187,879.00

### **Recommendations**

- a) All documents received for the processing of claims and pensions should be filed immediately into their respective folders to avoid the issue of missing documentation.
- b) Calculations of benefits should be rechecked by supervisors and a sample by the Internal Auditors to ensure that accurate amounts are being paid out to claimants.
- c) A ceiling should be considered for the Injury Medical Care benefit falling under the Industrial Benefit Category based on recommendations from the Scheme's Medical Personnel.
- d) The 8<sup>th</sup> Actuarial Review reported that based on the thirty year projections of NIS's finances, cash flow deficits will continue in the following years and the National Insurance Fund will be exhausted in 2021. It was recommended that benefit reforms should be implemented immediately to enable the reduction of long term costs; to date nothing has been done or implemented to this effect.

### **9. Filing and Disposal of claim records**

The NIS has a policy of discarding claim records that are five years and older. This is done via a 'weeding exercise'. All Short Term Benefit claim records that are five years and more are disposed of with the exception of those for Injury claims which are used by the Long Term Benefits Section. This exercise is done annually with the staff manually searching through each individual claim unit for those older than five years. The staff then manually tears up the claims

as a shredder is not available to aid in this process. The Benefit's officer, Ms. Bibi Hassan, indicated that this process is tedious and tiresome and it is never completed. She has also indicated that the staff who are processing benefit claims are the same ones that do the filing of the claims which is always hampered because of time constraints. This leads to a 'pile' up of work to be done at a later time.

All long term and pension cases are processed and stored at the Head Office in Brickdam. All the files are stored in 'The Registry'. As the number of pensioners and long term claims increase yearly, it means more space would be needed to ensure proper storage of these files. The Registry is filled beyond capacity and files are packed in boxes upon boxes. **Please see appendix 21 for the state of the Scheme's filing.**

The Registry has been affected with floods in the past and pension files kept on the floor have been soaked with water coming up from the underground sewage system. These files are put in the sun to dry before being returned to the Registry and in some cases files are completely damaged. Locating a file has become a lengthy process rather than an efficient one which results in a longer waiting time before a claim can be attended to thereby leading to create a negative image of the NIS.

With the magnitude of paperwork the Scheme deals with and the constraints of human resource and sufficient space, the BOD will need to consider alternative storage space immediately, failing to do so would cause the system to collapse.

## **10. Report on the Information Technology System**

### **(a) Transition from the Manual to Computer System**

A project to enter and verify contributions' records for the years 1989 to 1998 was implemented in 2002. Three firms INFOTECH, Electronic Information System (E.I.Sys) and Unified Business Services (U.B.S) were contracted to execute this project. The contracts for these parties were not available for us to determine the terms and conditions and to conclude whether the Scheme had benefited from their services.

The Data Entry National Insurance Scheme-'DENIS' program was created and designed in Microsoft FoxPro to use by the three firms in posting contributions and verifying these postings to be correctly posted. At the conclusion of the project, a total of 9,523,144 transactions were posted. However, we discovered from discussions with Ms. Holly Greaves and her team that the project was poorly executed which resulted in 61.43% (5,849,704) transactions being rejected when attempts were made to upload into the NIMS. The rejects were caused by various reasons such as incorrect social security number, names, missing information, etc.

We were advised that the contracted parties were paid based on the number of transactions posted but based on the percentage of rejections by NIMS and the absence of the contracts, we could not determine whether the Scheme received value for money.

During the audit of contributions, it was noted in the Suspense/Invalid numbers' Report that there were several contributors' accounts which had more than 52 contributions per year. This is a clear indication of duplicity of postings to the NIMS either when uploading was done through the FoxPro system or direct postings.

The report showed that they were 6,234 contributors with over 52 weeks' contributions in the system. This matter was discussed with the Management Information System (MIS) team including the Manager, Ms. Greaves and they explained that this happens when an employee works with more than one employer at the same time.

We then carried out checks to determine the reasons for the duplications and confirmed the following:

- (i) Transactions were indeed duplicated in the NIMS system
- (ii) They were indeed payment of over 52 contributions per a year, which resulted in overpayment in favour of the employees.

Please refer to **appendix 22** for a sample of those employees.

To date, the Scheme has an average of 1,155,270 pending transactions with queries in the 'DENIS' system. **These must be cleared before posting to NIMS.** However, management advised that there were instances when the DENIS system was bypassed and some of these transactions were posted directly to NIMS. No reason was given for this approach but in our opinion, it may have saved time but the information still remains in DENIS.

As stated above, the contracts and Board's approval for this project were not available for our review. Consequently, we were unable to determine the following:

- (1) The Board's approval and the terms and conditions for the contracts.
- (2) Whether the project was carried out in accordance with the agreed terms and conditions.
- (3) The sum awarded to the three firms and whether these were awarded through tender.
- (4) Whether the full amounts as per contracts were paid to the firms and what procedures were in place to seek remedy if the firms had breached the terms and conditions of their contracts.
- (5) What remedial action was taken by the Scheme for the 61.43% of transactions rejected by NIMS.

- (6) Whether an enquiry was done to ascertain whether the contractors were negligent in the performance of their duties.
- (7) The additional costs incurred by NIS to have staff solve the queries in 'DENIS' system.
- (8) Who approved the In house project?

### **(b) Electronic Schedule System**

An electronic schedule system was implemented in 2009 to aid in the 'easy' uploading of contributions to the NIMS system. Electronic schedules are submitted to branches offices via flash drives from the Contributors and these are forwarded to the Camp and Bent location for uploading into NIMS. However, the entry and verification of the contributions' records into NIMS system continue to be affected by the following reasons:

- (i) Incorrect information presented, particularly for employees including their names and NIS number.
- (ii) When the system transfers of contribution data are being carried out, the system tends to 'freeze/overload' due to the amount of data or number of users on the system and duplicates transactions, which result in information being duplicated in the NIMS system.

### **(c) Suspense/Invalid Contribution**

The Scheme has 1,669,331 contributions in a Suspense account which had a total value of \$12,803,639,077 as at August 19, 2015. These contributions are being held in a suspense account to be credited at a later date to employees' and employers' accounts when the reasons why they were classified to the suspense account are cleared. The main reasons are incorrect security numbers, names, no NIS number, etc.

We were advised by Ms. Holly Greaves, Manager, that postings for back years starting from 1999 to 2009 were in progress and as a result, the suspense account numbers will continue to increase. In addition, the Scheme is continuously facing challenges because of incorrect submissions by employers which are contributing to the increase of the Suspense account. Management explained that employers continue to submit returns with no NIS numbers, Incorrect NIS numbers, and in some cases numbers generated by the employers.

This has been proven to be a significant issue when claimants submit claims and their 'system status' is not up to date to show whether the claimant has made the required number of contributions to qualify for the claim. Consequently, the time to process the claim is delayed until the system is corrected which ultimately leads to a negative perception of the Scheme.



Below are details of the Suspense/Invalid amounts:

<b>Invalid Numbers</b>				
<b>Year</b>	<b>Number of Instances</b>	<b>Employer Total G\$</b>	<b>Employee Total G\$</b>	<b>Total G\$</b>
1978	7	2,934	1,956	4,890
1979	1	20	13	33
1987	5	-	-	-
1988	9	1,961	1,308	3,269
1989	16,691	3,857,771	2,552,593	6,410,365
1990	23,197	7,711,789	5,110,319	12,822,107
1991	23,532	14,970,819	9,931,887	24,902,706
1992	24,566	34,152,217	22,701,200	56,853,417
1993	22,698	44,724,028	29,698,648	74,422,676
1994	23,538	73,210,702	48,626,454	121,837,156
1995	23,858	105,476,828	70,113,397	175,590,225
1996	21,996	117,311,143	77,989,970	195,301,112
1997	22,979	134,637,859	89,522,939	224,160,798
1998	19,460	130,555,567	86,695,155	217,250,722
1999	18,168	158,211,373	105,188,781	263,400,154
2000	18,234	193,208,949	128,414,529	321,623,479
2001	16,781	188,862,472	125,514,338	314,376,810
2002	16,824	192,149,861	127,904,501	320,054,361
2003	15,112	191,312,425	127,332,893	318,645,317
2004	14,910	187,870,765	124,914,292	312,785,057
2005	15,084	204,340,146	135,786,947	340,127,093
2006	13,848	177,161,140	117,622,382	294,783,523
2007	12,789	168,821,782	111,784,033	280,605,814
2008	10,005	145,741,491	96,544,954	242,286,445
2009	9,767	133,932,011	88,684,113	222,616,123
2010	7,793	111,564,347	74,081,538	185,645,886
2011	7,766	116,346,374	77,014,000	193,360,374
2012	6,755	115,633,649	76,451,585	192,085,234
2013	7,675	138,563,068	91,742,083	230,305,152
2014	7,732	149,581,793	99,119,451	248,701,244
2015	3,429	47,596,958	31,582,405	79,179,363
	<b>425,209</b>	<b>3,287,512,241</b>	<b>2,182,628,665</b>	<b>5,470,140,905</b>

<b>Suspense Numbers</b>
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Year	Number of Instances	Employer Total G\$	Employee Total G\$	Total G\$
1978	17	11,539	7,666	19,205
1985	1	914	609	1,523
1987	6	-	-	-
1988	45	18,186	12,092	30,278
1989	46,920	6,538,740	4,249,108	10,787,848
1990	83,192	15,929,533	10,596,970	26,526,502
1991	79,318	30,542,979	20,278,410	50,821,389
1992	79,119	66,064,912	43,859,598	109,924,511
1993	72,833	81,871,280	54,251,720	136,123,000
1994	57,330	88,448,763	58,693,937	147,142,699
1995	69,714	164,405,769	109,213,335	273,619,103
1996	71,920	183,576,767	121,958,983	305,535,750
1997	71,249	210,756,658	139,776,871	350,533,528
1998	63,547	219,709,981	145,619,195	365,329,176
1999	55,552	223,347,704	148,142,078	371,489,782
2000	52,366	263,247,385	174,671,929	437,919,314
2001	47,875	256,586,963	170,221,443	426,808,407
2002	41,879	219,008,025	145,233,511	364,241,536
2003	39,126	215,776,199	143,146,745	358,922,943
2004	34,267	205,829,646	136,700,458	342,530,104
2005	39,668	237,681,936	157,724,520	395,406,456
2006	49,390	252,709,763	167,650,619	420,360,382
2007	35,451	240,463,173	159,313,771	399,776,945
2008	31,225	223,871,017	148,432,108	372,303,126
2009	27,506	193,359,155	128,178,610	321,537,764
2010	20,253	142,529,220	94,455,996	236,985,216
2011	18,434	129,934,108	86,081,807	216,015,915
2012	17,279	146,450,954	96,969,001	243,419,955
2013	15,570	141,802,955	93,744,915	235,547,870
2014	16,346	175,419,450	116,189,528	291,608,978
2015	6,724	73,547,369	48,681,597	122,228,967
	<b>1,244,122</b>	<b>4,409,441,043</b>	<b>2,924,057,129</b>	<b>7,333,498,172</b>

#### **(d) Backup and storage of DATA**

The MIS department back up their files once a week which is stored on a tape and deposited to a safety deposit box held with the Demerara Bank Limited.

#### **Recommendations**

- a) The BODs should review the existing plan for the entering and verification of back year's contributions to determine its effectiveness and whether it needs to be revised or enhanced.
- b) Immediate actions should be taken to ensure that the outstanding entering and verification of contributions are done in a timely manner given the project started in 2008.
- c) Action and plans should be put in place to ensure that the Suspense Accounts are cleared so that all contributors' accounts can be brought up to date.
- d) The BODs should ensure that policies are put in place to prevent the suspense account from increasing from its current postings either by manual or from the "electronic schedule system" implemented in 2009
- e) Policies should be implemented including penalties to deal with Contributors who consistently and deliberately submit incorrect information and/or who refuse to visit the NIS to correct their errors.

#### **Limitations of the NIMS system**

We confirmed, after discussions with the NIMS team, that the program which was implemented in 1993 is outdated and have several limitations such as its incompatible with modern servers and inability to be up-graded. They acknowledged that the current system needs to be replaced immediately and that they are in process of seeking a long term solution.

At the time of our audit, the MIS department was considering software applications which can achieve the objectives of the Schemes' requirements. Alternatively, seeking to build a customize software which will run parallel to the existing system until it is functioning satisfactory.

In 2008, Levergent Technologies in collaboration with the Inter-American Development Bank carried out an evaluation audit of the Scheme's existing system. The goal of the audit was to 'identify and correct any issues that affect the sustainability of the NIMS environment for the indefinite future'. **See appendix 23 for the report submitted.**

One of the key limitations of NIMS is that it is a stand-alone software which is accessed via wide area network at branches with internet access. NIMS is used for contributions, benefits postings, and bank reconciliations; ACCPAC is used for Finance functions, and Micropay – Payroll functions. As a result of this separation, it is not possible to integrate these software because

they are incompatible, instead information from NIMS and Micropay have to be batched from the respective software before postings can be made to ACCPAC. In addition, the Scheme does not have any software to manage fixed assets.

## **Recommendations**

- a) A long term plan for the Information and Technology systems should be discussed and approved by the BODs in collaboration with the IT department and suitable experts, if needed. The key focus should be to have a server which can be easily replaced if damaged and is adaptable.
- b) NIMS should be customized to integrate accounting, fixed assets management, payroll, etc. Alternatively, a modern software program should be explored as was demonstrated to the Scheme's representative in Barbados on December 2, 2014. The software was ARIEL.
- c) The Levergent Technologies' report from 2009 includes a number of limitations and recommendations to improve the Scheme's IT systems that should be reviewed.

## **11. Fixed Assets**

The Scheme has software to manage fixed assets except that it is not functioning. The Finance Controller confirmed that there are issues with the software resulting in management continuing to use a card system to manage fixed assets. The card system is used to record depreciation, additions, disposals etc. In addition, an EXCEL spreadsheet is prepared annually with the opening balances from the previous year, adjusted for additions and disposals to give the closing balances.

During our visits to some of the branch offices, we noted that they were several assets which were not in working condition due to obsolescence and/or damage but are still included in the asset listing maintained by the offices. Further, some of the assets were not coded.

The responsibility of the recording and maintenance of the assets' listings falls under the 'Fixed Assets Officer' who is supervised by the Management Accountant. At the time of our audit, Internal Audit was working along with the Fixed Assets Officer to carry out physical verifications and reconciliations of fixed assets with the internal records for impairments/additions/disposals. At the same time to add identification codes to assets which had none. This exercise was supposed to have been completed by September, 2015.

## Recommendations

- a) A physical inventory of assets should be completed and posted to a fixed assets register. The Register can be managed by a fixed assets module of ACCPAC or NIMS when it is modernised. This exercise should be done annually and the physical assets should be compared to the assets register to ensure that all assets are accounted for. During the year, the Internal Audit department should carry out random verification on assets to confirm their existence and compare samples to the Fixed Assets Register.

The register should include at least the following:

- I. Cost of asset upon acquisition
  - II. Date of acquisition and disposal
  - III. Description and location of the assets
  - IV. Identification codes which should be unique to the type and location of the assets e.g. 1 desk top Dell computer at HO-FD-E-0001 (Meaning Head Office HO, Finance department FD, Classification of asset-Electronic and the number which would numerical) or any suitable code approved by management
  - V. Working conditions
  - VI. Depreciation rates
- b) The register should be updated with acquisitions and disposals monthly or whenever there are such activities.
- c) Assets no longer usable should be reported to the BODs for approval to be written off; assets that are still in use but with nil value should be appraised to determine their current values.
- d) Assets should be safeguarded at all times against misuse and theft.
- e) Assets being moved from one location to another should be accompanied by a transfer form approved by the Fixed Assets Officer and signed by the Manager at the locations issuing and receiving them.
- f) Assets which are impaired should be approved by the BODs to be written down or off.
- g) Fixed assets should be reviewed annually in accordance with IAS 16 and 36 to ensure that the assets are carried at their fair value and that the depreciate rates used are sufficient to write off the assets over their expected useful lives.

**(a) Report on the Corriverton Property**

NIS’s building at Lot 8 Springlands, Corriverton, Berbice was reconstructed in 2010/2011 and commissioned in 2011 at cost of \$69,923,940. The BODs appointed a Sub-committee called the Tender Evaluation Committee headed by a director and included three independent parties including Samuel Goolsarran from CAGI. The then appointed a Consulting Engineer who provided an estimate of \$50,667,948 to construct the building. An advertisement was then published in the press in April 2010. Two bids were received and the evaluation was done by the Tender Evaluation Committee, since according to the Board, the National Board for Procurement and Tender Administration was likely to have delays. This was expressed in the 421<sup>st</sup> board meeting dated April 26, 2010.

Five contractors had purchased the bid document but only two bids were submitted based on a memorandum dated April 15, 2010 from the Assistant General Manager. The two bids received were as follow:

Fyffe Building & Contracting Works	52,569,560	3.7% above estimate
G. Bovell Construction Service	112,825,228	222.6% above estimate

According to the Sub-committee, Fyffe Building & Contracting Works had the track record and experience to effectively execute the project and on that basis was awarded the contract. The project was overseen by the Consulting Engineer and Building Maintenance Officer of NIS who played an integral part throughout the construction. This was evident by the many reports he had submitted.

At a Sub-committee meeting held on November 22, 2010, the Chairman of the Board was informed that a variation of \$8,102,688 was required for electrical works and a generator which took the total cost to \$60,672,248.

There were several issues during the construction because the Contractor had difficulties meeting the deadline. At a Sub-committee meeting held on March 18, 2011, the Assistant General Manager informed the BODs that a financial arrangement was worked out to have the Scheme procure various items on behalf of the Contractor.

The matter had escalated to the extent that during another Committee meeting held on May 20, 2011, the Chairman took several decisions including terminating the Contractor’s services. Based on BODs minutes of a meeting held on May 30, 2011, the Chairman reversed his previous decisions and stated several other decisions agreed upon at Office of the President as extracted below:

*“The chairman said this project presented a desperate situation and was at its final stage. He said the project was fairly well designed.*

*Following a meeting at the office of the president the following recommendations were made:*

- An additional expenditure estimated at \$10M be incurred.*
- The services of the contractor be retained.*
- A clerk-of-works be engaged.*
- Procurement of goods be done by the scheme.*
- The scheme be responsible for fulfilling employment contracts of contractors on the project.*
- A programme for relocation be prepared.*

*Directors supported the recommendations.*

*The chairman said the building would be completed and handed over on July 18, 2011 and stressed the need for a programme for relocation before commissioning the building.”*

**See appendix 24 for minutes, contract and other key information relating to this project.**

#### **(b) Valuation of properties**

A valuation was done by Compton P. Outar, MSST. DIP., (Lon) Chief Valuation Officer (Ag) and a report submitted on October 3, 2013 which showed that the value of the Corriverton property was appraised at \$37.9M compared to the cost of \$69.9M, an impairment of \$32M.

#### **Extracted from the 464<sup>th</sup> minutes of meeting**

*“The Chairman of the Board submitted that the issue for Directors was the premature adoption of the revaluation provided by the Chief Valuation Officer allowing its inclusion in the 2012 Audited Financial Statements without Directors being privy to what was submitted. As a result, Directors had requested that information be provided.*

*The Meeting was informed by the Finance Controller that she had stopped External Auditors from working on the 2012 Audited Financial Statements.*

*From a Brief assessment made of the revaluation submission, it was found that there were reductions and increase in the value of some properties that would aggregately impact on the Scheme’s reserves.*

*A query was raised about the yardstick that was used to complete the revaluation and request made for the explanation to be given.*

*The Assistant General Manager, Administration in response to a question stated that the earlier valuations were provided to the Chief Valuation Officer for guidance.*

*The Finance Controller pointed out that Corriverton Local Office building constructed at a cost at \$69M in 2012 was revalued at \$37.9M.*

*Directors questioned the significant decline in the value of the building.*

*Directors supported the Finance Controller's suggestion to tactically use the Revaluation of properties figures in the 2012 Audited Financial Statements and that the submission be corrected in preparation for the 2013 Audited Accounts."*

### **Extracted from the 475<sup>th</sup> minutes of meeting**

*"The Secretary to the Board reported that he was in contact with one Mr. Green in relation to the Board's dissatisfaction with the valuation for the Corriverton Local Office building. He said he was advised that the value of the property was accurate."*

The BODs then decided to finalise the audited financial statements for 2012 and 2013 without the new valuation, as they were in the processing of communicating with the Chief Valuation Officer.

### **Conclusion**

It seems that the construction of this office was fraught with problems from the beginning. It appears that the Engineer's estimate did not include major cost components like the generator and additional electrical works to facilitate the generator. In addition, it seems that the construction was poorly supervised and had to be extended way beyond the estimated deadline to allow for the finish of construction. The BODs took a decision to terminate the contractor's services as explained in their minutes but subsequently changed their decision because of the Office of the President interference.

Subsequently, the Chief Valuation Officer issued an appraisal of the building and reported that its value had been impaired by \$32M as stated above a decrease of 46%. This is a clear indication of the level of competence displayed by the BODs and supported by Office of the President by their involvement.

### **(c) State of NIS's buildings**

During our visits to the Head Office and some branches, we noted that the buildings were in dire need of repairs. The Head Office is in such a state, it should be closed temporarily for extensive repairs and maintenance. Currently, the state of the building poses a health risk to employees and have affected equipment, furniture, records etc. Whenever it rains, employees, equipment, furniture, records have to be relocated/shifted to prevent further damages because of the leaking roof and the flooding of the compound and surrounding area.



Our audit started during the May-June rainy season and we observed first hand at the Camp Street and Brickdam locations, the leaking roofs and the soaking of furniture as well as records.

In some cases, buckets were placed to collect the water from spreading further into the buildings which had to be emptied every fifteen minutes. According to management this was a norm whenever it rains. **Please see appendix 25 for pictures of damages.**

Further, we witnessed how the pension files stored at Brickdam were being soaked by flood water as it rain water seeped through the roof and by sewage water rising from the ground. In some cases the records/files were damaged to such an extent that it required employees to wear masks and gloves to protect their health before handling them.

It could also be dangerous if the water gets into contact with electricity cables and outlets, putting the building and employees at risk of electric shock.

This situation is also prevalent at the branch offices in New Amsterdam, Port Mourant and Fort Wellington. In addition, the branch in Melanie encounters some of the aforementioned effects to a smaller extent, as the front yard floods whenever it rains.

## **Recommendations**

The BODs

- a) Need to urgently set up a Committee which must include a Building Engineer and inspect all buildings and make recommendations to improve their current state.
- b) More importantly, the Committee should evaluate whether the existing buildings at Camp and Bent Streets and at Brickdam are of the size to house the employees, the records, furniture and equipment they currently hold.

## **12. Contributions**

The National Insurance Scheme is financed mainly from contributions (income) levied on earnings up to a wage ceiling and should be paid by employers, employees, self-employed persons and in some cases, voluntary contributors.

Income from contributions is only recorded when received.

From the inception of the Scheme in September, 1969 to present, there have been four methods of paying contributions; these are as follows:-

- The stamp card system – 29<sup>th</sup> September, 1969 to 4<sup>th</sup> January, 1976.
- The Direct Payment system – 4<sup>th</sup> January, 1976 to 4<sup>th</sup> May, 1989.

- Contribution schedules/ CS3 forms – 4<sup>th</sup> May, 1989 to present.
- Electronic schedules – September, 2009 to present.

We retrieved a database from the Information Technology and Statistics Department of all contribution payments recorded for the years 2011 to May 2015.

- A sample of 36 records was requested for the year 2011. Out of the sample requested, a total of 30 records or 83% were received for examination. The remaining 6 or 17% were not presented as we were told that they were at out of town locations. **See appendix 26.**
- A sample of 39 records was requested for the year 2012. Out of the sample requested, a total of 28 or 72% were received for examination. The remaining 11 or 28% were not presented for testing as we were told that they were at out of town locations. **See appendix 27.**
- A sample of 35 records was requested for the year 2013. Out of the sample requested, a total of 25 records or 71% were received for examination. The remaining 10 or 29% were not presented for testing as we were told that they were at out of town locations. **See appendix 28.**
- A sample of 49 records was requested for the year 2014. Out of the sample requested, a total of 37 records or 76% were received for examination. The remaining 12 or 24% were not presented for testing as we were told that they were at out of town locations. **See appendix 29.**
- A sample of 41 records was requested for the year 2015. Out of the sample requested, a total of 35 records or 85% were received for examination. The remaining 6 or 15% were not presented for testing as we were told that they were at out of town locations. **See appendix 30.**

Contribution computations were recalculated in accordance with the specific contribution rates and the insurable earnings ceiling respective that applied to the year that was being tested and matched against the samples selected to ascertain whether there were any variances.

### **Findings**

From the samples examined, it was noted that contributions were calculated accurately when received. However, this does not confirm that other information including employers/employees Social Security Number and contributors' names are correct. If there were variances in the calculations they would have been recognised when posted into NIMS. Programmed into NIMS, are the respective insurable earnings ceilings and rates for the respective years. As data is entered into the system, automatic calculations are done, thereby eliminating areas for miscalculations.

It was however noted that there were some cases where the system showed more than 52 weeks of contributions for some employees.

An extract can be seen below:-

Social Security Number	Employer	Employee	Contribution Year	Employer Registration Number	Weeks Paid	Annual Wages Paid
A19214774	G.P.H.C	Vanessa Solomon	2012	24572	66	904,300
A18751891	G.P.L	Bernand Crawford	2014	27788	56	2,363,356

During a discussion with Ms. Holly Greaves, she informed us that this is a fault within the NIMS software. This particularly happens when there are too many users logged into the system at any given time which results in ‘conflicts’ to execute the processes. The system would sometimes ‘freeze’ when entries are being posted and as it resumes the transactions that were posted at the time would sometimes be duplicated.

There are two instances whereby this is corrected:

- Whenever a contributor comes to make a claim and it is noted by a staff that contributions paid for the year were in excess of 52 weeks the Ms. Greaves would be informed in writing and she in turn would then instruct the data entry department to make the necessary corrections.
- A QTP program is used to run checks for instances where contribution weeks would have been duplicated and correct them. This program however only runs whenever there is a long weekend or there aren’t any users logged into the system.

As explained above, this system has out lived its usefulness and the BOD must urgently seek to remedy the many weaknesses or introduce a new software.

An electronic schedule was requested with all contributions posted to NIMS for the period 2011 to May 2015. An analysis was done of how many instances of duplication of contributions had occurred. The result is as follows:

<b>Year</b>	<b>No. of instances greater than 52 weeks</b>
2011	626
2012	936
2013	1118
2014	2584
2015	31
<b>Total</b>	<b>5,295</b>

The Scheme processes contributions from contributors from all Branches. Contribution entries processed and uploaded to NIMS per year run into the hundreds of thousands. From the time the contribution schedules or CS3 forms were implemented in 1989, up until 2009, contributions were recorded manually. In 2009, when the electronic schedule system was implemented, it has drastically decreased the man power and time taken to upload and post contribution schedules.

The Scheme has been trying to urge employers to adapt the electronic way of submission but hasn't been able to get full compliance from all. Below is an extract of the number of employers that submitted electronically by location as at May, 2015:

<b>Local Office</b>	<b># of Employers on roll</b>	<b># of Active Employers</b>	<b># of Employers paid</b>	<b># Paid by the ESS</b>	<b># Paid Manually</b>	<b>% Paying by the ESS</b>
Corriverton	150	149	98	98	0	100
Port Mourant	173	155	126	126	0	100
New Amsterdam	250	219	168	166	2	98.80
Fort Wellington	172	141	89	82	7	92.13
Mahaicony	86	81	71	69	2	97.18
Melanie	629	321	136	134	2	98.52
Linden	222	213	124	123	1	99.19

Klein Pouderoyen	245	172	105	104	1	99.04
Leonora	206	133	103	95	8	92.23
Bartica	267	83	71	12	59	26.82
Essequibo	207	159	174	70	104	40.22
Mabaruma	26	23	7	0	7	0
Georgetown	3340	2695	1278	477	801	37.32

The issue of incorrect names/invalid numbers being presented is still occurring even with the submission of the electronic schedules. Incorrect names /invalid numbers slow up the process of contributions being credited to a contributors' account thereby preventing them from being entitled to benefits. This issue is only sorted when the employer re-submits the correct information for their employees or when the employees themselves approach NIS to clear them.

At present, manual data entry is being done at all locations for back logged work. This process is currently on-going and it was indicated by Ms. Greaves that it should be completed by mid of 2016.

Entries of back logged work have been a tedious and time consuming process as some of the schedules for the earlier years are old and in an almost illegible state which makes it difficult to verify and post.

Another issue that gives rise to more than 52 contributions per year is when an employee has two jobs and both employers submit contributions on his/her behalf. This would result in the employee having more contributions than he/she should have made per year. This is a clear case where employer/employee does not understand how the NIS contribution system works. In this case, we verified that the secondary employer and employee are placed into a Sundry Creditors account and the Debt Management Unit has undertaken the responsibility of processing their refunds.

### **Other findings**

Contribution records from the inception of the Scheme are still kept manually instead of being scanned. In fact the records are in such a bad state it is difficult to understand how benefits are

being paid to those whose contributions must be verified to the early years. Ms Greaves informed us that to get rid of all the physical documentation and to prevent maneuvering around filing rooms, they had started to scan R1 forms. Employer's Registration Forms from 1969 were scanned up to September, 2014 when the project came to a standstill because the scanner had malfunctioned.

## Recommendations

- a) Upgrade to a new software for more effective and efficient use considering the Scheme has evolved significantly over the last ten years.
- b) The BODs must find ways to reach out to employers and contributors to ensure that they submit accurate information in their monthly submissions so as to avoid being placed into a suspense account.
- c) Publish the names of defaulting employers/contributors on the NIS website and other suitable medium with the message to come in and rectify contributions not paid or are in the suspense account.
- d) Continue to create public awareness of the advantages of adapting to the submission of contributions via electronic schedule.
- e) Management needs to move forward with a system whereby monthly submissions can be up-loaded directly from employers/contributors electronically instead of dropping off flash drives. Employers/contributors should be encouraged to make payments through the banking system, once they would have submitted their monthly submissions, and provide evidence of the payments.

## 13. Cash and cash equivalents

### Banking

The National Insurance Scheme operates twenty one (21) bank accounts, the details of which are summarized below:-

Bank	# of Accounts	Purpose of account	Type
Bank of Guyana	1	Main bank account	Chequing

Republic Bank (Guyana) Ltd.	12	Benefit payments/ decentralized payment for local offices administrative costs	Chequing
Commercial Banks	6	Lodgment payments and encashment of benefit payment vouchers	Chequing
Citi Bank	1	Solely for receipt of CARICOM loan repayments	Foreign currency
Demerara Bank Ltd. – Euro Account	1	Solely for receipt of rental income from Suriname property	Foreign currency

- In 1969, approval was granted by the Ministry of Finance for the opening of the Scheme’s main account at the Bank of Guyana. All deposits, payments, transfers and investments are made to and from this account. Reconciliations and monitoring of this account are done entirely by the Finance Division on Camp and Bent Streets.
- The Scheme also manages twelve commercial bank accounts (RBGL) with Republic Bank (Guyana) Limited assigned to local offices. The purpose of these accounts is to make funds accessible for payment of pension/benefits and other decentralized administrative costs. Each local office has an insurance limit which aids in the determination of funds to be made available. Reconciliations and monitoring are done by each local office and a final review is done by the Finance Division.
- Apart from the twelve accounts, six other commercial bank accounts were opened around Georgetown to facilitate the pension payments and encashment of benefit vouchers. Funding of the accounts is guided by the pension request and the total of benefit payment vouchers encashed. Monitoring is done by the Finance Division.
- The Foreign Currency (Euro) Account opened with Demerara Bank in the latter part of 2013 was done solely for the receipt of rent from the Suriname property leased to the Ministry of Foreign Affairs. Monitoring of this account is done by the Finance Division.
- The Foreign Currency (USD) Account opened with Citi Bank was done to facilitate loan receipts from CARICOM. The amounts repaid are in turn invested in the Bank for International Settlement. Monitoring of this account is done by the Bank of Guyana and the Finance Division.

## **Bank Reconciliations**

Each month, bank reconciliations are prepared by each local office for their respective bank accounts, checked and signed by the office manager and a copy is forwarded to the Finance Division; all other reconciliations are prepared by the Finance Division.

### **Work done**

Bank reconciliation files for Head Office for the months of January and December along with random months for the years 2011 to May 2015 were checked to ensure reconciliations were properly prepared in accordance with the procedure documented by the Finance Division and that they were also signed 'prepared by' and 'checked by'. This procedure was also carried out at the Branch offices that were visited.

### **Findings**

#### **2012**

*July to November* – Schedules presented in files did not match figures on the reconciliation summary. We were told by the bank reconciliation officer and accountant that the correct schedules were placed in the files at the time of preparation but it was mixed up when they were being reviewed by the external auditors. The files were properly updated after this was brought to their attention. Stale dated cheque amounts were also coming forward every month and not being dealt with as outlined as in the bank reconciliation procedure.

*December* – At the time the request was made, the file was not presented for testing. We were told that schedules had to be reprinted and placed into the file as they were not prepared. The file was received a few days later for testing to be carried out. The information was reviewed and no errors found.

#### **2013**

*November* – Stale dated cheques as far back as September 2012 were included in the unrepresented cheque listing instead of being written back to the cash book balance.

#### **2014**

*January and December* – These were properly prepared but not signed 'checked by'.



## Branch Offices

Bank reconciliation files were requested for January and December for the years 2011 to 2014 and May 2015 for the offices visited - Port Mourant, New Amsterdam, Fort Wellington, Melanie, and Klein Pouderoyen. It was noted that these were properly prepared and signed.

## Cash

The amount of cash managed by each Branch Office is guided by the insurance limit, as shown below. Cash from contributions received at each local office is not banked the following day but instead it is kept on premises to pay out benefit claims or pensions. Cash is only banked in cases where the amount exceeds the insurance limit. As contributions are received and entered into NIMS, the counter clerk would indicate whether the payment is either cash or cheque. This gives the cashier and checking clerk an accurate figure to balance with at the end of the day.

Local Office	Cash Limit (\$)	Float
New Amsterdam	8,000,000	
Port Mourant	8,000,000	
Corriverton	8,000,000	
Fort Wellington	8,000,000	
Linden	8,000,000	
Klein Pouderoyen	8,000,000	
Leonora	8,000,000	
Essequibo	8,000,000	
Melanie	8,000,000	
Bartica	4,000,000	
Mahaicony	4,000,000	
Mabaruma	3,000,000	

Camp and Bent Streets	10,000,000
Georgetown	10,000,000

We observed the Cashiers' operation at the Finance Division and some of the local offices. A 'Checking of Cashier Roster' is prepared, signed by the Office Manager and given to the cashiers. All Cashiers' activities end at 3:15 p.m. every day after which the Checkers verify the daily transactions. The Checkers ensure that all monies received and paid out correspond to the Cashiers' reports. Both the Checkers and Cashiers sign the reports. If there is any difference the Finance Controller, Financial Accountant and Management Accountant are informed immediately. If a reason cannot be ascertained for a negative variance, then the affected cashier must reimburse the difference.

### **Petty Cash Payments at local offices**

Petty cash vouchers are prepared for all cash payments and are signed as prepared and checked by. The vouchers are also signed by the payees and supported with receipts/bills. The petty cash float is \$35,000.

### **Work done**

#### *Port Mourant*

Samples of payment vouchers were verified for the period 2011 to 2015. It was noted that some vouchers for 2013 and 2014 were missing from the files. The Supervisor informed us that the vouchers were taken by the Internal Audit Department but there were no entries in the dispatch/outgoing mail book.

#### *New Amsterdam*

Samples of cash payment vouchers were verified for the period 2011 to 2015. These were prepared, signed and stamped accordingly by the relevant personnel with attaching bills/receipts.

#### *Klein Ponderoyen*

Samples of payment vouchers were verified for the period 2011 to 2015. These were prepared, signed and stamped accordingly by the relevant personnel with attaching bills/ receipts.

*Lethem*

The Inspector of the location indicated that he isn't aware of the exact limit of petty cash float but he believes it is approximately \$32,000. He also stated that he's awaiting formal documentation from the Chief Management Auditor regarding the correct limit.

All petty cash vouchers are sent to Finance Division as no accounting work is done at this location. It was noted that a petty cash book is updated for payments made and signed by the Inspector but not checked by anyone.

#### 14. Payrolls

Payrolls were examined to determine that employees:

- Exist and were paid in accordance with their contract of employment
- Statutory deductions were computed correctly
- Payrolls were examined to determine if they were signed 'Prepared by' and 'Checked by' and approved by the authorized personnel
- Personal files were checked to ensure they were updated
- Signature sheets were checked to see if staff signed receiving their pay or in their absence proper authorization was received and approved
- Timesheets were checked to ensure the hours worked correspond with those included in the payrolls
- Overtime is calculated at time and a half and double, where applicable

#### Findings:

The processing of payrolls is done by the Finance Division then sent to the various locations.

Payrolls are processed monthly for permanent staff. Temporary staff are paid weekly by cash. Timesheets are sent to Administrative and Personnel Division for approval and then forwarded to the Finance Division. For the out of town staff, cheques are made payable to the office managers and they would in turn disburse payments to staff.

A review of the executive payrolls was done and the following noted:

Year	Month	Prepared by	Approved by	Comments
2013	January	√	×	

	February	√	×	
	March	×	√	Staff that signed 'Prepared by' in February signed 'Approved by'
	April	×	×	
	June	×	×	
	August	√	×	
	September	×	×	
	October	×	×	
	November	×	×	
	December	×	×	
<b>2012</b>	September	×	×	
	November	×	×	

	December	×	×	
2011	November	×	×	
	December	×	×	

- The Financial Accountant indicated that the failure to sign off on these payrolls was an oversight.
- We found that employees' personal files were not properly maintained and stored. Documentation for staff that are permanent are placed in their files; documentation for temporary staff are kept together on clamps. We also found that files were kept on top of the cabinets rather than inside due to the lack of space. This means that confidential information for employees are left exposed. The Personnel Manager, Ms. Sonia Morris, advised us that this has been the procedure being followed for years and it seems to be adequate with the exception of the storage facilities.

### Recommendations

- Payrolls must be reviewed to ensure that they have been properly prepared, then signed by the preparer and the persons checking and approving. They must affix the dates of their signatures as well.
- Employees' personal files must be kept up-to-date and safeguarded at all times. Management must ensure that there are adequate storage cabinets for these files. The keys must be kept by a senior officer designated by management.
- Temporary staff's information must be properly secured and also filed away.

### Audit of Branch Offices

We visited the following branches: Port Mourant, New Amsterdam, Fort Wellington, Melanie Damishana, Klein Pouderoyen and Lethem.

Our findings are as follow:-

**Fixed assets** – Of the six Branches with the exclusion of Lethem, the issues with fixed assets were similar throughout as follow:-

- (a) Fixed assets are recorded in a listing and are not coded. The Branch managers informed us that the listing is maintained by Head Office.
- (b) Some fixed assets had been moved from one Branch to another but were not removed from the listing and recorded on the listing at the new location. This makes it difficult to identify the assets.
- (c) The lists did not include the value of fixed assets.
- (d) There were several fixed assets on the listings that have been damage or not working.
- (e) Impairment needs to be considered as the value of some fixed assets may be overstated.

**Lethem** - It was noted that all assets are coded since the fixed assets officer had recently visited the location and inserted the asset codes. There is a cabinet that was donated but not included on the listing.

### **Recommendations**

Management should:

- a) Carry out a 100% physical inventory of all assets and ensure that a software is used to establish a fixed assets register to record each asset as per their location, description, classification, identification code, current value, depreciation rate, net value etc.
- b) Ensure whenever an asset is transfer from one location to another, it is done via an internal transfer requisition to be signed by the Assets Manager, and the location Managers receiving and releasing the asset.
- c) Since, during the physical identification exercise, assets may be recognised as impaired due to damage or obsolescence or in some case appreciated in value, management should relook at the existing insurance coverage
- d) The Internal Audit department must carry out physical verification of assets and match them against records in the fixed assets register using the assets' codes. In addition, a sample should be taken from the fixed assets register and traced to the physical items.
- e) Additions/disposals should be recorded as soon as possible
- f) The Internal Auditors should verify the calculation of depreciation to ensure that the computation of depreciation and net values are correctly done by the software.

**Bank Reconciliations** – A sample of bank reconciliations and files for the period 2011 to 2015 were examined to ensure that they were correctly prepared. The reconciliations were properly prepared.

### **Receipt and deposit of monies received**

We observed that at the Branches visited with the exception of Lethem, cash received from contributions is not deposited. It is kept on site and used to pay claims and pensions. All cheques received are deposited into the Bank of Guyana account via an agreement with Republic Bank (Guyana) Limited in some cases.

Receipt books are pre-numbered and are only used in the event of a power outage. All unused receipt books are kept in storage rooms.

**Lethem** - Cash received from contributions is deposited every other day into the Bank of Guyana account. The first bank deposit was done on the 8<sup>th</sup> October, 2014, prior to this, all monies received were sent to Georgetown via money orders. The location has no evidence or copies of these money orders.

This location uses receipt books at all times and manual receipts are issued to contributors. The cashier prepares a daily cash report which is usually checked and signed by a checking officer. The cashier reports were only available from 20<sup>th</sup> December, 2013; prior to this, reports were not available.

During our visit, we noted that cashier reports for the period 20<sup>th</sup> December, 2013 to 9<sup>th</sup> April, 2014 and some days in June, as shown below, were not signed by the person checking the cashier which leaves doubt about whether the cashier has been checked at all.

<b>Date</b>	<b>Amount received (\$)</b>
18 <sup>th</sup> June, 2014	6,709,147
25 <sup>th</sup> June, 2014	6,746,022
26 <sup>th</sup> June, 2014	6,782,822
27 <sup>th</sup> June, 2014	6,417,222
30 <sup>th</sup> June, 2014	6,624,122
1 <sup>st</sup> July, 2014	6,681,218
2 <sup>nd</sup> July, 2014	6,927,893

**Benefits** – Only short term benefits are processed at the branches; long term claims are processed at the Head Office.

**Melanie** - A sample of 24 files were selected for audit examination.

**Fort Wellington** – A sample of 5 files was selected for audit but only 3 were made available.

**Port Mourant** - A sample of 6 files was selected for audit but only 2 were made available. A summary of claims received and processed for the period 2011 to 2015 was requested but not received.

**New Amsterdam** - A sample of 6 files was selected for audit testing but only 3 were made available.

A summary of claims received and processed at this location for the period 2011 to June 2015 are as follows: -

<b>Year</b>	<b>Claims received</b>	<b>Claims Processed</b>
2011	7061	7037
2012	7269	7255
2013	6905	7023
2014	6906	6866
2015– As at June 30 <sup>th</sup>	3561	3524

**Klien Pouderoyen** - A sample of 11 files was selected for audit testing but only 3 were made available.

A summary of claims received and processed at this location for the period 2011 to June 2015 can be seen below: -

<b>Year</b>	<b>Claims received</b>	<b>Claims Processed</b>
2011	3526	3193
2012	3562	3215
2013	4138	3990
2014	4054	3932
2015– As at June 30 <sup>th</sup>	2387	2317



**Lethem** - All benefit claims are processed at the Head Office and vouchers are sent back to Lethem for dispatch to claimants.

### **Contributions**

**Melanie** - This location is divided into two areas: area 1 and area 2. Total active self-employed persons at this location are 790 while employers are 321. The inactive self-employed are 115 while employers are 305.

Based on recent report prepared in 2015, the following was noted:

- a) For Area 1, Suspense Account/Invalid Numbers totalled \$1,075,696,049 representing 458,578 insured persons. The Suspense/Invalid account dated as far back as 1989.
- b) For Area 2, Suspense Account/Invalid Number totalled \$219,102,272 representing 145,064 insured persons. The Suspense/Invalid account also dated to 1989.

**Port Mourant** - As at May 2015, the total recorded number of active self-employed persons at this location was 344. Total number of employers recorded was 173 out of which 155 were active and 126 paid by submission of electronic schedules. The remaining 29 employers had not yet made any payments for May 2015.

**New Amsterdam** - As at May 2015, the total recorded number of active self employed persons at this location was 428. Total number of employers was recorded at 250 out of which 219 were active and 166 paid by submission of electronic schedules and 2 manually. 51 employers had not yet made any payments for May 2015.

**Klein Pouderoyen** - As at May 2015, the total recorded number of active self employed persons at this location was 325. Total number of employers was recorded at 245 out of which 172 were active with 104 paying by submission of electronic schedules and 1 manually. 67 employers had not yet made any payments for May 2015.

**Lethem** - All schedules are submitted to the Camp and Bent Streets location to be uploaded and entered into the NIMS database.

**Fort Wellington** - As at May 2015, the total recorded number of active self employed persons at this location was 451. Total number of employers was recorded at 172 out of which 141 were active with 82 paying by submission of electronic schedules and 7 manually. 52 employers had not yet made any payments for May 2015.

**Information Technology** - All Branches utilise NIMS, with the exception of Lethem, to process contributions and benefits. We did not find any material issues with the system which is operated through Wide Area Network allowing all data to be stored and backed up at the Main Office.

## **Debtors**

### **Melanie**

- (a) The total debtors' balance at this Branch was \$189,172,641 at December 31, 2014. Included in this balance is an amount of \$144,157,094 owed by GUYSUCO.
- (b) There were 94 defaulters in Area 1 and 34 in Area 2
- (c) At the time of our audit there were 22 Court cases filed against defaulters which are all ongoing.

### **Port Mourant**

- (a) The total debtors' amount at May 31, 2015 at this Branch was \$261,369,980 of which 99% is owed by GUYSUCO.
- (b) At the time of our review there were 4 Court cases filed against defaulters which are all ongoing.

### **New Amsterdam**

The total debtors' balance at this Branch was \$226,236,782 at May 31, 2015. Included in this balance is an amount of \$216,863,522 owed by GUYSUCO.

### **Klein Pouderoyen**

- (a) The total debtors' balance at this Branch was \$121,328,915 at May 31, 2015. Included in this balance is an amount of \$116,276,519 owed by GUYSUCO.
- (b) As at May 2015, 11 cases were filed against defaulters.

### **Lethem**

The field inspector who is currently in charge of the location indicated that the majority of employers and self employed persons are usually in compliance and there aren't any cases which would require legal action.

**Filing and Record Keeping** - With the exception of Melanie and Fort Wellington, we observed that the filing system is affected due to a lack of cabinets. Files are currently stored on top of cabinets and in cartoon boxes.

At the Lethem office, we observed that there were missing records of Cashier reports which were only available for the periods after December 20, 2013; prior to this, reports were not available. The staff informed us that they have no knowledge of the location of those missing records.

## Other issues noted and discussed with management

### **Port Mourant**

- During a discussion with the Office Manager it was highlighted that the commuting of the inspectors and nurses to and from site had been an issue for a long while. He claims that the travelling allowance and mileage claims do not compensate for the areas that have to be covered by the inspectors and nurses. The provision of a company vehicle is also not available which means that sometimes out of pocket expenses are incurred to carry out the Scheme's work.
- Due to faulty electrical wiring, in 2013 a fire destroyed documents in the back storeroom. Renovations had since not been done and the storeroom is in a deplorable state. Files saved from the fire are stored in old, torn up boxes along with other damaged assets.
- It was also noted that the examination room in the medical department is not in a proper state to accommodate patients/claimants.
- The compound usually floods as it rains and it's difficult for claimants and employees to traverse in and out of the building. The roof of the building is also leaking and needs repairing.

### **New Amsterdam**

- During a discussion with the Office Manager it was highlighted that the commuting of the inspectors and nurses to and from site had been an issue for the longest while. She claims that the travelling allowance and mileage claim do not compensate for the amount of 'ground' that has to be covered by the inspectors and nurses. The provision of a company vehicle is also not available which means that sometimes out of pocket expenses are incurred to carry out the Scheme's work. Approximately two more inspectors are needed to carry out the work efficiently as the areas to be covered are very widespread.
- Renovations need to be done urgently on the building as electrical wirings are exposed, ceilings are falling apart, and some of the office furniture and equipment seem to be fully depreciated and needs urgent replacing.
- Basic essentials/forms needed by the branch are limited and amounts provided are never sufficient. These include NIS forms, stationery, and other administrative necessities.
- Because of the lack of air conditioning and fans, staff have begun to purchase fans out of their pocket expenses.
- Staff have to share computers on a daily basis and this tends to slow up the work process as one would have to wait until a system becomes available.

- All benefit vouchers are printed at Brickdam; this takes a few days before the vouchers can be returned to the location. Claimants are usually abusive towards staff because of the waiting time before a benefit vouchers can be received and cashed.

### **Klein Pouderoyen**

- During a discussion with the Office Manager it was reported that the commuting of the inspectors and nurses to and from site had been an issue for the longest while. She claims that the travelling allowance and mileage claim do not compensate for the amount of 'ground' that has to be covered by the inspectors and nurses. The provision of a company vehicle is also not available on a daily or sometimes even weekly basis which means that sometimes out of pocket expenses are incurred to carry out the Scheme's work.
- Work area for staff is very congested. The area also lacks proper ventilation and is very heated.
- Storage area and filing rooms are very disorganized making it difficult to locate documents
- Generator is not functional; staff are rendered helpless when there is a power outage.
- The vault is located in the cashier's cage and exposed to the public; she has voiced her concerns as this poses a threat to her well being.
- The Klein Pouderoyen local office operates on Broadband internet connection. The staff has been complaining that networking issues are coherent with the weather; this limits their ability to use the NIMS system efficiently.
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### **Internal Audit Department**

The Internal Audit Department is headed by the Ms. Joylyn Matthias-Chief Management Auditor (CMA). The department's staff complement is 18 persons of which seventeen are employed. There are two management auditors and two seniors among the staff and they are housed in a building in Camp Street. At the time of our visit, the CMA could not confirmed who owned the building as there has been an ongoing discussions whether it is NIS's or the Ministry of Finance's property.

We understand from the CMA that work plan for the year is submitted and approved by the BOD; 2015 was not submitted.

The department does 10-15 audit per year including all branches. The auditors focus on pension on a sample basis, contributions, finance, benefits and compliance. The last time an audit on assets was done was in 2006. The department is currently doing one which should have been completed in August.

The CMA has informed us that her department does not have real time access to NIMS and ACCPAC. Therefore, she has concluded that her department is limited in scope in carrying out their work because of these limitations. In addition, when asked if any audit was done on the newly construction building at Corriverton her response was no.

The CMA's major problem with pension audits is that they are done periodically with the objectives of determining the number of deaths, disablement, old age and survivor's pensioners. Ascertain pensioners' status on NIMS, ascertain whether NIMS records are complete, ensure that NIS policies and procedures are followed, ascertains each NIMS record is up-dated with inactive and closure status of deceased pensioners; evaluate internal controls both administrative and financial. Based on our review of a sample of the audit reports it can be concluded that the recommendations are not followed. Audits are done on post pension computations instead of before the pension is paid.

No audit was done on suspense account, investments, claims, income-contributions and investments, bank reconciliation. In addition, the department does not have Computer Assisted Audit Technique (CAAT) software to help in the audit of the Scheme's software.

### **Recommendations**

The proper functioning of the Internal Audit Department is very important to overall performance of the NIS. Therefore, the BODs need to provide urgent support to strengthen and enhance the department. Our recommendations are as follow:

- a) The department should be housed in an improved work environment. The current location is small and the building is in a poor state. More computers, specifically laptops, are needed to enable staff to use them while on field trips and to be able to connect to HO to access NIMS and ACCPAC.
- b) The department must have access to all records and software of the Scheme. Perhaps, access may be limited to specific areas for junior level staff.
- c) Their audit plan for the year must be presented to the BODs during the last quarter of the preceding year for discussions and approval and thereafter the Audit Committee of the Board shall engage with the department to ensure that their work plan is carry out unhindered.
- d) All audit reports must be discussed with the Department Heads and his/her comments must be included in the report along with suitable recommendations. Currently this is not done; instead a draft report is send to the GM who then sends it to the department and in most instances a response is not received.
- e) The final report must be send to the Audit Committee and once a month a meeting is held with the Department Head, the CMA and the GM to discuss the report and to ensure that findings are corrected based on the recommendations

- f) The BODs should review the qualifications of the audit staff to determine whether they need additional training including the use of CAAT.

We thank management and staff of the Scheme for their support given during the audit

Yours sincerely,

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R. Seebarran