



Cook Islands Audit Office

1st Quarter Report of the Audit Office Part 2: Special Reviews & Investigations

1 July 2006 – 30 September 2006



PARLIAMENT OF THE COOK ISLANDS

PARLIAMENT PAPER NO. 2006/99

Speaker of Parliament
Parliament of the Cook Islands
Nikao, Rarotonga
Cook Islands

Honourable Speaker

I have the honour to present the 1st Quarter Report of the Audit Office, Part 2: Special Reviews and Investigations for the period 1st July to 30 September 2006.

Hon. Dr. Terepai Maoate,
**DEPUTY PRIME MINISTER AND
MINISTER RESPONSIBLE FOR THE
OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT.**



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30 May 2008

Hon Dr. Terepai Maoate
Deputy Prime Minister
Minister Responsible for the Office of Public Expenditure
Review Committee and Audit.
Avarua

Honourable Deputy Prime Minister,

Pursuant to Section 33 of the Public Expenditure Review Committee and Audit Act 1995-96, I have the honour to submit my 1st Quarter Report on the operations of the Audit Office, Part 2: Special Reviews and Investigations for the 1st July to 30 September 2006.

Following its delivery and presentation to Parliament, the report will be placed on the Cook Islands Audit Office's website (<http://www.auditoffice.gov.ck/>).

Yours Sincerely,

Paul R.S. Allsworth
Director of Audit
OFFICE OF PUBLIC EXPENDITURE REVIEW COMMITTEE AND AUDIT

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Introduction & Commentary

This report is Part 2 of the Cook Islands Audit Office's first quarterly report to Parliament for the 2006/2007 financial year. It highlights and discloses for Parliament's attention all special reviews and investigations carried out by the office during the period 1 July to 30 September 2006.

The Audit Office issues Quarterly Reports, in addition to its Annual Report, in order to provide more timely information to Parliament and the general public on audit issues, problems identified and recommended solutions. It is hoped that timely quarterly information will better promote good governance.

SPECIAL REVIEWS AND INVESTIGATIONS

During the period 1 July to 30 September 2006, a total of 12 special reviews and investigations were conducted. The special reviews and investigations were initiated as the result of the identification of a high-risk area or genuine and valid complaints from a member of the public or initiated by the Director of Audit. The following lists the special reviews and investigations done by the Office in the first quarter:

1. Review of the Bank of the Cook Islands - Aitutaki Branch
2. Review of the Bank of the Cook Islands - Atiu Branch
3. Review of the Bank of the Cook Islands - Penrhyn Branch
4. Review of the Bank of the Cook Islands - Manihiki Branch
5. Review of the Bank of the Cook Islands - Rakahanga Branch
6. Review of the Consultancy Fees paid by Ports Authority (PA) to Mr. Don Beer Jnr who is also the Chairman of Ports Authority.
7. Review of the Missing Cash from Ministry of Health Administration.
8. Audit Review of Annual leave payment made to the former Head of the Ministry of Health (MOH), Mr Vaine Teokotai.
9. Audit Clearance for the Office of the Honourable Minister Teina Bishop.
10. Review of the Island Administrations and various Government Projects in the Northern Group.
11. Review into Allegations of theft of Government Fuel in Atiu
12. Review into the misuse of Public Funds at the Aitutaki Hospital

Special Reviews and Investigations

The major findings and recommendations contained in the Special Review reports issued by the Audit Office are summarised below.

REVIEW OF BANK OF THE COOK ISLANDS – AITUTAKI BRANCH

EXECUTIVE SUMMARY

Please find enclosed our report of the Audit of the Aitutaki Branch of the Bank of the Cook Islands.

I am pleased to report that the operations of the Aitutaki Branch of the Bank of the Cook Islands are functioning satisfactorily.

Overall, internal controls over bulk cash and teller transactions are effective and efficient.

I would like to commend your staff in the Office for their excellent record-keeping and work performance.

MAIN REPORT

Introduction

Allen Parker and Paul Allsworth from the Audit Office undertook a review of the Bank of the Cook Islands Aitutaki Branch in Arutanga on Wednesday 6th September 2006 at 3:05pm.

2. Audit Scope

The review covered the following areas:

- a) Review of the Bulk Cash Register
- b) Cash count of the 3 tellers and bulk safe
- c) Reconciliation of the Branch /Agents daily statements
- d) Review of internal control procedures and general security.

3. Audit Findings

Cash Count and Reconciliation

a) Teller No 1 – May Kavana

Balance B/fwd	6,971.70	
Deposits	21,893.45	
Withdrawals	13,655.00	
Bulk Transfer	<u>4,000.00</u>	
Balance		<u>\$19,210.15</u>

Cash on Hand

Notes	100	-	2,400.00	
	50	-	7,650.00	
	20	-	8,660.00	
	10	-	230.00	
	5	-	<u>105.00</u>	
				\$19,045.00

Coins

	5	-	40.00	
	2	-	90.00	
	1	-	28.00	
	.50	-	1.00	
	.20	-	5.00	
	.10	-	.60	
	.05	-	<u>.55</u>	
				\$165.15

Total \$19,210.15

b) Teller No 2 - Arona Arona

Balance B/fwd	17,785.50	
Bulk Transfer	5,000.00	
Deposits	14,594.40	
Withdrawals	16,989.10	
Balance		<u>\$20,390.80</u>

Cash on Hand

Notes	100	-	3,200.00	
	50	-	5,700.00	
	20	-	9,020.00	
	10	-	1,730.00	
	5	-	530.00	
	3	-	3.00	
				<u>20,183.00</u>

Coins	5	-	90.00	
	2	-	62.00	
	1	-	30.00	
	.20	-	22.40	
	.10	-	3.20	
	.05	-	0.40	

208.00

Total

\$20,391.00

.20c surplus

c) Teller No 3 - Apii Maki			
Balance B/fwd		17,795.40	
Deposits		4,890.95	
Withdrawals		6,219.20	
Balance			<u>\$16,467.15</u>

Cash on Hand

Notes	100	-	800.00	
	50	-	8,800.00	
	20	-	4,980.00	
	10	-	1,230.00	
	5	-	425.00	
	3	-	3.00	
				<u>\$16,238.00</u>
Coins	5	-	45.00	
	2	-	124.00	
	1	-	30.00	
	.50	-	22.50	
	.20	-	4.40	
	.10	-	1.70	
	.05	-	1.55	
				<u>229.15</u>
				<u>Total</u>
				<u>\$16,467.15</u>

4. Review of Bulk Register and Cash Holdings.

It was noted that the cash-limit was now \$150,000, however, during the Survivor Series, it was \$180,000. The independent checker is Tapita Solomona.

A review of the register showed that all movements into and from the bulk safe had been up-dated in the register. Cash holdings in the bulk safe was \$68,250, together with the 3 tellers balances of \$56,068.30 represented total cash holdings of \$124,318.30

Bulk Cash Count

Notes	100	-	10,000	
	50	-	5,000	
	20	-	50,000	
	10	-	2,000	
	5	-	1,000	
Cash	2	-	100.00	
	1	-	100.00	
	.50	-	50.00	
				<u>Total</u>
				<u>\$68,250.00</u>

5. Internal Controls and General Security

A review of key document controls found these to be adequate and effective. The Office work environment had been up-graded, furnished and air-condition are installed.

RESPONSE TO AUDIT REPORT

The report of the Audit of the Aitutaki Branch of the Bank of the Cook Islands was issued on the 19th September 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Unakea Kauvai, Managing Director, BCI
- Kevin Carr, Financial Secretary
- Mrs Mii Makimare, Bank Supervisor, Aitutaki BCI branch
- Charles Little, Chairman, PERC

Attached is a copy of responses received by the Audit Office from:

- Charles Little, Chairman of PERC dated 2nd October 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

REVIEW OF BANK OF THE COOK ISLANDS – ATIU BRANCH

Introduction

Whilst in Atiu carrying out a Special Review Investigation, Allen Parker and Paul Allsworth from the Audit Office undertook a surprise cash count and review of the Bank of the Cook Islands Atiu Branch in Ngatiarua at 12:10pm on Thursday 14th September 2006.

Audit Scope

The review covered the following areas;

- a) Teller cash count and Reconciliation.
- b) Bulk cash count and review of Bulk cash Register.
- c) Review of Branch/Agents Daily Transactions statements.
- d) Review of internal control procedures and general security.
- e) Review of staff conditions.

Audit Findings

Teller Cash Count and Reconciliation

The Office has a cash limit of \$80,000. The last check by the independent checker, Teariki Maurangi, was on the 8th September 2006.

a) Teller No. 1 – Mrs Teremoana Paratainga

Balance B/Fwd			5,633.10	
Deposits			8,190.65	
Bulk Transfer			500.00	
Withdrawals			5,153.00	
Balance				<u>\$9,170.75</u>
<u>Cash on Hand</u>				
Notes	50	-	4,150.00	
	20	-	3,680.00	
	10	-	770.00	
	5	-	505.00	
				<u>\$9,105.10</u>
Coins	5	-	10.00	
	2	-	14.00	
	1	-	10.00	
	.50	-	18.50	
	.20	-	8.00	
	.10	-	1.30	
	.05	-	5.35	
				<u>\$67.15</u>
Total				<u>\$9,172.15</u>
				<u>1.40 surplus</u>

b) Teller No 2 - Mrs Tereapii Porio (in Raro at the time)

Balance B/Fwd	8,944.51	
Closing Balance		<u>\$8,944.51</u>

Cash on Hand

Notes	100	-	1,800.00	
	50	-	4,300.00	
	20	-	1,540.00	
	10	-	820.00	
	5	-	60.00	
	3	-	3.00	
				<u>\$8,523</u>
Coins	5	-	20.00	
	2	-	28.00	
	1	-	4.00	
	.50	-	3.00	
	.20	-	1.00	
	.10	-	.10	
	.05	-	5.40	
	.01	-	.01	
				<u>\$61.51</u>
Damaged Notes	50.00	-	50.00	
	20.00	-	140.00	
	10.00	-	90.00	
	5.00	-	80.00	
				<u>\$360.00</u>
Total				<u>\$8,944.51</u>

Although, the cash count balanced, it was noted that the damaged notes was not separated from the teller notes.

2. Review of Bulk Register and Bulk Cash.

Bulk Cash Notes	100	-	2,000	
	20	-	26,000	
	10	-	3,000	
	Damaged	-	480	
				<u>\$31,480.00</u>
Coins	2.00	-	1,250.00	
	1.00	-	460.00	
	.50	-	380.00	
	.20	-	180.00	
	.10	-	80.00	
	.05	-	105.00	
				<u>\$2,455.00</u>
Total				<u>\$33,935.00</u>

The cash count agreed to the Register and all entries into and out of the Register had been clearly recorded and accounted for.

Review of internal controls, general security and staff conditions.

A Review of the Branch's /Agents Daily Transactions Statements and the control documents found these to be adequate and effective. It was noted that, the Office concrete floor was still bare and not covered and that staff pay rates had not been reviewed since our last visit in June 2005.

Recommendations

These recommendations have not been acted since our June 2005 report.

- a) That vinyl floor covering or ceramic tiles be purchased to cover the internal floors of the Office.
- b) Consider reviewing staff pay rates for Teremoana Paratainga (\$10,800) and Tereapii Porio, (\$12,000) in light of their years of service and dedication.
- c) Separate damaged notes from teller cash and submit these with the bulk damaged notes to Head Office.

RESPONSE TO AUDIT REPORT

The report of the Audit of the Atiu Branch of the Bank of the Cook Islands was issued on the 25th September 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Unakea Kauvai, Managing Director, BCI
- Kevin Carr, Financial Secretary
- Mrs Tereapii Porio, Supervisor Atiu BCI branch
- Charles Little, Chairman, PERC

Audit notes that as at the date of this report no response has been received by the Audit Office.

REVIEW OF BANK OF THE COOK ISLANDS – PENRHYN BRANCH

EXECUTIVE SUMMARY

Please find attached our report on the review of the Bank of the Cook Islands (BCI) operations in Penrhyn.

AUDIT FINDINGS.

1. The Omoka office is staffed by Helen Kirikava. There is no longer a Branch office in Tetautua.
2. A cash count was carried out by P. Allsworth on Thursday 13th July 2006.

The bulk and cash holdings showed:

a)	Bulk Cash		
	Coins	1,162.00	
b)	Counter Cash		
	Notes	3,820.00	
	Coins	<u>5.65</u>	
			<u>Total \$4,987.65</u>

Reconciliation

3. The Branch/Agents daily statements and transactions were checked for Wednesday 12th and Thursday 13th July 2006.

a)	Balance c/fwd	6,530.65	
	Deposits	122.00	
	Withdrawals	<u>1,320.00</u>	
		\$5,322.65	
	less Cheques	100.00	Issued but not presented.
	Damaged /Torn notes	245.00	Sent to Raro.

Balance \$4,987.65

- b) The bulk cash register was reviewed and found to be properly maintained. No anomalies were found.
- c) The office cash limit is \$40,000 and the independent checker is One Brother Joseph.

Overall, internal controls over cash and teller operations are satisfactory.

4. The Office working environment and general security was reviewed. It was noted that:

- a) The Office interior needed painting.
- b) Replace 3 x 8 louver steel blades.
- c) There was 1x missing louvre blade.
- d) Due to the rusted condition, only the 2 bottom louvers are working
- e) 15 louvre steel blades needed replacing.
- f) 5 louvre steel blades were missing but covered with hardboard.
- g) There is one office door key, a wooden tray used as a till and the bulk safe uses a combination.
- h) A bigger and stronger cashbox is required to transfer the bulk coins on the next ship to Head Office.

RECOMMENDATIONS

That Head Office considers to ensure that:

- a) Paint is made available for painting the interior of the Office.
- b) The missing and rusted louvers are replaced. Aluminium louvers are suggested due to the sea-spray.
- c) A cashiers cash-box is made available.
- d) A strong and bigger cashbox is made available to transfer the unused bulk coins.

RESPONSE TO AUDIT REPORT

The report of the Audit of the Penrhyn Branch of the Bank of the Cook Islands was issued on the 31st July 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Unakea Kauvai, Managing Director, BCI
- Mrs Mii Mataora, BCI Internal Auditor, Rarotonga
- Helen Kirikava, BCI Officer, Omoka, Penrhyn

Audit notes that as at the date of this report no response has been received by the Audit Office.

REVIEW OF BANK OF THE COOK ISLANDS – MANIHIKI BRANCH

EXECUTIVE SUMMARY

Please find enclosed our report on the review of the Bank of the Cook Islands (BCI) operations in Tukao and Tauhunu, Manihiki.

AUDIT FINDINGS

TUKAO

1. A cash count of the bulk cash and cashier's counter till was undertaken on 12 July 2006. Tohoa Toka was in charge of the cashiers till, while Jane Kaina was in charge of the bulk cash.
2. The cash holdings showed:
 - a) Bulk Cash

Notes	69,000	
Coins	1,950	
		\$70,950.00
 - b) Teller Cash

Notes	2,925.00	
Coins	381.31	
		\$3,306.31
<u>Total</u>		<u>\$74,256.31</u>

TAUHUNU

1. A cash count of the Tahunu operations was made, under the care of Mrs Marama Tuatoru.
2. The cash-holdings showed:
 - a) Notes 4,460.00
 - Coins 134.12
 -

\$4,594.12

All Total \$78,850.43

Reconciliation

A reconciliation of the Branch/Agents daily statements was made reviewing the carry – forward balances and transactions from Friday 7th, Monday 10th and Tuesday 11th July 2006.

a) Balance B/Fwd Friday 7 July	112,804.77
Deposits	1,774.60
Withdrawals	7,389.60
	<u>\$107,189.77</u>

Note: \$33,270.00 was packed and sealed ready to be sent to the Head Office.

Balance C/Fwd Monday 10 th July	107,189.77
Remittance	33,270.00
	<u>\$73,919.77</u>
Deposits	8,716.00
Withdrawals	9,591.04
	<u>\$73,044.73</u>
c) Balance C/Fwd Tuesday 11 th July	73,044.73
Deposits	10,641.90
Withdrawals	4,836.20
	<u>\$78,850.43</u>

The cash count and reconciliation on Wednesday 12 July 2006 agreed. The Office has a \$80,000 cash limit.

No anomalies were found.

It should be noted that before my departure to Rarotonga, I was informed by Jane Kaina that the \$33,270.00, that I was supposed to personally carry to Head Office, was now not required. It is important to note, that this amount of money was not physically counted by Audit.

Overall, internal controls over cash were satisfactory.

The Office working environment and general security was reviewed.

- b) It was noted that the Tukao Office was well maintained and adequate. The Tauhunu Office required floor vinyl. Audit was informed that floor tiles had been ordered.
- c) The independent cash checker for Tukao is Metua Murray and Ngamata Napara for Tauhunu.

Recommendations

That Head Office considers to ensure that:

1. The \$33,270.00 originally sealed and packed for Rarotonga, but later remained in the Office is accounted for.
2. The floor tiles ordered for the Tauhunu Office is delivered and installed.

RESPONSE TO AUDIT REPORT

The report of the Audit of the Manihiki Branch of the Bank of the Cook Islands was issued on the 31st July 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Unakea Kauvai, Managing Director, BCI
- Mrs Mii Mataora, BCI Internal Auditor, Rarotonga.
- Jane Kaina, BCI Officer, Tukao.
- Marama Tuatoru, BCI Officer, Tauhunu

Audit notes that as at the date of this report no response has been received by the Audit Office.

REVIEW OF BANK OF THE COOK ISLANDS – RAKAHANGA BRANCH

EXECUTIVE SUMMARY

Please find enclosed our report on the review of the Bank of the Cook Islands (BCI) operations in Rakahanga.

AUDIT FINDINGS

A cash count was carried out by P. Allsworth on Tuesday 11th July 2006. Staff present were Supervisor, Mrs Pouaru Rubena, full-time employee and Mr Iakimo Temu, part-time teller.

The cash holdings showed:

c)	Bulk Cash	Notes	7,963.00	
		Coins	1,252.00	
				<u>\$9,215.00</u>
d)	Teller Cash	Notes	6,119.00	
		Coins	30.44	
				\$6,149.44
		<u>Total</u>		<u>\$15,364.44</u>

The approved cash-holding limit is \$15,000.

A reconciliation of cash movements since the closure of office from Friday 7th July to Monday 10th July 2006 was carried out.

Balance Brought forward	14,303.44
Add Deposits	4,841.00
Deduct Withdrawals	3,780.00
Balance	\$15,364.44
Cash Count	\$15,364.44
Variance	<u>nil</u>

- A) The bulk cash register was reviewed for accuracy of cash movements. No anomalies were found.
- B) A total of \$827.00 torn and damaged notes was recorded and returned to Head Office. Rarotonga.

Overall, internal controls over cash and teller operations are satisfactory.

The Office working environment and general security was reviewed. It was noted that:

- d) A record of all keys (front door, counter till and bank safe) was kept.
- e) The Office fax machine was in need of a fax ribbon cartridge.
- f) The Office Supervisor requested, a 2 drawer filing cabinet, a computer and floor vinyl, as matters of priority.
- g) Of the 4 lights inside, one light socket was exposed with wiring and not operative.
- h) The BCI pays the Island Administration \$100.00 per month for rental space.

Recommendations

That Head Office considers to ensure that:

- a) A fax ribbon cartridge is purchased for the office.
- b) The exposed internal light fitting is repaired as it may be a fire hazard.
- c) Funds available, that a 2 drawer filing cabinet is purchased for storage, a basic computer is purchased (for automated processing) and a 4 mtr x 6 mtr floor vinyl is purchased to cover the bare concrete floor.

RESPONSE TO AUDIT REPORT

The report of the Audit of the Manihiki Branch of the Bank of the Cook Islands was issued on the 31st July 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Unakea Kauvai, Managing Director, BCI
- Mrs Mii Mataora, BCI Internal Auditor, Rarotonga.
- Jane Kaina, BCI Officer, Tukao.
- Marama Tuatoru, BCI Officer, Tauhunu

Audit notes that as at the date of this report no response has been received by the Audit Office.

REVIEW OF THE CONSULTANCY FEES PAID BY PORTS AUTHORITY (PA) TO MR. DON BEER JNR WHO IS ALSO THE CHAIRMAN OF PORTS AUTHORITY.

EXECUTIVE SUMMARY

Please find enclosed the audit report relating to the consultancy fees paid to Mr. Don Beer Jnr by the Ports Authority (PA) who is also the Chairman of the Board of PA.

In September 2002, the PA Board approved the appointment of Mr. Beer as a consultant to the PA to provide advice to the General Manager (GM) of the PA, Mr. Andrew McBirney, liaise with the Minister and government officials and attend meetings required by the Board. According to the GM of the PA, Mr. Beer was appointed due to his knowledge and understanding of the PA's new project, the **Western Basin Development (WBD) Project**. Mr. Beer started receiving consultancy fees in January 2002 up until his consultancy services ceased in April 2005. The consultancy fees were supplementary to the allowance he received as being Chairman of the PA Board.

Background

On the 3 March 2006, the Cook Island News featured a complaint from a member of the public regarding the consultancy fees received by the Chairman of the Board, Mr Don Beer. The Chairman was receiving a monthly fee of \$1,000 for consultancy services provided to the PA's projects. Of concern is the manner and process in which the services was approved and established.

Accordingly the Director of Audit, Paul Allsworth, instigated a Special Review into this matter to determine whether there were any elements of mismanagement and misuse of public resources by the PA.

Major Audit Findings

1. The appointment of Mr. Don Beer Jnr's as a Consultant to the PA.

The Chairman of the PA Board, Mr. Don Beer Jnr was appointed as a consultant for the PA in September 2002. This was endorsed in the minutes of 26 September 2002 board meeting. The basis of Mr. Beer's appointment was to provide consultancy during the stage one of the WBD Project. The WBD Project officially started on the 7th January 2003 through to the end of August 2003.

2. Consultancy fees paid to the Chairman of the PA Board, Mr. Don Beer Jnr.

It was noted that the consultant payments to the Chairman started on 31 January 2002. Details of the voucher payments revealed that Mr. Beer initially received a sum of \$250 per month for the months of January, February, March and April 2002. In May 2002, the consultancy fee increased to \$700 per month and later increased to \$1,250 for the month of June 2002. From the months of July 2002 onwards up to April 2005, he received a steady

monthly fee of \$1,000 per month. The increase in consultancy fees from \$250.00 to \$1,000.00 per month was discussed and agreed by the PA Board in September 2002. A summary of consultancy fees received by Mr. Don Beer per financial period is listed as follows:

- § \$2,950 for the 2001/2002 financial year
- § \$12,000 for the 2002/2003 financial year
- § \$12,000 for the 2003/2004 financial year
- § \$10,000 for the 2004/2005 financial year

The total consultancy fees received **\$36,950.00**

3. The nature of Mr. Don Beer Jnr's Appointment as a Consultant.

The engagements of consultants are normally conducted through formal contracts, letter of engagements, terms of reference or other formal arrangements. These engagements are normally documented to ensure that the scope of work and the charge out rates are agreed upon by both parties before any service is rendered

We did not find any contract or formal documentation on file in respect to the engagement of Mr. Beer's consultancy services. We expected to see formal and proper documents or terms of reference outlining the responsibilities and scope of work required of the consultant. However, there was nothing in place to indicate the basis of this appointment. As a result, we relied on the information disclosed in the minutes of the monthly board meetings and the discussions held with the GM of the PA, Mr. Andrew McBirney.

We confirm from the board minutes that Mr. Beer's appointment as a consultant was approved in 26 September 2002. We also confirmed that the appointment of Mr Beer as a consultant was to remunerate him for the extra hours he was putting in the various meetings, providing advice to the GM and to attend meetings with government officials and the Minister. This appointment was made under section 18 of the Ports Authority Act 1994-95 which, allows the PA Board to appoint a consultant.

It is our view that the PA used the provision of the Ports Authority Act as an avenue to compensate the Chairman for his extra hours he was putting in various meetings and not for the purpose that of a typical consultant arrangement. There was no evidence of any tax invoice or formal documentation from Mr. Beer indicating the number of hours worked and the type of consultancy service provided to PA. Mr. Beer's consultancy fee payments were prepared by PA staff on voucher payments and paid by cheque on the advice of the GM.

4. Failure to advertise and to obtain quotations for the consultancy services.

At the time Mr. Beer was appointed in September 2002 as a Consultant for the PA Board, the Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM) did not have procedures and guidance in dealing with transactions of this nature. This came into effect in December 2004.

However, in the absence of these procedures, there are general guidance and general practices available in which the Board could have used to guide them in dealing with this matter. It is common and best practice for government agencies to advertise in the media and

to tender services to the general public at large. Such practice will ensure that the appointment was transparent, made without favoritism and can stand up to scrutiny from the public.

We confirmed with the GM and from the board minutes that the consultancy service was not advertised in the newspaper nor were quotations sought from the public. According to the GM, the PA did not consider advertising or tendering the consultancy services, as the cost of an outside or overseas consultant would be very expensive. He also stated that Mr. Beer's appointment was an informal matter in which the chairman was receiving an extra allowance to accommodate his services. We find the explanations provided by the GM to be unreasonable and unsatisfactory.

Transactions requiring a contestable process should also be advertised or tendered to ensure that there is a level playing field that is contestable, transparent and made without favoritism. It is also Audit's view that the actions of the PA in not advertising and tendering this service to the public were improper and unacceptable.

5. Did the Chairman of the PA Board, Mr. Don Beer Jnr have a conflict of interest by being appointed as Consultant to PA?

At the time Mr. Beer's appointment was approved by the PA Board on 26 September 2002 as a consultant, Mr. Beer was the Chairman of the Board. We also confirmed that Mr. Beer was in the entire meeting when the Board discussed and approved his appointment as a consultant. There was no record of any board resolution or any record on the minute to state that the Chairman excused himself from the meeting when this matter was discussed. We also noted that Mr. Beer signed the minutes of that meeting in his capacity as Chairman of the PA Board.

In general, any individual who has a conflict of interest in a matter, or could be seen to arise; it is best practice for the individual affected to remove themselves from the situation and declare any actual or possible conflicts of interest to its Board. It is also prudent that those involved in the evaluation of the quotations or tenders should not be intending to purchase goods or services or have any other conflict of interest.

However, we confirm that Mr. Beer was involved in the evaluation and approval of his appointment as he was chairing that meeting. It is Audit's view that the Chairman's presence may have influenced the board's decision, or it may have put pressure on the board members or made it difficult for the board members to decline his appointment or make an independent decision.

It is Audit's opinion that Mr. Beer had a clear conflict of interest in this matter and did not disclose his conflict of interest with the Deputy Chairman or the Board. We also noted that the Chairman was countersigning and approving vouchers with the GM for payments of consultancy fees to himself. The fact that he was involved in signing and approving payments to himself is also a conflict of interest. It is Audit's view that these consultancy payments to Mr. Beer should have been signed by the Deputy Chairman or another board member with the GM.

6. Concerns over the appointment of Mr. Don Beer Jnr as a Consultant.

The Cook Islands Investment Corporation (CIIC), the parent agency of the PA had raised their concern with the appointment of Mr. Beer as a consultant in its meeting of November 2002. The CIIC Board was concerned that Mr. Beer was performing two roles with the PA that is, being Chairman of the Board and a consultant to the PA. They requested the GM to advise whether it was legal for Mr. Beer to perform the two roles with PA. The GM of PA responded by advising the CIIC Board that Mr. Beer was appointed under section 18 of the Ports Authority Act, implying that the PA can appoint consultants under section 18 of the Ports Authority Act 1994-95. However, we are of the opinion that his response does not really address the issues in question by CIIC Board. The Ports Authority Act 1994-95 section 18, provides the provision to allow the PA to appoint consultants, advisers and specialists, however, it does not address as to whether or not it is legal for one person to serve or fulfill two positions within the same entity as in the case of Mr. Beer.

The Audit Office is also concerned with the process in which Mr. Don Beer Jnr was appointed by the PA Board and the manner in which consultancy payments were made to Mr. Beer. The irregularities identified in the appointment process and in the manner payments were made include:

- The position was not advertised by the Board nor were public tenders and quotations sought by the Board.
- Mr. Beer did not remove himself from the discussions or meeting when his appointment was approved.
- Mr. Beer did not disclose his conflict of interest with the Board or the Deputy Chairman.
- Mr. Beer's direct involvement in signing and approving the vouchers and cheques for his consultancy fees
- Mr. Beer received consultancy fees in January 2002 (9 months) well before his appointment was approved on 26 September 2002.
- Mr. Beer was appointed specifically to provide consultancy work for the WBD project which commenced in January 2003. However, he had started receiving consultancy fees in January 2002 which was 12 months prior to the commencement of the project. In other words, the PA Board had effectively back dated the payment, which in effect, never took place, before 26 September 2002.

We found these actions to be improper and unsatisfactory. The Audit Office does not condone these practices and strongly recommends measures to address these issues.

CONCLUSION

This audit report has identified principal areas of concern relating to the appointment of Mr. Don. Beer Jnr as a consultant of the PA who is also the Chairman of the PA Board.

There is sufficient evidence to suggest that Mr. Beer's appointment as a consultant was merely to remunerate him for the extra hours and duties he was putting into the board meetings of PA and not for the purpose that is typical of a consultant arrangement. We do not think that he was engaged for his expertise or specialized skill or knowledge for the Western Basin Development (WBD) Project as stated by the GM as he was already collecting consultancy fees 12 months before the WBD project commenced.

A number of irregularities were also identified in Mr. Don Beer Jnr appointment which in our view was improper and inappropriate. The PA failed to advertise the tender and to seek quotations from those genuinely interested in supplying the services. It is also noted that Mr. Beer had a conflict of interest and was involved in the approval of his appointment as there were no records on the minutes of the meeting to suggest that he refrained from any of the discussions in that meeting. Of concern also is the fact that Mr. Beer was signing and approving with the GM his own consultancy fees payments to himself.

Recommendations have been made to the appropriate authorities to address areas of concern as required by Section 32(2) of the PERCA Act 1995-1996.

MANAGEMENT REPORT

1. INTRODUCTION

During our audit review of the Sand Pump purchased by the PA, it was discovered that the Chairman of the Board of PA, Mr Don Beer Jnr was receiving consultancy fees which is additional to the allowance he was receiving as the Chairman of the PA Board.

The PA Board approved Mr. Beer's appointment as a Consultant for a short period of time for the Ports new expansion projects. This resulted in the Chairman receiving two separate fees, which were board fees and consultant fees paid monthly. The consultant fees were related to the consultant work directly related to the new PA's development project, **Western Basin Development (WBD)**.

The PA is a State Owned Enterprise (SOE) and administers by the Ports Authority Act 1994-95 and also falls under the umbrella of the Cook Islands Investment Corporation (CIIC). The Ports Authority has a Board who makes the policy and decisions for PA. The General Manager of the PA is responsible for the control and management of the operations of the Authority.

The purpose of this review is to determine whether or not the Chairman of PA Board, Mr. Beer,

- had a conflict of interest by being appointed as a Consultant for PA
- whether the appointment was conducted by the PA in a fair and transparent manner
- whether the PA followed proper measures and procedures in appointing Mr Beer as a consultant while also being the Chairman.

The Audit Office has a responsibility under Section 27(g) of the PERCA Act 1995-1996 to pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation.

1. AUDIT OBJECTIVES

- 2.1 To determine the duration in which, the Chairman, Mr. Don Beer Jnr was contracted by the PA as a consultant and to confirm total consultancy fees paid to the Chairman.
- 2.2 To ascertain as to whether the appointment of the Chairman as a Consultant was conducted in the appropriate, proper and fair manner.
- 1.3 To determine whether or not Mr. Don Beer had a conflict of interest when he was appointed as a Consultant for PA while also being the Chairman of the PA Board.
- 1.4 To ascertain what type of consultancy services were provided by Mr. Don Beer Jnr to the PA.
- 1.5 To determine whether the appointment of Mr. Don Beer Jnr as a Consultant was in breach of any legislation.

3. AUDIT SCOPE

The audit review was limited to the period 01st January 2002 to 14th July 2006. The documents reviewed were as follows:

- Voucher payments
- Financial reports
- Board Meeting minutes
- Correspondence from the General Manager (GM) of PA, Andrew Mcbirney and Mrs. Tuaine Marsters of CIIC
- Ports Authority Act 1994-95
- Herald News Paper Article dated 21. 01.03
- Cook Islands Newspaper dated

4. AUDIT FINDINGS

4.1 The appointment of Mr. Don Beer Jnr's as a Consultant to the PA.

- 4.1.1 The Chairman of the PA Board, Mr. Don Beer Jnr was appointed as a consultant for the PA in September 2002. This was endorsed in the minutes of 26 September 2002 board meeting.
- 4.1.2 The basis of Mr. Beer's appointment was to provide consultancy during the stage one of the Western Basin Development Project. The Western Basin Development Project officially started on the 7th January 2003 through to the end of August 2003.

4.2 Consultancy fees paid to the Chairman of the PA Board, Mr. Don Beer Jnr.

- 4.2.1 Audit reviewed the voucher payments and the general ledger expense accounts, which summarized the total consultancy fees payments made by PA to Mr. Beer per financial year. It was noted that the consultant payments to the Chairman started on 31 January 2002.

4.2.2 Details of the voucher payments and general ledger revealed that Mr. Beer initially received a sum of \$250 per month for the months of January, February, March and April 2002. In May 2002, the consultancy fee increased to \$700 per month and later increased to \$1,250 for the month of June 2002. From the months of July 2002 onwards up to April 2005, he received a steady monthly fee of \$1,000 per month.

4.2.3 The increase in consultancy fees from \$250.00 to \$1,000.00 per month was discussed and agreed by the PA Board in September 2002. During our interview with the GM of PA, Mr. Andrew McBirney, he advised Audit that the initial amount of \$250 was not enough in comparison to the work and responsibility required. Therefore the Board agreed to increase the consultancy fees to \$1,000.00 per month.

4.2.4 A summary of consultancy fees received by Mr. Don Beer per financial period is listed as follows:

- § \$2,950 for the 2001/2002 financial year
- § \$12,000 for the 2002/2003 financial year
- § \$12,000 for the 2003/2004 financial year
- § \$10,000 for the 2004/2005 financial year

The total consultancy fees received **\$36,950.00**

4.3 The nature of Mr. Don Beer Jnr's Appointment as a Consultant.

4.3.1 It is normal practice for any government ministry or department to engage consultancy services for the ministry or department when it is necessary. The engagements of consultants are normally conducted through formal contracts, letter of engagements, terms of reference or other formal arrangements. These engagements are normally documented to ensure that the scope of work and the charge out rates are agreed upon by both parties before any service is rendered.

4.3.2 Generally, consultants are contracted or hired for their expertise, specific and specialized skill or knowledge of a subject matter. In most cases, the duration of these engagements are conducted on a short-term basis. It is also common for consultants to charge agencies by the hour at an agreed rate by both parties. In that respect, we expect to see fluctuations in the consultancy charges depending on the number of hours worked each period whether it is weekly, fortnightly or monthly.

4.3.3 We did not find any contract or formal documentation on file in respect to the engagement of Mr. Beer's consultancy services. We expected the PA to have on hand formal and proper documents or terms of reference outlining the responsibilities and scope of work required of the consultant. However, there was nothing in place to indicate the basis of this appointment. As a result, we relied on the information disclosed in the minutes of the monthly board meetings and the discussions held with the GM of the PA, Mr. Andrew McBirney.

4.3.4 Audit reviewed the board minutes to determine the nature and approval of Mr. Beer's appointment as a consultant. We confirm that Mr. Beer's appointment as a consultant was approved in 26 September 2002.

- 4.3.5 The content of the minutes of the meeting held in September 2002, states “Chairman’s workload requires a lot of time – approx 5 hours a week including a variety of meetings. The \$240.00 a meeting does not cover this and a figure of \$12,000 per year is being proposed to cover the time put in. Under the provision of the Ports Authority Act a consultant can be appointed. Board accepts that the Chairman is appointed to this position and will be paid \$12,000 p.a.”
- 4.3.6 The memorandum dated 22 January 2004 from the GM of the PA to the Board of Directors of PA indicates that the basis of Mr. Beer’s appointment as a consultant is to provide advice to the GM, the Authority, attend meetings with the Minister, CIIC, the authority’s solicitors, accountant, insurance brokers and visiting consultants. According to the General Manager it was an informal matter in which the chairman was receiving an extra allowance to accommodate for his services.
- 4.3.7 Based on the information above, it appears that Mr. Beer’s appointment as a consultant was made not for a specific skill or knowledge that he specialized or possessed that was required for the project, but in essence, to compensate him for the extra hours that he was putting in the various meetings. It is our view that the GM, Andrew McBirney used the provision of the Ports Authority Act (that allows the Board to appoint a consultant) as an avenue to compensate the Chairman for his extra hours after hours or during working hours.
- 4.3.8 We expected to see attached with the voucher payments proper tax invoices or documentation from Mr. Beer for the work he performed and the number of hours worked. However, there was no evidence of any tax invoice or formal documentation from Mr. Beer indicating the number of hours worked and the type of consultancy service provided to PA.
- 4.3.9 Mr. Beer’s consultancy fee payments are prepared by PA staff on voucher payments and paid by cheque on the advice of the GM.

4.4 Failure to advertise and to obtain quotations for the consultancy services.

- 4.4.1 The Cook Islands Government Financial Policies and Procedures Manual (CIGFPPM) Part D, Section 2, provides guidance and sets out the procedures in dealing with transactions of this nature. The purpose of this provision is to ensure that purchases of goods and services and similar transactions comply with suitable standards of accountability and transparency. However, at the time Mr. Beer was appointed as a Consultant in September 2002, these procedures were not part of the CIGFPPM. This came into effect in December 2004.
- 4.4.2 However, in the absence of these procedures, there are general guidance and general practices available in which the Board could have used to guide them in dealing with this matter. It is common and best practice for government agencies to advertise in the media and to tender services to the general public at large. Such practice will ensure that the appointment was transparent, made without favoritism and can stand up to scrutiny from the public.
- 4.4.3 During our interview with the GM of PA, Mr. Andrew McBirney, we confirmed that the consultancy services was not advertised in the newspaper nor were quotations

sought from the public. We also confirmed that the consultancy was not tendered to the public by the PA.

4.4.4 According to the GM, the PA did not consider advertising or tendering the consultancy services, as the cost of an outside or overseas consultant would be very expensive. He also stated that Mr. Beer's appointment was an informal matter in which the chairman was receiving an extra allowance to accommodate his services. We find the explanations provided by the GM to be unreasonable and unsatisfactory.

4.4.5 Transactions requiring a contestable process should be advertised or tendered to ensure that there is a level playing field that is contestable, transparent and made without favouritism. It is also Audit's view that the actions of the PA in not advertising and tendering this service to the public were improper and unacceptable.

4.5 Did the Chairman of the PA Board, Mr. Don Beer Jnr have a conflict of interest by being appointed as Consultant to PA?

4.5.1 At the time Mr. Beer's appointment was approved by the PA Board on 26 September 2002 as a consultant, Mr. Beer was the Chairman of the Board.

4.5.2 We also confirmed that Mr. Beer was in the entire meeting when the Board discussed and approved his appointment as a consultant. There was no record of any board resolution or any record on the minute to state that the Chairman excused himself from the meeting when this matter was discussed.

4.5.3 We also noted that Mr. Beer signed the minutes of that meeting in his capacity as Chairman of the PA Board.

4.5.4 In normal circumstances, any individual who has a conflict of interest arises, or could be seen to arise; the individual affected should remove themselves from the situation and declare any actual or possible conflict of interest to its Board. It is also prudent that those involved in the evaluation of the quotations or tenders should not be intending to purchase goods or services or have any other conflict of interest.

4.5.5 However, we confirm that Mr. Beer was involved in the evaluation and approval of his appointment as he was chairing that meeting. It is Audit's view that the Chairman's presence may have influenced the board's decision, or it may have put pressure on the board members or made it difficult for the board members to decline his appointment or make an independent decision.

4.5.6 It is Audit's opinion that Mr. Beer had a clear conflict of interest when he was appointed as a consultant as he was the chairman of the board who was chairing that meeting. There were no records stated in the minutes to indicate or to suggest that Mr. Beer excused himself or refrain from any discussions on this matter in that meeting. Mr. Beer did not remove himself from the situation and nor did he declare his conflict of interest. Therefore, Audit concludes that given that there were no records of Mr. Beer removing himself from the meeting, he took part in the discussions of that meeting and was involved in the approval of his own appointment and remuneration, which was a clear conflict of interest.

4.5.7 We also noted that the Chairman was countersigning and approving vouchers with the GM for payments of consultancy fees to himself. The fact that he was involved in signing and approving payments to himself is also a conflict of interest. It is Audit's view that these consultancy payments to Mr. Beer should have been signed by the Deputy Chairman or another board member with the GM.

4.6 Concerns over the appointment of Mr. Don Beer Jnr as a Consultant.

4.6.1 The Cook Islands Investment Corporation (CIIC) is the parent agency of the PA and has a Board of Directors. The CIIC Board during one of its meetings in November 2002 raised their concerns over the appointment of the Mr. Don Beer Jnr as a consultant of the PA who was also the Chairman of the PA Board. The CIIC Board was concerned over the capacity of Mr. Beer as the Chairman and Consultant and whether it was legal to have the Chairman serving both roles and raised this matter with the GM of PA.

4.6.2 The GM of PA responded by advising the CIIC Board that the Ports Authority Act covers this particular area, implying that the PA can appoint consultants under section 18 of the Ports Authority Act 1994-95. However, we are of the opinion that his response does not really address the issues in question by CIIC Board. The Ports Authority Act 1994-95 section 18, provides the provision to allow the PA to appoint consultants, advisers and specialists, however, it does not address as to whether or not it is legal for one person to serve or fulfill two positions within the same entity as in the case of Mr. Beer.

4.6.3 The Audit Office is also concerned with the process in which Mr. Don Beer Jnr was appointed by the PA Board. The position was not advertised by the Board nor were public tenders and quotations sought by the Board. Mr Beer did not remove himself from the discussions or meeting when his appointment was approved neither did he disclose his conflict of interest.

4.6.4 Of concern also is the manner in which consultancy payments were made to Mr. Beer. We noted that he was receiving consultancy fees in January 2002 (9 months) well before his appointment was approved on 26 September 2002. We were advised by the GM that Mr. Beer was appointed specifically to provide consultancy work for the WBD Project. However, we found that the WBD Project had commenced in January 2003, 12 months later and yet he had already started receiving consultancy fees in January 2002 which was 12 months prior to the commencement of the project and approved by the Board. In other words, the PA Board had effectively back dated the payment, which in effect, never took place, before 26 September 2002.

4.6.5 We also found Mr. Beer's direct involvement in signing and approving the vouchers and cheques for his consultancy fees to be improper and inappropriate. The Board should have engaged the Deputy Chairman or another member of the Board to sign the vouchers and cheques relating to the chairman for consultancy fees.

5.0 AUDIT RECOMMENDATIONS

The following recommendations are addressed to the General Manager (GM) of the Ports Authority (PA) and the Chairman of the Board of the Ports Authority.

The General Manager of the Ports Authority should:

- Take reasonable steps and measures in accordance with best practice where the Ports Authority intends to purchase goods and services of this magnitude and nature. This includes advertising the scope of services required to the members of the public and seeking quotations from those genuinely interested in supplying the goods and service.
- Properly formalized and document the engagement and appointment of any consultants, adviser and specialist. This includes documenting the scope of work required of the consultant, the agreed charge out rates and the duration of these arrangements.
- Document and keep on file all reports prepared and work performed by any consultant, specialist or advisor
- Ensure that no payments are made to any consultant, contractor or supplier prior to the Boards approval.
- Seek professional and legal advice from the Financial Secretary and the Solicitor General on matters regarding the financial management and the legal implications and boundaries of the Ports Authority before engaging into arrangements of this nature.
- Ensure that the appointments of consultants are conducted in a proper, legal, transparent, and accountable manner.

The Chairman of the Board of the Ports Authority should:

- Ensure that any board member including the Chairman who has a conflict of interest in any matter that is being discussed by the Board **must** disclose and register his/her conflict of interest in that matter with the Board before any discussion takes place.
- Ensure that where a conflict of interest is disclosed or registered by any board member including the chairman on a matter for discussions, the name of the person having the conflict of interest and the conflict of interest should be recorded in the minutes of the meeting.
- Ensure that any board member including the chairman removes or refrains themselves from any discussions or meeting regarding any matter in which they have a conflict of interest. Where a member has a conflict of interest in a matter and has removed himself/herself from the discussion or the meeting, this process should be formally recorded and documented in the minutes of the meeting as

evidence that the person having a conflict of interest did not participate in the discussions of that meeting.

- Ensure that any board member involved in the evaluation of the quotations or tenders should not be intending to supply goods or services or have any other conflict of interest.
- Ensure that the Chairman or any board member does not sign any vouchers or cheques if he or she is the beneficiary of the payment. Another member of the board or authorised personnel should be asked to sign those vouchers and cheques in place of the Chairman.

6.0 AUDIT CONCLUSION

This audit report has identified principal areas of concern relating to the appointment of Mr. Don. Beer Jnr as a consultant of the PA who is also the Chairman of the PA Board. We have also highlighted a number of anomalies in the manner in which consultancy payments were approved and made.

There is sufficient evidence to suggest that Mr. Beer's appointment as a consultant was merely to remunerate him for the extra hours and time he was putting into the board meetings, providing advice to the GM and liaising with government officials. We do not think that he was engaged for his expertise or specialized skill or knowledge for the Western Basin Development (WBD) Project as stated by the GM as he was already collecting consultancy fees 12 months before the WBD project commenced. It is Audit's view that the intention of the PA to appoint Mr. Beer as a consultant under section 18 of the Ports Authority Act (that allows the Board to appoint a consultant) was to compensate the Chairman for his extra duties and not for the purpose of a typical consultant arrangement.

A number of irregularities were also identified in Mr. Don Beer Jnr appointment which in our view was improper and inappropriate. The PA failed to advertise the tender and to seek quotations from those genuinely interested in supplying the services. It is also noted that Mr. Beer had a conflict of interest and was involved in the approval of his appointment as there were no records on the minutes of the meeting to suggest that he refrained from any of the discussions in that meeting. Of concern also is the fact that Mr. Beer was signing and approving with the GM his own consultancy fees payments to himself. We find this practice to be inappropriate and improper.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the consultancy fees paid to Mr. Don Beer Jnr by the Ports Authority (PA) who is also the Chairman of the Board of PA was issued on the 18th August 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Hon. Tangata Vavia, Minister of CIIC
- Taukea Rau, CEO, CIIC
- Andrew McBirney, General Manager of Ports Authority
- Kevin Carr, Financial Secretary
- Janet Maki, Solicitor General
- Navy Epati, Public Service Commissioner
- Charles Little, Chairman, PERC

Specific recommendations were addressed to the following:

- Ø Andrew McBirney, General Manager of Ports Authority
- Ø Don Beer Jnr, Chairman, Ports Authority board.

Attached is a copy of responses received by the Audit Office from:

- Teariki Kamana, Deputy Chairman of the Ports Authority Board dated 6th October 2006
- Charles Little, Chairman of PERC dated 15th September 2006
- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006
- Tingika Elikana, Senior Crown Counsel, Crown Law dated September 15th 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

AUDIT REVIEW OF THE MISSING CASH FROM MINISTRY OF HEALTH ADMINISTRATION, TUPAPA.

EXECUTIVE SUMMARY

Please find enclosed the Audit report relating to the Review of the Missing Cash from the Ministry of Health (“MoH”) during the period April 2006.

The incident involving money totalling **\$1,680.00** was alleged to have been removed from the Ministry of Health’s Administration Office in Tupapa on or during the 2006 Easter weekend is the subject of this enquiry.

Background

The money was gifted on 16 September 2005 by Ms Diane Hamilton, an Ear Nose and Throat (“ENT”) Nurse who was on Rarotonga in September 2005 for the ENT consultations funded by NZAID. The money was given as a gift from Diane Hamilton to Helen Sinclair, a Project Officer in the MoH Office. The purpose of the gift was to assist with the airfares for outer islands patients to travel to Rarotonga.

It was alleged that this money was removed from the desk drawer of Vaine Ngatokorua, a Finance Officer at the MoH’s Administration Office in Tupapa.

During the Audit Office’s interviews, a number of anomalies were identified which included:-

- The non adherence of the Cook Islands Government Financial Policy and Procedures Manual in the receipting of cash and reporting of Aid monies directly to AMD.
- The potential risk of money being “forgotten” in the MoH Administration Office.
- The handling of the incident by the former Secretary of Health in not notifying the Police of the theft of the money.

The Audit Office has a responsibility under Section 27(g) of the PERCA Act 1995-1996 to *pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation.* The Audit Office also has a responsibility to report its findings accordingly as stated in Section 32 of the PERCA Act 1995-1996.

MAJOR AUDIT FINDINGS

1.0 The non adherence of the Cook Islands Government Financial Policy and Procedures Manual in the receipting of cash and reporting of Aid monies directly to AMD by MoH Administration Office.

1.1 On 16 September 2005 Ms Diane Hamilton, an Ear Nose and Throat (“ENT”) Nurse who was on Rarotonga for the ENT consultations gifted \$1,680.00 towards the Outer Islands Patient Referral. This money was to be used specifically to pay for airfares for these patients.

- 1.2 The Audit Office is of the opinion that the “gift” or “donation” given by Diane Hamilton was within the parameters of the definitions of the Manual in Part C, Section 5 regarding Aid funding and therefore should have been receipted and reported to the Aid Management Division.
- 1.3 The Audit Office can confirm that the MoH Administration Office did not report the cash “gift” by Diane Hamilton to the Aid Management Division nor was it receipted and accounted for separately as per the Manual.
- 1.4 Audit also found that the money was not receipted or recorded by the MoH Administration Staff. This was clearly a breach of the MFEM Act 1995-1996 and the Cook Islands Government Financial Policy and Procedures Manual (“Manual”).
- 2.0 The potential risk of money being “forgotten” in the MoH Administration Office.**
- 2.1 Audit found that the MoH Administration Office had **made serious decisive errors** at the beginning of the transaction. The money was not receipted nor was it recorded by the MoH Administration Staff.
- 2.2 The money was placed in a locked filing cabinet in the MoH Administration Office. Audit found that the money remained in this locked filing cabinet and **“forgotten”** for **7 months** from 16 September 2005 – 12 April 2006.
- 2.3 The Audit Office is of the opinion this money should have been receipted and recorded prior to securing it in a locked cabinet and it should also have been banked into the MoH Bank account and a cheque issued to Air Rarotonga to cover Outer Islands patient referrals, as intended by the donor.
- 3.0 Why were the Police not notified of this matter?**
- 3.1 At the time of the completion of this report the Audit Office had not interviewed the former Secretary of Health, Vaine Teokotai to ascertain why the Police were not brought in to the MoH to investigate this matter.
- 3.2 Therefore, Audit was unable to determine why the Police were not notified of this matter; however this Office is of the opinion that this matter **should have been reported** to the Police to be investigated further. From our inquiries with the Health administration staff, we were informed that the former Secretary wanted to keep the matter ‘in-house’ and not be reported to the Police.

CONCLUSION

In conclusion, this review has identified anomalies in the internal controls of the MoH Administration Office’s handling of cash “donated” by a donor. A decision was made based on what the donor had requested which was in conflict with the Cook Islands Government Financial Policy and Procedures Manual.

The problem was also compounded by weak internal controls and subsequent decisive errors made by the MoH Administration Office Senior staff. The initial transaction involving the

donation should have been receipted and recorded as per the Cook Islands Government Financial Policy and Procedures Manual.

The Audit Office is of the opinion that the incident of the missing money was a culmination of erroneous decisions made by the senior staff of the MoH Administration Office. Recommendations have been made in regards to who should be responsible for repaying the money; however, the issue of identifying who “stole” the money must be dealt with by the Police Department.

Recommendations have been made to the appropriate authorities to address areas of concern as required by Section 32(2) of the PERCA Act 1995-1996.

We also advise the Head of Crown Agencies and Ministries that under Section 32(2) of the PERCA Act 1995-1996, the Director of Audit *require the person in charge to respond to the Director within 14 days of that person receiving the report.*

MANAGEMENT REPORT

INTRODUCTION

The incident involving money totalling \$1,680.00 was alleged to have been stolen from the Ministry of Health’s Administration Office in Tupapa on or during the 2006 Easter weekend is the subject of this enquiry.

The money was donated on 16 September 2005 by Diane Hamilton, an Ear Nose and Throat (“ENT”) Nurse who was on Rarotonga in September 2005 for the ENT consultations funded by NZAID. The money was given as a donation from Diane Hamilton to Helen Sinclair, a Project Officer in the MoH Office. The purpose of the donation was to assist with the airfares for outer islands patients to travel to Rarotonga.

The Audit Office received a complaint from the Ministry of Health (“MoH”) Director of Finance and Administration, Mr Adi Narayan in relation to the missing money and requested that the Audit Office conduct an audit review of the incident.

It was alleged that money was removed from the desk drawer of Vaine Ngatokorua, a Finance Officer at the MoH’s Administration Office in Tupapa.

During the Audit Office’s interviews, a number of anomalies were identified, which included:-

- The non adherence of the Cook Islands Government Financial Policy and Procedures Manual in the receipting of cash and reporting of Aid monies directly to AMD.
- The potential risk of weak internal controls in the MoH Administration Office.
- The handling of the incident by the former Secretary of Health in not notifying the Police of the theft of the money.

The Audit Office has a responsibility under Section 27(g) of the PERCA Act 1995-1996 to *pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation.*

The Audit Office also has a responsibility to report its findings accordingly as stated in Section 32 of the PERCA Act 1995-1996.

AUDIT OBJECTIVES

- To determine if the cash “donation” was reported to the Aid Management Division (“AMD”) as per Part C, Section 5 of the Cook Islands Government Financial Policy and Procedures Manual?
- To determine if the cash “donation”, was received by the MoH Administration Office?
- To determine who was ultimately responsible for the custody of the money and therefore should be responsible for repaying the missing money?
- To determine why the Police were not notified of this matter?

AUDIT SCOPE

This Audit review was limited to the period from September 2005 to May 2006 and was prepared based on information from interviews and documents obtained from key personnel from the MoH Administration Office and AMD.

AUDIT APPROACH

Audit interviewed key personnel employed in the MoH Administration Office.

The following documents were reviewed:-

- Ministry of Health’s Audited Financial Accounts for end of Financial Year 30 June 2003.
- Ministry of Health’s Audited Financial Accounts for end of Financial Year 30 June 2004.
- Correspondence from Adi Narayan dated 24 May 2006
- Incidental Report from Vaine Ngatokorua
- Correspondence from Vaine Ngatokorua dated 01 June 2006
- Cook Islands Government Policy and Procedures Manual
- MFEM Act 1995-1996

LEGISLATION

- PERCA Act 1995-1996
- Public Service Act 1995-1996
- MFEM Act 1995-1996

AUDIT FINDINGS

Was the cash “donation” reported by MoH to the Aid Management Division (“AMD”) as per Part C, Section 5 of the Cook Islands Government Financial Policy and Procedures Manual?

On 16 September 2005 Ms Diane Hamilton, an Ear Nose and Throat (“ENT”) Nurse who was on Rarotonga for the ENT consultations donated **\$1,680.00** towards the Outer Islands Patient Referral. This money was to be used specifically to assist airfares for these patients.

The Cook Islands Government Financial Policy and Procedures Manual (“Manual”), states in Part C, Section 5 regarding Aid funding.

Cook Islands Government Financial Policy and Procedures Manual.

Part C, Section 5 – Aid Funding for Operating Expenses.

Mandatory Requirements.

2.4 All aid received directly from donors must be reported to Aid Management, MFEM.

(NB. The thesaurus states that a “donor” is a giver, supporter, contributor or benefactor and “aid” is to help, promote or assistance.)

3.0 Process

3.1 Where a Ministry receives aid funding directly from the donor it must be accounted for separately.

In an interview dated 21 July 2006 with a member of staff in the MoH’s Administration Office, it stated that the cash “donation” was not reported to the Aid Management Division because they didn’t realise that they had to do that. According to this staff member, this was the first time that a consultant had given the MoH Administration Office money directly.

The Audit Office was able to confirm with the Manager of Aid Management Division of MFEM, Garth Henderson on 24 July 2006 that the money received by the MoH Administration Office was not reported to his office.

Garth Henderson also stated that “in spite of the provision of the Manual, Ss.2.4, Ministries often don’t report aid received directly from donors to the Aid Management Division of MFEM”. This finding is alarming and it indicates that not all donor aid funds are accounted for.

- He further stated that based on AMD’s past experience, many of the people that AMD dealt with in the Ministries have **very poor knowledge** of the Manual and not reporting is just another manifestation of this poor knowledge.
- However, Garth Henderson also stated that the Aid funds which was given to the Ministry of Health “appears like a donation which lies outside of AMD’s financial management obligations”.

According to the Collins Dictionary, a “donation” is a gift, a contribution to a charity or other organisation and accordingly “aid” is money, equipment, or services provided for people in need; assistance.

The Audit Office is of the opinion that the “donation” given by Diane Hamilton was within the parameters of the definitions of the Manual and therefore should have been reported to AMD.

The Audit Office can confirm that the MoH Administration Office did not report the cash “donation” by Diane Hamilton to the Aid Management Division nor was it accounted for separately as per the Manual.

To determine if the cash “donation” was receipted by the MoH Administration Office?

The “cash donation” money trail

Diane Hamilton gave the money to Helen Sinclair, a Project Officer with the MoH Administration Office on 16 September 2005. According to Helen Sinclair, this money was not receipted because; the donor had requested that this money not be given to Health but to assist with the airfares for the patients from the Outer Islands.

Helen Sinclair in turn passed the money on to Mata Taramai, a MoH Donor Project /Finance Office who with Haumata Hosking the Senior Finance Officer’s instructions were to put the money in Mata Taramai’s locked cabinet. Mata Taramai stated in an interview on 19 July 2006 that Haumata Hosking had said not to receipt the money because the cash would be paid directly to Air Rarotonga, who in turn will issue the receipt.

According to Helen Sinclair, the donor did not want the money to be receipted because the donor did not want to give the money to MoH nor have the money used for other things in the MoH. At the time the MoH did not have any money to bring in the Outer Islands patients. Note, this is exactly why all funds need to be receipted and banked, so full accountability is made. Because this was not adhered to, the donation ended up being stolen.

She also stated that it was the first time that a consultant had given cash and because the donor had specifically asked that it was not to be given to MoH, she felt that their office should oblige this request. Diane Hamilton had also requested that the money was to be put towards assisting the outer islands patient’s referrals airfares. A receipt would be issued by Air Rarotonga to account for this money. It should be noted that a reconciliation of the Air Rarotonga, Health, accounts payable account would not reconcile, due to the failure to account the initial donor.

- In Helen Sinclair’s opinion, this was not MoH money because it was given by Diane Hamilton as a “kind gesture” to help with the outer islands patients airfares.
- However, according to Adi Narayan, the Director of Finance & Administration for the MoH, Helen Sinclair was the first person to have received the money and therefore should have receipted the money.
- He continued that Helen Sinclair should have known better. She was the more senior and longer serving staff in the Administration staff and she should have known that the money should have been receipted, banked and a cheque to be issued to Air Rarotonga.

- Accordingly, Helen Sinclair stated in an interview with Audit that she had only followed what Diane Hamilton had requested that this money not be given to Health but to assist with the airfares for the patients from the Outer Islands.

At the time of this review, the Audit Office could not substantiate Helen Sinclair's claim with any other parties outside of the MoH Administration Office. Additionally, Diane Hamilton was not on Rarotonga during this review. Although according to Helen Sinclair, Diane Hamilton is expected back to Rarotonga in September 2006.

According to Mata Taramai in an interview on 19 July 2006, the money was not to be receipted because Haumata Hosking had said that the money will be paid directly to Air Rarotonga and to offset the costs of the MoH patients from the Outer Islands. The money was to be paid to Air Rarotonga once the Finance and Accounts Section had reconciled their Air Rarotonga accounts which had a balance of approximately \$50,000.00 owed by the MoH for the Patient Referral Airfares.

Additionally, according to Helen Sinclair the money was supposed to be paid immediately to Air Rarotonga. The receipt would be issued by Air Rarotonga in Diane Hamilton's name. However, it must be noted that the money remained in Mata Taramai's locked cabinet for **7 months** from 16 September 2005 – 12 April 2006.

Helen Sinclair stated in an interview 12 July 2006 that she was unaware that the money had remained in Mata Taramai's locked cabinet and that Air Rarotonga had not been paid. According to Mata Taramai and Haumata Hosking, they had forgotten that the money was still in the locked cabinet.

The Audit Office found that this practice was **risky, unprofessional, and unorthodox** and as a result could become open to **theft** due to poor controls. This practice was also in breach of the Manual which clearly stated the guidelines on cash receipts and the process that the MoH Administration Office should have followed.

Cook Islands Government Financial Policy and Procedures Manual

2.0 Mandatory Requirements

- 2.2.1 *A Government receipt must be issued at the time of receipt of cash.*
- 2.2.2 *Cash receipts must be banked promptly.*

3.0 Process

3.1 Receipt of Cash

- 3.1.1 *Upon receiving cash, a receipt must be immediately issued. There are **NO exceptions**.*
- 3.1.2 *Receipts must be issued from a Government of Cook Islands receipt book.*

3.2 Banking

- 3.2.2 *Cash should be banked daily.*

The Audit Office also found that the MoH Administration Office was also in breach of Sections 23(1), 29(1)(a) of the MFEM Act.

Ministry of Finance and Economic Management Act 1995- 1996

Section 23(1) Principles of responsible fiscal management.- the Government shall pursue its policy objectives in accordance with the principles of responsible fiscal management....

Section 29(1) All Heads of Departments are responsible for ensuring in addition to meeting the reporting of section 28 of this Act that –

(a) all activities of the Government Department are undertaken in a manner which is consistent with Government financial and fiscal policies and sound financial management;

As a result, and due to poor internal controls, the money disappeared from Vaine Ngatokorua’s desk drawer which was unlocked.

Audit found that the MoH Administration Office had **made serious decisive errors** at the beginning of the transaction. It is Audits opinion that Helen Sinclair should have **receipted the money** despite the donors insistence that she did not want a receipt. This would have protected both Diane Hamilton and Helen Sinclair should anything untoward happen, as was the case in this instance in addition to practicing good financial accounting practices.

The Audit Office is also of the opinion that Mata Taramai should also have insisted that the money be receipted and recorded prior to securing it in her locked cabinet. This would have prevented the money being “**forgotten**” in her cabinet. Mata Taramai should have also insisted that the money is to be banked into the MoH official bank account.

Additionally, Haumata Hosking as the Senior Finance Officer should have also insisted that the money be receipted and banked into the MoH bank account and a cheque issued to Air Rarotonga.

- Haumata Hosking as the Senior Finance Officer for the MoH Administration Office should have also been familiar with the Cook Islands Government Financial Policy and Procedures Manual and therefore should have been aware of the procedures of cash receipts stated in the Manual. This would have ensured that there was accountability, transparency and good accounting practice.

The Audit Office concludes that MoH did not receipt the cash “donation” money nor did they bank the money. The money was forgotten and left in a locked filing cabinet for 7 months. This was clearly in breach of the Manual and the MFEM Act 1995-1996.

To determine who was the person ultimately responsible for the money and therefore should be responsible for repaying the missing money?

According to Mata Taramai, the money was made up of denominations of \$100, \$50, \$20 notes. The money was counted and on instructions from Haumata Hosking the money was placed in Mata Taramai's locked cabinet until the Air Rarotonga account was reconciled by the Finance and Accounts Section of the Administration Office. The money was placed in a brown envelope with the amount of \$1,680.00 written on it by Haumata Hosking. This was done on the same day that Helen Sinclair gave Mata Taramai the money.

Mata Taramai's filing cabinet is the only cabinet in the MoH Administration Office that has a lock and key. It must be noted that the cash revenue from the Hospital is stored in Mata Taramai's cabinet until its ready for banking. According to the audited MoH Financial Accounts for year ending June 2003, the cash is sent to Mata Taramai at the MoH Administration Office to bank two or three times a week, depending on the amount of cash collected.

According to Adi Narayan, the MoH Administration Office has a large safe in the storeroom in the Tupapa Office and the money should have been secured in the safe. Audit was informed by the MoH Administration staff that the money was not secured in the safe because the padlock was missing.

Mata Taramai stated in an interview with Audit on 19 July 2006, that in January 2006, while she was cleaning out her locked cabinet, she re-discovered that the cash "donation" money was still in her cabinet. Haumata Hosking told her to hold on to the money a little longer until the Accounts division had reconciled the Air Rarotonga accounts.

She further stated that on 12 April 2006, she gave Haumata Hosking the money and told her that she didn't want the money in her cabinet anymore and for Haumata Hosking to pay Air Rarotonga. She further stated that she remembers because this was the day before the MoH Administration Office Easter office party which was held on Thursday 13 April 2006.

This information was supported by Haumata Hosking who stated in an interview with Audit on 20 July 2006, that she gave the money to Vaine Ngatokorua a MoH Finance Officer on Wednesday 12 July 2006 around mid-morning. She asked Vaine Ngatokorua since she was going in the direction of Air Rarotonga, if she could pay the cash to Air Rarotonga and to also let Lyn Tuavera, an Accountant with Air Rarotonga know to offset the payment against the MoH Patient Referral account.

- In an interview with Haumata Hosking on 21 July 2006, she stated that the instruction was to issue the receipt in Diane Hamilton's name and to offset this payment against the MoH's Outer Islands Patient Referral account with Air Rarotonga.
- According to Haumata Hosking, once the payment was made to Air Rarotonga, this transaction was to be recorded as **Debit Accounts Payable** and **Credit Air Rarotonga** in the MoH's accounts. It is Audit opinion that this is **not** in accordance with **generally acceptable accounting practices**, due to

the external source of the funds and not having been through the proper accounting process.

Audit is of the opinion that this transaction **should** have been recorded as soon as the money passed from Helen Sinclair to Mata Taramai and Haumata Hosking. The transaction should have been **Debit Bank** and **Credit Other Revenue**. Additionally, once the payment was made to Air Rarotonga, the transaction would have been recorded as **Debit Operating Expenses–Air Rarotonga** and **Credit Bank**.

According to Haumata Hosking, she expected Vaine Ngatokorua to have paid the account on the same day that she was given the money. She further stated that she was not aware that Vaine Ngatokorua hadn't paid Air Rarotonga.

Haumata Hosking went on leave from 17 April –26 April 2006 and stated that she did not know that the money had gone missing until her return from leave.

According to an incidental report by Vaine Ngatokorua, she stated that she was given the money by Haumata Hosking on Wednesday 05 April 2006. However, the Audit Office found that this date conflicted with the dates given by Haumata Hosking and Mata Taramai. According to Haumata Hosking and Mata Taramai, the money was given to Vaine Ngatokorua on 12 April 2006.

Vaine Ngatokorua in an interview 19 July 2006 reconfirmed what she had written in her incidental report that the money was given to her on Wednesday 05 April 2006. She further stated that Haumata Hosking saw her put the money in her desk drawer on 05 April 2006 immediately after Haumata Hosking gave her the money.

- She also stated that due to work pressures she did not have time to pay Air Rarotonga on 05 April 2006 but instead decided to hide the money under her files in her unlocked desk drawer. Audit noted that the money would have been in her unlocked drawer for a total of **14 days** before she discovered that it was missing.
- Vaine Ngatokorua stated that the last time that she checked the money was on the 13 April 2006 prior to going into the Secretary of Health's Office for the Easter "kaikai".
- On her return to work after the Easter weekend holiday on 18 April 2006, Vaine Ngatokorua stated that she did not check her drawer.
- The money was left in her drawer over the Easter weekend until Wednesday 19 April 2006 which is when she discovered that the brown envelope which contained the money had disappeared.

The Audit Office found that this practice was **irresponsible, careless and negligent**. Vaine Ngatokorua should have returned the money to Haumata Hosking or to Mata Taramai for safe keeping.

- According to Vaine Ngatokorua's incidental report Audit found that **if** the money was given to her on the 05 April 2006 – 19 April 2006, she had possession of the money for **14 days in total or 7 working days** and that at no time did she attempt to return the money to Haumata Hosking or Mata Taramai. Audit is of the opinion that this

would have been ample time to return the money or to have made sure that the money was paid to Air Rarotonga.

- However, according to information from Mata Taramai and Haumata Hosking, the money was given to Vaine Ngatokorua on the **12 April 2006**, exactly **7 days** after Vaine Ngatokorua's record of the events. Audit is of the opinion that Vaine Ngatokorua would still have had ample time to return the money to either Haumata Hosking or Mata Taramai for safe keeping.
- Audit finds that Vaine Ngatokorua should have returned the money to Haumata Hosking either on the 05 April 2006 or on 12 April 2006 when she realised that she was too busy.

The Audit Office therefore concludes that Vaine Ngatokorua was the last person with the money and was also **irresponsible, careless and negligent**. Vaine Ngatokorua had ample time to tell Haumata Hosking that she was too busy and that she didn't have time to take the money to Air Rarotonga. This she failed to do.

The Audit Office is of the opinion that although the incident of the missing money was a culmination of **erroneous decisions** made by the more Senior Staff of the MoH Administration Office. The incident could also have been avoided had Vaine Ngatokorua taken more **due diligence and care** for money that was given to her. The Audit Office therefore concludes that there are other people apart from Vaine Ngatokorua who should be made responsible for repaying back the money. They are Helen Sinclair, Haumata Hosking and Mata Taramai.

Why were the Police not notified of this matter?

According to Haumata Hosking, the matter was referred to the former Secretary of Health, Vaine Teokotai, however he did not report the matter to the Police because, he had stated in their meeting that he preferred that the MoH Administration Staff involved to "sort" it out and tell him what they had decided.

However, according to Terai Ama in an interview 12 July 2006 with Audit, she stated that Mata Taramai had stopped Vaine Ngatokorua from reporting this matter to the Police. She also stated that Haumata Hosking and Mata Taramai frequently "picked" on the younger staff members, Vaine Ngatokorua and Apii Toru.

Vaine Ngatokorua in an interview stated that the Secretary of Health was kept in the dark while she continued to look for the money. She also stated that the Secretary of Health wanted to keep the incident in the office and not inform anyone else.

Haumata Hosking stated that Vaine Ngatokorua had indicated in their meeting that she was the last person with the money and would accept responsibility for it. Vaine Ngatokorua also said that she would pay for the missing money. This was also collaborated by Mata Taramai and Helen Sinclair and Vaine Ngatokorua herself. In Haumata Hosking's opinion, it was on this basis that Vaine Teokotai did not take the matter any further and did not report it to the Police.

At the time of the completion of this report the Audit Office had not interviewed the former Secretary of Health, Vaine Teokotai as to why the Police were not brought into the MoH to investigate this matter.

Therefore, Audit was unable to determine why the Police were not notified of this matter. The Audit Office, however is of the opinion, that this matter should have been reported to the Police to be investigated further.

The Audit Office finds that despite the fact that Vaine Ngatokorua had volunteered to repay the missing money, there was the serious issue of theft in the MoH Office which needs to be investigated further by the Police.

Audit is of the opinion that Vaine Teokotai as Secretary of Health, should have been the more appropriate person to report this matter to the Police. Audit finds that Vaine Teokotai had attempted to delegate out his responsibilities as the HoM by telling the staff involved to “sort” it out and to tell him what they had decided. This was a breach **Part 1 – Ministry Operation** of his **Performance Agreement** which stated that:-

Ministry Undertakings

(iii) Management

As a HOM I will:

- Ensure the effective and efficient management of the ministry consistent with the provisions of a good employer outlined in the Public Service Act 1995-1996.

The Public Service Act 1995-1996, Sections 15 & 17(1)(2) states that :-

Public Service Act 1995-1996

Section 15 *Head of Department to appoint and be responsible for employees in matters relating to decisions affecting employees of a department (whether matters relating to the appointment, remuneration, promotion, demotion, transfer, disciplining or the cessation of the employment of any employee or other matters) the head of that department shall act independently having regard to his obligation under section 17 of this Act.*

Section 17 **Duty to act as a good employer –**

(1) shall be a good employer.

(2) a good employer is one who operates a personnel policy containing provisions generally accepted as necessary for the fair and proper treatment of employees in all aspects of their employment.....

The MoH’s Staff Policy and Conditions of Employment Manual states that :-

The Disciplinary Policy is based on justice and fairness to the employee and the MoH. If there is a concern or a problem, it should be discussed with the Supervisor/Manager. If the problem persists then this is to be referred to the HoM.

Audit is of the opinion that Vaine Teokotai had failed to ensure the effective management of the MoH Administration Office's internal controls. Audit is also of the opinion that it was within his responsibility to report the matter to the Police.

AUDIT RECOMMENDATIONS

The following recommendations are addressed to the Public Service Commissioner, Financial Secretary, Commissioner of Police and Secretary of Health.

The Office of the Public Service Commissioner.

The Public Service Commissioner should:

Initiate procedures to establish a code of conduct for Heads of Ministries to ensure there is consistency, transparency and good governance within the Public Service.

The Financial Secretary.

The Financial Secretary should:

Plan another round of workshops this financial year for respective Ministries Finance Staff on the familiarisation of the processes and policies in the Cook Islands Government Financial Policy and Procedures Manual particularly with Aid Funding and Cash Receipts processes.

The Commissioner of Police.

The Commissioner of Police should:

Initiate an investigation into the missing money at the MoH Administration Office by interviewing MoH Administration Office staff to determine, if possible, who had committed the theft. This report signifies the official complaint by the Audit Office.

The Secretary of Health.

The Secretary of Health should:

- Initiate a series of training workshops for the MoH Finance Staff on relevant sections of the Cook Islands Government Financial Policy and Procedures Manual.
- Implement an ongoing series of workshops for the MoH Finance Staff as a refresher course in Financial Accounting procedures and processes. The workshops could be held once every quarter over a two day period.
- Assess the current internal controls of the MoH Administration Office particularly in the securing of monies from the Ministry of Health's operations. Implement a

segregation of duties whereby the same person receiving the money from the Hospital is not the same person who does the banking.

- Ensure that a lock is purchased for the MoH's Administration Office safe. The safe is located in a more secure room than the filing cabinet currently used by the MoH Administration Staff to store monies from the Ministries operations.
- Implement a system so that cash from the Hospital is reconciled when cash is transferred from the Hospital and banked by the MoH Administration Office in Tupapa. This is to ensure that there is total accountability and accuracy.
- Capture, account and report all future aid monies received and consolidate this in MOH's financial reports.

CONCLUSIONS

In conclusion this Audit review has highlighted that there were a number of anomalies related to the handling of the missing cash from the MoH's Administration Office in Tupapa.

The problem was compounded by weak internal controls and subsequent decisive errors made by the MoH Administration Office Senior staff. The initial transaction involving the donation should have been receipted and recorded as per the Cook Islands Government Financial Policy and Procedures Manual.

The Audit Office is of the opinion that the incident of the missing money was a culmination of erroneous decisions made by the more senior staff of the MoH Administration Office. The incident could also have been avoided had Vaine Ngatokorua taken more care with the money that she was given. The Audit Office finds that Vaine Ngatokorua should have returned the money to either Haumata Hosking or Mata Taramai for safe keeping, receipting and banking.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the Review of the Missing Cash from the Ministry of Health (“MoH”) during the period April 2006 was issued on the 11th August 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Dr. Roro Daniel, Secretary of Health
- Janet Maki, Solicitor General
- Greenfield Peter Wichman, Commissioner of Police
- Kevin Carr, Financial Secretary
- Navy Epati, Public Service Commissioner
- Charles Little, Chairman, PERC.

Specific recommendations were addressed to the following:

- Ø Navy Epati, Public Service Commissioner
- Ø Kevin Carr, Financial Secretary.
- Ø Greenfield Peter Wichman, Commissioner of Police
- Ø Dr. Roro Daniel, Secretary of Health

Attached is a copy of responses received by the Audit Office from:

- Dr. Roro Daniel, Secretary of Health dated 15 September 2006
- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006
- Ratai Cymon Kaivananga, Staff Officer, Ministry of Police, on behalf of the Commissioner of Police dated 28th August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

AUDIT REVIEW OF ANNUAL LEAVE PAYMENT MADE TO THE FORMER HEAD OF THE MINISTRY OF HEALTH (MOH), MR VAINÉ TEOKOTAI.

EXECUTIVE SUMMARY

Please find enclosed the Audit report relating to the annual leave payment made to the former Secretary for the Ministry of Health (MOH), Mr Vainé Teokotai.

The Audit Office received a number of documents pertaining to the payment of outstanding annual leave to the former Secretary for the Ministry of Health (MOH), Vainé Teokotai. Based on the voucher payment dated 21 June 2006, this annual leave payment was made on the 22 June 2006 and was for **57 days outstanding annual leave**. Total payment to Mr Teokotai was **\$9,679.87** net of PAYE and superannuation.

It is alleged that Vainé Teokotai's outstanding annual leave payment has been materially miscalculated.

BACKGROUND INFORMATION

The period under review is from 1 July 2003 to 30 June 2006. This is the period Vainé Teokotai held the position of Secretary for the MOH. We confirm that the total payment made to Vainé Teokotai was \$9,679.87 net of PAYE and superannuation. This payment was for 57 days outstanding annual leave and was received by him on 22 June 2006.

The Audit office conducted a review to ascertain the accuracy and validity of the 57 days annual leave owing to Teokotai and to determine whether the payment was within the jurisdiction of Teokotai's employment contract and policies applicable to the public service as a whole.

As a result of this review, Audit identified that anomalies do exist.

The anomalies were:-

- Errors in the MOH leave records for Vainé Teokotai.
- Vainé Teokotai has failed to adhere to PSC policies obligatory to his employment contract.
- The payment of \$9,679.87 to Teokotai was in fact incorrect and in breach of his employment contract and PSC Policy
- The Public Service Commissioner at the time had not performed any checks to ascertain the validity of the annual leave payment amount before approving the payment voucher.

The Audit Office has a responsibility under Section 27(g) of the PERCA Act 1995-1996 *to pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation.*

The Audit Office also has the responsibility to report its findings accordingly as stated in Section 32 of the PERCA Act 1995-1996.

MAJOR AUDIT FINDINGS

1. Errors identified in the MOH leave records for Vaine Teokotai

- 1.1 Audit identified that Teokotai had not submitted annual leave forms and neither did he have annual leave cards kept on record. This was confirmed by Teokotai himself in our interview dated 17 August 2006.
- 1.2 Audit did however come across four documents that pertained to annual leave taken by Teokotai. These documents are Ministry of Health records titled as HOM leave return forms.
- 1.3 Audit conducted an analysis of these documents and identified the following error:

The record appeared as follows:

	Start Date	Return Date	Days Taken
(x)	11.3.04	15.03.04	2
	19.2.04	20.2.04	1

Audit identified at (x) the days taken are inconsistent with the start and return date. The correct number of days should be 4 rather than 2. Therefore, Teokotai took a total of 5 days annual leave within this 2 month period.

- 1.4 Audit notes that during our interview with Vaine, we queried as to whether he took any leave during the period under review (1 July 2003 – 30 June 2006). He initially advised Audit that he did not take any annual leave. However, when documents were put to him regarding records of him taking leave, he changed his position and advised that he did take leave but not in large amounts.
- 1.5 MFEM's records disclose that Teokotai took 2 days annual leave within the pay period ending 9 March 2005.
- 1.6 The leave documents analysed by Audit shows that Teokotai had only taken annual leave in February and March 2004, However, MFEM's records and Ministry of Health timesheets show that Teokotai only took annual leave in March 2005. It is evident that these records do not match.
- 1.7 Audit also conducted a review of past financial audit reports. The financial audit report for the period ending 30 June 2004 showed that Vaine Teokotai had an annual leave balance of 15 days. Given his annual leave entitlement is 20 days it would imply that 5 days of annual leave must have been used by Vaine Teokotai within this financial year 1 July 2003 – 30 June 2004.
- 1.8 Audit queried with Adi Narayan, Financial Controller for the Ministry of Health, as to how Mr Teokotai's annual leave balance is obtained at the end of the financial year when the financial statements are being prepared. Narayan confirmed with audit no

leave records were sighted. In establishing his unused balance Narayan told Audit that Teokotai gives his unused annual leave days for the year end, further commenting ‘usually he gives the full 20 days’.

Audit found this practice to be improper and unprofessional.

- 1.10 Audit concludes that the Ministry of Health’s leave records for the HOM are inconsistent, inaccurate and have not been properly kept.
- 1.11 Audit has therefore been able to prove that Vaine Teokotai has taken 5 days annual leave during the period 30 June 2004; and 2 days during the period 30 June 2005.

2. Guidelines governing the carry forward of annual leave for Heads of Ministries (HOMs)

- 2.1 Review of Vaine Teokotai’s employment contract revealed in section 5.2 that annual leave shall be taken in the year in which it falls due and shall not be carried forward except in accordance with policies established from time to time and applicable to the public service as a whole.
- 2.2 Public Service Leave entitlements section 1.3.1 states “At the end of the leave year, where an employee has not used his/her total leave entitlement, the employee shall seek and obtain the approval of his/her Head of Ministry to carry up to half of the balance of his/her annual leave forward to the next leave year. The maximum number of days a Head of Ministry may approve annual leave to be carried forward shall not exceed 50% of the employee’s total annual leave entitlement”. The Head of Ministry may exercise one of the following options in approving the carrying forward of the employee’s annual leave –
 - a) the carrying forward of the employee’s unused annual leave not exceeding 50% of the total annual leave entitlement; or
 - b) the carrying forward of 50% of the employee’s unused annual leave and paying out to the employee, the remaining 50% of the employee’s unused annual leave.

At section 1.3.2 “where the Head of Ministry has approved the carrying forward of unused annual leave into the next leave year, such leave must be used within that year and if it is not used within that year, it shall be forfeited. The carried forward Annual Leave to the next leave year cannot be accrued in subsequent leave years”.

At section 1.5 “Head of Ministries when taking annual leave must consult with their respective Ministers first and advise the Public Service Commissioner. Advice of leave taken is to be incorporated into the respective Ministry’s leave records.

3. Did Vaine Teokotai follow the guidelines governing the carrying forward of annual leave?

3.1 In an interview on 14 August 2006, with former Public Service Commissioner (PSC), Joseph Caffrey, it was noted that Mr Teokotai had not advised him when taking annual leave and more importantly he did not seek approval from him to carry forward his unused balance of annual leave.

3.2 Audit confirmed with CEO of the Office of PSC, Russell Thomas on 29 August 2006, Teokotai had not spoken to him regarding the carrying forward of his outstanding annual leave.

3.3 PSC policies mentioned above state that a maximum of 50% of Teokotai's annual leave entitlement may be carried forward to the following year. In calculating 57 days owing to him at 30.06.06, he has carried forward 100%. Consequently, Teokotai has failed to adhere to PSC policies obligatory to his employment contract.

4. Audit's calculation of Vaine Teokotai's annual leave under option A and B as stipulated by the PSC policies.

4.1 Audit's calculations of Teokotai's annual leave under option A and B as stipulated by PSC policies show that only 20 days was owing to Teokotai at the end of his contract.

5. Was the payment of \$9,679.87 to Teokotai in breach of PSC Policy?

5.1 The correct annual leave payment amount to Teokotai is calculated based on 20 days and amounts to \$3,458.20. Audit concludes that the payment of \$9,679.87 to Teokotai was in fact incorrect and in breach of his employment contract and PSC Policy. As a result, Teokotai was overpaid by \$6,221.67.

5.2 Audit has recommended that MFEM re-adjust the PAYE tax and superannuation deductions for Teokotai based on the correct annual leave payments for 20 days. This would mean that RMD will need to refund the Crown for \$2,460.87, and Superannuation will need to refund the Crown for \$913.94.

6. Was the payment checked and verified by the PSC?

6.1 In approving payment, former PSC, Joseph Caffrey informed Audit in our interview dated 14 August 2006, he had not personally performed any checks to ascertain the validity of the annual leave payment amount.

CONCLUSION

It is evident from this Audit that a material error has occurred in calculating the number of days owing to the former Secretary of Health, Vaine Teokotai. The HOM of the MOH and the Office of the PSC have failed to adhere to guidelines and policies stipulated by the PSC.

As a result, the payment of \$9,679.87 was in breach of PSC policy. Audit calculates that Vaine Teokotai has been overpaid by \$6,221.67.

Audit has made recommendations and hopes that these can be applied so that such errors can be avoided in the future and good governance can be further achieved.

MANAGEMENT REPORT

1.0 INTRODUCTION

The Audit Office received a number of documents pertaining to the payment of outstanding annual leave to the former Head of the Ministry of Health (MOH), Vaine Teokotai. Based on the voucher payment dated 21 June 2006, this annual leave payment was made on the 22 June 2006 and was for 57 days outstanding annual leave. Total payment to Mr. Teokotai was \$9,679.87 net of PAYE and superannuation.

2.0 AUDIT OBJECTIVES

- 2.1 To determine the total payments made to Mr. Teokotai as annual leave payments.
- 2.2 To ascertain the accuracy and validity of annual leave owing to Mr. Teokotai at the time Mr. Teokotai resigned as the Head of the Ministry of Health.
- 2.3 To determine as to whether the annual leave payments to Mr. Teokotai were within the jurisdiction of his employment contract.
- 2.4 To determine whether or not the annual leave payments were in breach of any legislation.

3.0 AUDIT SCOPE

The period under review is from 1 July 2003 to 30 June 2006. This is the period occupied by Vaine Teokotai as the Head of MOH. The following documents were reviewed during the course of this audit:

- 3.1 Relevant Payment Vouchers
- 3.2 Employment Contract for Vaine Teokotai.
- 3.3 PSC manual of instructions.
- 3.4 Leave records/Timesheets Administered by the MOH for Vaine Teokotai.
- 3.5 Cook Islands Government Financial Policies & Procedures Manual (CIGFPP)
- 3.6 Financial Audit Report for the MOH for the period 30 June 2004.
- 3.7 MFEM pay details history

4.0 AUDIT FINDINGS

4.1 Total payments made to the former Head of the Ministry of Health, Mr. Vaine Teokotai, for outstanding leave as at 30 June 2006.

4.1.1 We confirm that the total payment made to Vaine Teokotai was \$9,679.87 net of PAYE and superannuation. This payment was for 57 days outstanding annual leave and was received by him on 22 June 2006.

4.1.2 The 57 days was calculated as follows:

Financial year ending	Annual leave entitlement	Annual leave days used	Annual leave days unused	Accrued balance of Annual leave
30.06.04	20 days	3 days	17 days	17 days
30.06.05	20 days	nil	20 days	20 + 17 = 37 days
30.06.06	20 days	nil	20 days	37 + 20 = 57 days

4.1.3 Within the financial year ending 30 June 2004, Teokotai used 3 days annual leave. His total annual leave entitlement was 20 days. Therefore, Vaine Teokotai had an unused balance of 17 days. The full 17 days was carried forward to the next financial year.

4.1.4 At 30 June 2005, no annual leave had been used by Teokotai; therefore the full entitlement of 20 days was still outstanding. This was added to the 17 days brought forward from the previous financial year, now showing a balance of 37 days. The full 37 days was carried forward to the next financial year.

4.1.5 Nearing the end of 30 June 2006, Vaine Teokotai had not used any annual leave within that financial year, therefore leaving an unused annual leave balance of 20 days. In adding the 20 days to the 37 days accrued forward from previous years, the Ministry of Health calculated that a total of 57 days was owing to Vaine Teokotai.

4.1.6 The amount of 57 days was calculated based on the Ministry of Health's HOM leave return documents prepared by Administrative staff. These documents were sent to the office of the Public Service Commissioner (PSC), where they were received and assessed by the personal secretary of the Public Service Commissioner, Susan Taura.

4.1.7 The payment voucher was then approved by the former Public Service Commissioner, Joseph Caffrey.

4.2 Errors identified in the MOH leave records for Vaine Teokotai

4.2.1 Audit conducted an interview with administrative officer, Haumata Hosking on 1 August 2006. It was noted that Ministry of Health staff are required to submit annual leave forms when taking leave. Audit further noted that administration is required to maintain annual leave cards for each individual staff member of the Ministry of Health

- 4.2.2 Audit endeavoured to find Teokotai’s leave records kept by the Ministry of Health. In doing so, audit identified that Teokotai had not submitted annual leave forms and neither did he have annual leave cards kept on record. This was confirmed by Teokotai himself in our interview dated 17 August 2006.
- 4.2.3 Audit did however come across four documents that pertained to annual leave taken by Teokotai. Audit conducted an analysis of these documents to assist tests of ascertaining the validity of the number of annual leave days taken by Vaine Teokotai.
- 4.2.4 These documents are Ministry of Health records titled as HOM leave return forms. They are addressed to the office of the PSC. In an interview with Mata Taramai dated 7 August 2006, it was confirmed by Audit that these documents were sent to PSC for perusal at the time Teokotai was requesting his annual leave payment of 57 days. This was on the 21 June 2006.
- 4.2.6 Audit conducted an analysis of these documents.
- 4.2.5 Document 1 summarises leave taken in the months February and March of 2004.

The record for that period appeared as follows:

	Start Date	Return Date	Days Taken
(x)	11.3.04	15.03.04	2
	19.2.04	20.2.04	1

- 4.2.6 Audit identified at (x) the days taken are inconsistent with the start and return date. The correct number of days should be 4 rather than 2. Therefore, Teokotai took a total of 5 days annual leave within this 2 month period.
- 4.2.7 This record was signed and approved by Mr Adi Narayan, Financial Controller for the Ministry of Health on 11 May 2004. However, in an interview with Mr Narayan on the 7 August 2006, he clearly stated that he had no knowledge of any leave records being kept.
- 4.2.8 Document 2 summarises leave for the period March – December 2004. It states that no annual leave were used within this period.
- 4.2.9 Document 3 summarises leave for the period January – December 2005. It states that no annual leave were used within this period.
- 4.2.10 Document 4 summarises leave for the period January – June 2006. It states that no annual leave were used within this period.
- 4.2.11 Audit identified that Documents 2, 3 and 4 were prepared by administrative officer, Mata Taramai. In an interview with Taramai dated 7 August 2006, Audit confirmed that Taramai had prepared these documents based on her memory of what she could recall. These documents were signed but not dated by Vaine Teokotai.
- 4.2.12 Audit notes that during our interview with Vaine, we queried as to whether he took any leave during the period under review (1 July 2003 – 30 June 2006). He initially

advised Audit that he did not take any annual leave. However, when documents were put to him regarding records of him taking leave, he changed his position and advised that he did take leave but not in large amounts.

4.2.13 As a further test, audit obtained a history of Vaine Teokotai's pay detail records from MFEM for the period 1 July 2003 – 30 June 2006 to identify any annual leave taken by Teokotai.

4.2.14 MFEM records of Teokotai's leave revealed the following:

Pay Period Ending	Hours	Days	Type of Leave
17/12/2003	49	7	Other leave
05/05/2004	14	2	Other leave
02/06/2004	70	10	Other leave
28/07/2004	35	5	Other leave
25/08/2004	21	3	Other leave
06/10/2004	7	1	Other leave
03/11/2004	70	10	Other leave
09/03/2005	14	2	Annual leave
20/04/2005	14	2	Other leave
18/05/2005	7	1	Other leave
01/06/2005	56	8	Other leave
15/06/2005	49	7	Other leave
29/06/2005	7	1	Other leave
10/08/2005	7	1	Other leave
24/08/2005	7	1	Other leave
16/11/2005	7	1	Other leave
14/12/2005	56	8	Other leave
28/12/2005	14	2	Other leave
20/01/2006	14	2	Other leave
17/05/2006	7	1	Other leave
14/06/2006	70	10	Other leave
28/06/2006	7	1	Other leave
TOTAL	602	86	

4.2.15 MFEM records disclose that Teokotai took 2 days annual leave within the pay period ending 9 March 2005.

4.2.16 Audit sighted the timesheet for this pay period ending 9 March 2005 and established that the timesheet clearly stated that Teokotai had taken 2 days annual leave. This timesheet was approved by Vaine Teokotai himself.

4.2.17 The total number of days taken as 'other leave' by Teokotai within his 3 year contract as Secretary for the MOH amounts to 84 days.

4.2.18 Audit confirmed in an interview with administration officer, Haumata Hosking on 7 August 2006. Hosking was responsible for compiling timesheets for the Tupapa division of the MOH. Hosking informed Audit that if Teokotai was absent from the office she would note down his absence on the timesheet as 'other leave'. She

commented that ‘other leave’ includes statutory holidays and times when Teokotai travelled overseas and attended local workshops.

- 4.2.19 The leave documents analysed by Audit shows that Teokotai had only taken annual leave in February and March 2004, However, MFEM’s records and Ministry of Health timesheets show that Teokotai only took annual leave in March 2005. It is evident that these records do not match.
- 4.2.20 Audit also conducted a review of past financial audit reports. The financial audit report for the period ending 30 June 2004 showed that Vaine Teokotai had an annual leave balance of 15 days. Given his annual leave entitlement is 20 days it would imply that 5 days of annual leave must have been used by Vaine Teokotai within this financial year 1 July 2003 – 30 June 2004.
- 4.2.21 Audit queried with Adi Narayan, Financial Controller for the Ministry of Health, as to how Mr Teokotai’s annual leave balance is obtained at the end of the financial year when the financial statements are being prepared. Narayan confirmed with audit no leave records were sighted. In establishing his unused balance Narayan told Audit that Teokotai gives his unused annual leave days for the year end, further commenting ‘usually he gives the full 20 days’.
Audit found this practice to be improper and unprofessional.
- 4.2.22 Audit concludes that the Ministry of Health’s leave records for the HOM are inconsistent, inaccurate and have not been properly kept.
- 4.2.23 In reviewing the above records, Audit has been able to prove that Vaine Teokotai has taken 5 days annual leave during the period 30 June 2004; and 2 days during the period 30 June 2005. Audit has used these statistics when calculating Teokotai’s annual leave payment in the latter of this report.

4.3 Guidelines governing the carry forward of annual leave for Heads of Ministries (HOMs)

- 4.3.1 Audit reviewed the employment contract of Vaine Teokotai to determine whether there were any provisions in the employment contract that addresses the procedures for carrying forward annual leave. Review of Vaine Teokotai’s employment contract revealed in section 5.2 that annual leave shall be taken in the year in which it falls due and shall not be carried forward except in accordance with policies established from time to time and applicable to the public service as a whole.
- 4.3.2 The public service manual of instructions sets out policies relevant to Annual leave.
- 4.3.3 Public Service Leave entitlements section 1.3.1 states “At the end of the leave year, where an employee has not used his/her total leave entitlement, the employee shall seek and obtain the approval of his/her Head of Ministry to carry up to half of the balance of his/her annual leave forward to the next leave year. The maximum number of days a Head of Ministry may approve annual leave to be carried forward shall not exceed 50% of the employee’s total annual leave entitlement”. The Head of Ministry may exercise one of the following options in approving the carrying forward of the employee’s annual leave –

- c) the carrying forward of the employee's unused annual leave not exceeding 50% of the total annual leave entitlement; or
- d) the carrying forward of 50% of the employee's unused annual leave and paying out to the employee, the remaining 50% of the employee's unused annual leave.

4.3.4 At section 1.3.2 "where the Head of Ministry has approved the carrying forward of unused annual leave into the next leave year, such leave must be used within that year and if it is not used within that year, it shall be forfeited. The carried forward Annual Leave to the next leave year cannot be accrued in subsequent leave years".

4.3.5 At section 1.5 "Head of Ministries when taking annual leave must consult with their respective Ministers first and advise the Public Service Commissioner. Advice of leave taken is to be incorporated into the respective Ministry's leave records.

4.4 Did Vaine Teokotai follow the guidelines governing the carrying forward of annual leave?

4.4.1 As reviewed in Teokotai's employment contract at section 5.2, annual leave shall be taken in the year in which it falls due and shall not be carried forward except in accordance with policies established from time to time and applicable to the public service as a whole.

4.4.2 In an interview on 14 August 2006, with former Public Service Commissioner (PSC), Joseph Caffrey, it was noted that Mr Teokotai had not advised him when taking annual leave and more importantly he did not seek approval from him to carry forward his unused balance of annual leave.

4.4.3 Teokotai explained to Audit in an interview dated 17 August 2006, that he had verbally spoken to the Chief Executive Officer at the office of the PSC, Russell Thomas, regarding approval to carry forward all of his annual leave. Teokotai further commented that he was told by Thomas that his leave will be sorted out at the end of his contract, also claiming that 'they weren't very clear'.

4.4.4 However, Audit confirmed with Mr Thomas on 29 August 2006, Teokotai had not spoken to him regarding the carrying forward of his outstanding annual leave.

4.4.5 PSC policies mentioned above state that a maximum of 50% of Teokotai's annual leave entitlement may be carried forward to the following year. In calculating 57 days owing to him at 30.06.06, he has carried forward 100%. Consequently, Teokotai has failed to adhere to PSC policies obligatory to his employment contract.

4.5 Audit's calculation of Vaine Teokotai's annual leave under option A and B as stipulated by the PSC policies.

4.5.1 Audit calculated the number of annual leave day's owing to Mr Teokotai as at 30.6.06 using the 2 options stated in PSC policy.

4.5.2 Audit's calculation of annual leave owing to Vaine Teokotai as at 30.6.06 under option A is as follows:

Option A

The carrying forward of the employee's unused annual leave not exceeding 50% of the total annual leave entitlement

	End of financial year		
	30.6.04	30.6.05	30.6.06
Annual leave b/d	n/a	10 days	10 days
Annual leave entitlement	20 days	20 days	20 days
Used Annual leave	5 days	2 days	nil
Annual leave forfeited	n/a	8 days	10 days
Annual leave balance	15 days	20 days	20 days
Annual leave c/f	10 days	10 days	n/a

4.5.3 At financial year end, Teokotai may only carry forward 10 days into the following financial year. If the 10 days carried forward is not used within that year following, it is forfeited.

4.5.4 At 30 June 2006, the 10 days that had been carried forward from the prior year is forfeited. Therefore, Teokotai has a remaining balance of 20 days annual leave owing to him as at this date.

4.5.5 Audit's calculation of annual leave owing to Vaine Teokotai as at 30.6.06 under option B is as follows:

Option B

the carrying forward of 50% of the employee's unused annual leave and paying out to the employee, the remaining 50% of the employee's unused annual leave

	End of financial year		
	30.6.04	30.6.05	30.6.06
Annual leave b/d	n/a	7.5 days	10 days
Annual leave entitlement	20 days	20 days	20 days
Used Annual leave	5 days	2 days	nil
Annual leave forfeited	n/a	5.5 days	10 days
Annual leave balance	15 days	20 days	20 days
Annual leave c/f	7.5 days	10 days	nil

- 4.5.6 At 30 June 2004, Teokotai may only carry forward 7.5 days to the following year. This is half of his unused annual leave balance of 15 days.
- 4.5.7 At 30 June 2005, Teokotai has used up 2 days of the 7.5 days that had been carried forward, therefore only 5.5 days is forfeited. His unused annual leave balance now equates to 20 days. Therefore 10 days is carried forward to the year following.
- 4.5.8 At 30 June 2006, since no annual leave was used by Teokotai, he forfeits 10 days and has a remaining balance of 20 days annual leave owing to him as at this date.
- 4.5.9 In conclusion, Audit's calculations of Teokotai's annual leave under option A and B as stipulated by PSC policies show that only 20 days was owing to Teokotai at the end of his contract.

4.6 Was the payment of \$9,679.87 to Teokotai in breach of PSC Policy?

- 4.6.1 We confirmed that a material error was made in calculating Teokotai's leave at 57 days. The correct number of days owing to Teokotai at 30 June 2006 is calculated by Audit to be 20 days annual leave owing.
- 4.6.2 The correct annual leave payment amount to Teokotai is calculated based on 20 days and is as follows:

Audits Calculation of Annual leave owing to Vaine Teokotai as at 30 June 2006

20 days Annual leave	140 hours @ 35.2877	4940.28
Employers liability-Superannuation	5% of 4940.28	247.01
Total Gross Pay		4,940.28
Employee Superannuation	5% of 4940.28	247.01
PAYE tax	25% of 4940.28	1235.07
Total Net Pay		\$ 3,458.20

- 4.6.3 The correct annual leave payment to Teokotai amounts to \$3,458.20. Audit concludes that the payment of \$9,679.87 to Teokotai was in fact incorrect and in breach of his employment contract and PSC Policy. As a result, Teokotai was overpaid by \$6,221.67.
- 4.6.4 As mentioned at the outset, the amount of \$9,679.87 is net of Superannuation and PAYE tax. Superannuation of \$1,407.96 and PAYE tax of \$3,695.94 has already been deducted. These items need to be adjusted to show the correct amounts calculated in the above table.

Item	Actual amount paid	Correct amount	Variance
Superannuation	\$1,407.96	Should be \$ 494.02	\$ 913.94
PAYE tax	\$3,695.94	Should be \$1,235.07	\$ 2,460.87

- 4.6.5 Audit has recommended that MFEM re-adjust the PAYE tax and superannuation deductions for Teokotai based on the correct annual leave payments for 20 days. This

would mean that RMD will need to refund the Crown for \$2,460.87, and Superannuation will need to refund the Crown for \$913.94.

4.7 Was the payment checked and verified by the PSC?

- 4.6.5 In approving payment, former PSC, Joseph Caffrey informed Audit in our interview dated 14 August 2006, he had not personally performed any checks to ascertain the validity of the annual leave payment amount. He further commented that he was aware of PSC policy and when he initially approved the payment he was conscious at the back of my mind that it was not right.
- 4.6.6 Audit questioned Caffrey of what procedures were in place when processing annual leave payments. Caffrey stated that it was the responsibility of his personal secretary, Susan Taura to certify the payment, and then he signs it. He further stated that in the instance that there is no supporting evidence then he does not sign his approval. However, Caffrey had earlier informed Audit that the only document he recalls seeing when approving the payment was the payment voucher.
- 4.6.7 In a phone conversation dated 22 August 2006, Susan Taura admitted to Audit that she had made a material error when verifying that 57 days annual leave was owed to Teokotai.

5.0 AUDIT RECOMMENDATIONS

The recommendations are addressed to the Head of the Ministry of Health (MOH), Administration Officer and Financial Controller of MOH, Public Service Commissioner and the Financial Secretary.

The Ministry of Health

The Head of the Ministry should:

- 5.1 Ensure that the ministry meets the requirements set out in the CIGFPP manual where it states at Part C, Section 10 - 3.5.2, it is the Ministry's responsibility to maintain leave records for all staff. These include annual leave forms and annual leave cards for all staff including the HOM.
- 5.2 Ensure that internal controls are in place over the recording of leave for all staff. These include monitoring and ensuring the financial controller is supervising the staff annual leave balances on a weekly, fortnightly or monthly basis.
- 5.3 Ensure that he is fully aware of what is required of him as stipulated by his employment contract and policies set out for the public service as a whole.
- 5.4 Ensure when taking annual leave he/she must consult with their respective Ministers first and advise the Public Service Commissioner. Advice of leave taken should be documented and is to be incorporated by administration into the Ministry's leave records.
- 5.5 Ensure that he/she seeks approval from the PSC in writing should he decide to carry forward his unused annual leave to the next financial year.

The Administration officer should:

- 5.6 Ensure that leave records are kept for all Ministry of Health staff, including the Head of Ministry. These include annual leave cards and annual leave forms.
- 5.7 Review and update all staff annual leave balances on a fortnightly or monthly basis.
- 5.8 Provide the Head of Ministry and Financial Controller accurate annual leave balances of staff employed with the Ministry of Health on a regular basis such as fortnightly or monthly.

The Financial Controller should:

- 5.9 Check that Administration is properly maintaining leave records for all staff including the Head of Ministry.
- 5.10 Review annual leave balances for all staff on a fortnightly or monthly basis.
- 5.11 Review annual leave records when compiling employee entitlements in the monthly or annual financial statements. In the process of an Audit, leave records should reconcile with the employee entitlements showing in the balance sheet.

Office of the Public Service Commissioner

The Public Service Commissioner should:

- 5.12 Ensure that all HOM's advise the PSC of their taking annual leave. Notification given by the HOM should be documented and incorporated into records held at the PSC.
- 5.13 Ensure that HOM's obtain proper approval when carrying forward leave. This should be documented and incorporated into records held at the PSC.
- 5.14 Issue out a memorandum reminder notice to all HOM's informing them of the following policies as set out in the PSC manual of instructions:
 1. HOM's are required to consult their Minister and advise PSC of their taking annual leave.
 2. HOM's must seek approval from the PSC when carrying forward any unused annual leave.
- 5.15 Perform a thorough check that HOM's annual leave is properly calculated before approval of payments is made. In doing so, the PSC should sight and review the following documents:
 - HOM's employment contract
 - HOM's leave records kept by the respective ministry
 - Any correspondence relating to annual leave kept by the office of the PSC- these may include advise of annual leave taken by the HOM, or

requests made by HOM's for approval of the carrying forward of annual leave.

Ministry of Finance and Economic Management (MFEM)

The Financial Secretary should:

- 5.16 Discuss and agree with the former Secretary of Health, Vaine Teokotai, of an appropriate arrangement of how the overpayment of \$6,221.67 is to be repaid back to Crown.
- 5.17 Ensure that the following refunds are made to the Crown:
 - a) \$2,460.87 from RMD and,
 - b) \$913.94 from Superannuation.

Crown Law Office

The Solicitor General should:

- 5.18 Review this report and assess the legality of its findings. Such information should be provided to strengthen and support the leave policies of Heads of Ministries to prevent such overpayments from recurring again in the future.

6.0 AUDIT CONCLUSION

It is evident from this Audit that a material error has occurred in calculating the number of days owing to the former Secretary of Health, Vaine Teokotai. The HOM of the MOH and the Office of the PSC have failed to adhere to guidelines and policies stipulated by the PSC. As a result, the payment of \$9,679.87 was in breach of PSC policy. Audit calculates that Vaine Teokotai has been overpaid by \$6,221.67.

Audit has made the above recommendations and hopes that these can be applied so that such errors can be avoided in the future and good governance can be further achieved.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the annual leave payment made to the former Secretary for the Ministry of Health (MOH), Mr Vaine Teokotai was issued on the 13th September 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Dr. Roro Daniel, Secretary of Health
- Janet Maki, Solicitor General
- Kevin Carr, Financial Secretary
- Navy Epati, Public Service Commissioner
- Charles Little, Chairman, PERC.

Specific recommendations were addressed to the following:

- Ø Navy Epati, Public Service Commissioner
- Ø Kevin Carr, Financial Secretary.
- Ø Dr. Roro Daniel, Secretary of Health
- Ø Janet Maki, Solicitor General

Attached is a copy of responses received by the Audit Office from:

- Tingika Elikana, Senior Crown Solicitor, Crown Law Office dated 17th October 2006.
- Kevin Carr, Financial Secretary of MFEM dated 20 September 2006
- Navy Epati, Public Service Commissioner dated 26th September 2006
- Charles Little, Chairman of PERC dated 3rd October 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

AUDIT CLEARANCE REPORT FOR THE OFFICE OF THE FORMER MINISTER OF ENVIRONMENT SERVICES, NATURAL HERITAGE AND OMIA (ESNHOMIA), HON. TEINA BISHOP.

EXECUTIVE SUMMARY

Please find enclosed the audit report relating to the audit clearance of the former Minister of Environment Services, Natural Heritage and OMIA (ESNHOMIA), Hon. Minister Teina Bishop.

The period occupied by the former Minister of ESNHOMIA fell into two financial periods, 2005/2006 and 2006/2007. In that respect, the period occupied by the former Minister of ESNHOMIA was from 26 February 2006 to 30 June 2006 and 1 July 2006 to 31 July 2006. This audit is a full financial audit of the period which the Minister was in office from 26 February 2006 to the end of July 2006. The scope of this audit also includes a review of the validity of revenue received, expenditure incurred and the safeguarding and management of cash and fixed assets during these periods.

OVERALL FINDINGS

The review of the financial statements of the Office of the former Minister for the period ending **30 June 2006** was satisfactory however the Office made **a loss of \$2,274.34**. The loss of \$2,274 is a result of the Office exceeding its budgeted personnel expense by \$1,051.46; budgeted depreciation by \$188.00 and budgeted operating expenses by \$1,033.00.

The over expenditure in personnel is a result of the recognition of accrued annual leave owing to staff as at 30 June 2006 and the accrued staff salaries for the last two days of the financial period. The personnel expenses were not budgeted for but had to be recognized as part of the expenses.

However, the Office made a **surplus of \$4,585.28** for the period ended **31 July 2006**. Savings were made in the areas of personnel and operating expenses.

Overall, the approval and authorizing of expenditure were found to be proper and in order. Proper financial records were kept, maintained and processed through the Office MYOB accounting reports.

The internal control environment of the Office of the Former Minister was found to be satisfactory with areas for improvements noted.

1. Crown Appropriation versus Actual Expenditure

The Office received an appropriation of \$67, 300.00 for the 5 months period (February 2006 to June 2006). The actual expenditure incurred by the Office for the period ended 30 June 2006 was \$69,574.34 As a result the Office made a **loss of \$2,274.34** for the financial period ended 30 June 2006.

The loss of \$2,274.34 is a result of the Office exceeding its budgeted personnel expense by \$1,051.46, budgeted depreciation by \$188.00 and budgeted operating expenses by \$1,033.00. The over expenditure in personnel is the result of the recognition of accrued staff annual leave owing to staff as at 30 June 2006 and the accrued staff salaries for the last two days of the financial period. The other cause of the over-expenditure is due to the excess of actual operating expenses over its budgeted operating expenses and the actual depreciation expense exceeding its budgeted depreciation.

However, the Office made a **surplus of \$4,585.28** for the period ended 31 July 2006. Savings were made in the areas of personnel and operating expenses.

2. Operating Expenditure

The internal controls over the processing and approval of operating expenditure were found to be satisfactory. In both financial periods under review, we found the processing and approval of expenditure to be satisfactory as they were approved by personnel who had the appropriate authority.

Of concern is the manner and nature in which, certain expenses were incurred, recorded and classified in the financial statements. Audit had identified a number of expenditures where they were improperly recorded and classified in the financial statements. These expenses relates to professional fees paid to DJ Agent and food items charged to the fuel account at the Oasis Energy Centre.

Audit found the professional fees of \$13,189.00 paid to Junior Areai of DJ Agent for the 5 month period to be relatively high. Further inquiries into this matter revealed that DJ Agents was the Minister's driver who was driving the Minister around and doing errands for the Minister. It is Audit's view that the nature and manner in which DJ Agent was engaged and paid did not represent that of a typical arrangement of professional services. In essence, this was a salary as he was paid a regular 70 hours per fortnight and there was no fluctuation in the number of hours worked each fortnight. Furthermore, the invoice submitted by DJ Agent did not contain the Vat component generally included by those normally engaged to provide professional services. It is Audit's opinion that the payments made to DJ Agent constitute a salary and not professional fees.

It has been noted that the Office of the former Minister of ESNHOMIA initially had planned to appoint DJ Agent as a staff of the Office but this was declined by the Ministry of Finance, Economic and Management (MFEM) as there were legal implications with DJ Agent. It appears that DJ Agent was then engaged and paid through professional fees.

A review of the fuel account revealed that food items were charged to the fuel account at the Oasis Energy Centre. These items were also recorded as part of the total fuel account in the financial statements. It must be noted that the fuel account should only be used to purchase fuel for the Office vehicles and not food items. Public money appropriated by Parliament to Ministerial Support Offices is only intended to fund official expenses that are required to operate the Office.

The review of travel expenses also revealed that the former Minister had traveled to the outer islands which were paid from the Office's appropriation. It should be noted that funds

appropriated to the Ministerial Support Offices cannot be used to fund incidental or travel expenses for the Minister as these expenses are covered by the Civil List. Cabinet approves the expenditure that a Minister may incur when traveling overseas or domestically, and this is paid from the Civil List. It is prudent that Cabinet ensures that Ministers observe and conform to this directive.

3. Personnel Expense

The personnel expenses were fairly stated at **\$15,925.14** for the period ended 30 June 2006 and **\$6,406.18** for the period ended 31 July 2006.

4. Cut-off Date for Payments

The cut off date for this audit was 30 June 2006 and 31 July 2006 respectively. At cut-off date, there were still outstanding accounts of **\$4,532.75** as at 30 June 2006 and **\$843.43** as at 31 July 2006, which the Office still had to pay. We assessed the appropriateness of these expenses and have found them to be reasonable and accurate. As of the date of this report, full payments of these accounts have been cleared by the Office under the supervision of MFEM.

5. Fixed Assets

Audit confirmed the existence of motor vehicles Isuzu Pickup M Truck GA305 and Kia Rio GA264. Audit reconciled the fixed asset register (FAR) to the general ledger and found this to be satisfactory.

6. Depreciation

Audit found no anomalies with depreciation calculated and disclosed in the financial statements for both periods. Depreciation expense disclosed as at 30 June 2006 at \$3,312.50 was fairly stated.

7. Accounts Payable and Accruals

Audit found that the accounts payables accruals came to a total of \$4,532.75 as at 30 June 2006 and \$843.43 for July 2006.

8. Employee Liabilities

Audit found that the employee liabilities disclosed at **\$1,051.46** as at 30 June 2006 and **\$3,690.31** as at 31 July 2006 was fairly stated.

9. Severance Payments

Total severance payments made to all staff terminated resulting from the change in Ministerial portfolios was **\$2,819.18**. This consists of one month severance payments to all staff.

10. Complying with Legislation Compliance at Cessation Date

The Office of the former Ministers Support Office, complied with all the requirements outlined in Part D of the Ministry of Finance and Economic Management Policy, Section 10: Ministerial Offices Hand Over Process, except for subsection 2.1 which states that “full financial reports must be completed within 10 working days of the cessation of the ministers position and that it is the responsibility of the C.E.O. and Finance Officer”.

11. Financial Reports

Helen Henry of MFEM on behalf of the Ministers Office prepared draft Statutory Annual Financial Reports for the financial period ending 30 June 2006. The Office used MYOB accounting package to record and prepare their financials reports.

The financial statements have been reviewed and audit adjustments were recommended to the former Finance Manager of the Minister’s Office. As a result, the Audit Office received the final financial statements, which reflect the adjustments recommended by Audit. All outstanding accounts have been paid and recognised in the financial statements as of the date of this report.

12. Accounting Records

Audit conducted a review of all payment vouchers presented and reconciled to the monthly reports submitted by the Office for Audit. Audit reviewed 100% of payment vouchers, and 100% of these vouchers had invoices or supporting documentations attached to the payment vouchers. The maintenance and filing of accounting records were processed and found to be satisfactory.

Areas for improvement identified by Audit are outlined in our audit recommendations. Could the recipients please reply to the recommendations within 14 working days.

MANAGEMENT REPORT

1.0 INTRODUCTION

Hon. Teina Bishop, former Minister of ESNHOMIA resigned on the 24 July 2006 as Minister of ESNHOMIA. As a result, the Audit Office conducted an audit clearance of the Office of the former Minister for ENHOMIA for the periods ended 30 June 2006 and 31 July 2006. The period occupied by the former Minister of ENHOMIA fell into two financial periods, 2005/2006 and 2006/2007. In that respect, the period occupied by the former Minister of ENHOMIA was from 26 February 2006 to 30 June 2006 and 1 July 2006 to 31 July 2006

This audit is a full financial audit of the period which the Minister was in office from February 26, 2006 to the end of July 2006. The scope of this audit includes a review of the validity of revenue received, expenditure incurred and the safeguarding and management of cash and fixed assets during the period.

2.0 AUDIT OBJECTIVES

To conduct a full financial audit for the two financial periods of which the Hon. Teina Bishop was the Minister and to confirm the following:

- 2.1 The total revenue and expenditure for the two financial periods in which the Minister was in Office, 2005/2006, 2006/2007.
- 2.2 The validity and legitimacy of revenue and expenditure for these financial periods.
- 2.3. Whether the former Ministers Office exceeded its appropriation for the two financial periods.
- 2.4 Confirm the cash, creditors and fixed assets as at 30 June 2006 and 31 July 2006.

3.0 AUDIT SCOPE

The period undertaken for this review was from 1 February 2006 to 31 July 2006, which covers two financial periods. The first financial period is for 5 months from 1 February 2006 to the 30 June 2006 and the second financial period for 1 month from 1 July 2006 to 31 July 2006. The following documents were reviewed.

- Budget Appropriation
- Solomon's Report from MFEM
- Monthly reports to MFEM
- Payment vouchers, invoices
- Cash at Bank, cheque butts, bank statements
- Fixed Assets register
- Debtors
- Creditors
- VAT

4.0 AUDIT FINDINGS

4.1 Budget Appropriation versus Actual Expenditure

1 February 2006– 30 June 2006

- 4.1.1 The total budget appropriated for the Minister's Office was \$67,300.00 for the period. The Minister occupied the Office for a period of five months.
- 4.1.2 The expenditure incurred by the Office for the period was \$69,574.00, the difference being \$2,274.00. Below is a breakdown of actual expenditure.

1 February 2006 – 30 June 2006

Accounts	Actual	Budget
Revenue	\$67,300	\$67,300

Personnel Expense	\$15,925.14	\$14,873.68
Operating Expense	\$50,336.66	\$ 49,301.32
Depreciation Exp	\$3,312.50	\$3,125.00
Total Expense	\$69,574.30	\$ 67,300.00
Surplus/(Deficit)	<u>\$ (2,274.34)</u>	

The Office of the former Minister made a loss of \$2,274.34 for the period ended 30 June 2006.

1 JULY 2006 – 31 AUGUST 2006

Accounts		Actual
Revenue		\$15,294
Personnel Expense	\$6,406.18	
Operating Expense	\$3,677.54	
Depreciation Exp	\$ 625	
Total Expense		\$10,708.72
Surplus/(Deficit)		<u>\$4,585.28</u>

4.1.4 The Office was still using the chequebook under the supervision of David Lobb of MFEM, to pay off accrued expenses incurred by the Office and the cheques were signed by Hon. Teina Bishop and countersigned by the Finance Manager, Rita Howard.

4.2 Operating Expenses

4.2.1 Audit found the approval and authorising of payment vouchers to be in order and satisfactory. All vouchers were properly signed and approved by the Chief Executive Officer and Minister for the financial periods.

4.2.2 Audit performed a 100% test on voucher payments for the assigned period and found that vouchers were completed with signatures of the authorised staffs are on the vouchers.

4.2.3 The expenditures incurred by the Office were considered legitimate and related to the activities of the Office. However, the appropriateness of a number of expenditures was questioned by Audit. Audit disapproves the manner and nature in which, certain expenses were incurred, recorded and classified in the financial statements.

4.2.4 Audit had identified a number of expenditures where they were improperly recorded and classified under the appropriate accounts in the financial statements. These expenses relates to professional fees paid to Junior Areai as DJ Agent and food items charged to the fuel account at the Oasis Energy Centre.

4.2.5 Audit found the professional fees of \$13,189.00 paid to DJ Agent for the 5 month period to be relatively high. Further inquiries into this matter revealed that DJ Agents

was the Minister's driver who was the Minister driver and doing errands for the Minister. DJ Agent was paid \$1,346 per fortnight on regular 70 hours per fortnight.

- 4.2.6 It is Audit's view that the nature and manner in which DJ Agent was engaged and paid did not represent that of a typical arrangement of professional services. In essence, this was a salary as he was paid a regular 70 hours per fortnight and there was no fluctuation in the number of hours worked each fortnight.
- 4.2.7 Furthermore, the invoice submitted by DJ Agent did not charge the Vat component generally included by those normally engaged to provide professional services. It is Audit's opinion that the payments made to DJ Agent constitute a salary and not professional fees.
- 4.2.8 We noted that the Office of the former Minister of ESNHOMIA initially had planned to appoint DJ Agent as a staff of the Office but this was declined by the Ministry of Finance and Economic Management (MFEM) as there were legal implications. Despite the advice from MFEM, DJ Agent was engaged and remunerated by the Office through professional fees.
- 4.2.9 Of concern also is the charging of food items by the Office to the fuel account at the Oasis Centre. A review of the fuel account revealed that food items and drinks were charged to the fuel account at the Oasis Energy Centre. These items were also recorded as part of the total fuel account in the financial statements. It must be noted that the fuel account should only be used to purchase fuel for the Office vehicles and not food items. Public money appropriated by Parliament to Ministerial Support Offices is only intended to fund official expenses that are required to operate the Office.
- 4.2.10 The review of travel expenses also revealed that the former Minister had travelled to the outer islands which were paid from the Office's appropriation. It should be noted that funds appropriated to the Ministerial Support Offices cannot be used to fund incidental or travel expenses for the Minister as these expenses are covered by the Civil List. Cabinet approves the expenditure that a Minister may incur when travelling overseas and this is paid from the Civil List. It is prudent that Cabinet ensures that Ministers observes and conforms to this directive.
- 4.2.11 Overall the systems over the approval and processing of expenditure were found to be satisfactory, except for those noted above.

4.3 Personnel Expenses

- 4.3.1 Personnel expenses disclosed at \$15,925.14 is fairly stated for the period ended 30 June 2006. This consists of outstanding staff annual leave of \$659.69, accrued payroll for two days of \$391.77 and salaries and wages of \$14,873.68. Personnel expense disclosed at \$6,406.18 for the period ended 31 July 2006 is fairly stated.

4.4 Accounts Payable and Accruals

4.4.1 Audit found that the accounts payables accruals disclosed at \$4,532.75 as at 30 June 2006 and at \$843.43 as at 31 July 2006 is fairly stated.

4.5 Fixed Assets

4.5.1 Audit confirmed the existence of motor vehicles Isuzu Pickup Truck GA305 and Kia Rio GA264.

4.5.2 Audit reconciled the fixed asset register (FAR) to the general ledger and found this to be correct. Also when vouchers were being checked it was sighted that purchases for expensed assets were registered under expensed assets in the FAR.

4.6 Depreciation

4.6.1 Audit found no anomalies with depreciation calculated and disclosed in the financial statements for both periods.

4.7 Employee Liabilities

4.7.1 Audit found that the employee liabilities disclosed at \$1,051.46 as at 30 June 2006 and \$3,690.30 as at 31 July 2006 is fairly stated. The employee liabilities disclosed as at 31 July 2006 at \$3,690.30 includes severance payments of \$2,819.19.

4.8 Severance Payments

4.8.1 Total severance payments provided for all staff that were terminated resulting from the change in Ministerial portfolios was \$2,818.19 One-month severance payments from the date of termination were provided for as per procedure stipulated in the GIGFPPM.

4.9 Financial Reports

4.9.1 Helen Henry of MFEM on behalf of the Ministers Office prepared 4.8.1 Draft Statutory Annual Financial Reports for the financial period ending 30 June 2006.

4.9.2 The office prepared draft statutory financial reports for the periods ended 30 June 2006 and 31 July 2006. The Office also used MYOB accounting package to record and prepare their financials reports.

4.9.3 The financial statements have been reviewed and audit adjustments were recommended to the former Minister's office. As a result, the Audit Office received the final financial statements, which reflect the adjustments recommended by Audit. All outstanding accounts have been paid and recognised in the financial statements.

4.10 Accounting Records

- 4.10.1 Audit conducted a review of all payment vouchers presented and reconciled to the monthly reports submitted by the Office for Audit. Audit reviewed 100% of payment vouchers, and 100% of these vouchers had invoices or supporting documentations attached to the payment vouchers. The payment vouchers were filed in monthly order and were found to be satisfactory.
- 4.10.2 All voucher payments and financial transactions of the Office are processed into a MYOB accounting program by an accountant and submit its monthly financial report.
- 4.10.3 The payment vouchers are filed in cheque number order and by month.

4.11 Cut-off date for Payments

- 4.11.1 The cut-off date for both financial periods was 30 June 2006 and 31 July 2006.
- 4.11.2 We assessed the appropriateness of these expenses and have found them to be reasonable and satisfactory. As at date of this report all outstanding account have been settled in full.

4.12 Complying with Legislation Compliance at Cessation Date

The former Ministers Office complied with all the requirements outlined in Part D of the Ministry of Finance and Economic Management Policy, Section 10: Ministerial Offices – Hand Over Process, except for subsection 2.1 which states that full financial reports must be completed within 10 working days of the cessation of the Ministers position and that it is the responsibility of the C.E.O. and Finance Officer.

4.13 Responsibility for signing off Letter of Representation (LOR) and Statement of Responsibility (SOR) for Ministerial Support Offices.

- 4.13.1 The Audit Office is now implementing full financial audits in respect to the audit clearance of Ministerial Support Offices. This process requires the Office of the Minister to sign off a letter of representation and a statement of responsibility before an audit opinion can be rendered on the financial statements prepared by the Minister's Support Office. However, Audit is faced with the difficulty of determining as to who should be made responsible for signing of the LOR and SOR particularly where the former Minister who is responsible for the financial reports is no longer the Minister of that Office.
- 4.13.2 The MFEM Act 1995-96 has provisions in the Act that address issues of this nature; however, it only applies to Heads of Ministries. The provision in the MFEM Act 1995-96 does not specifically include Ministerial Support Offices and is silent in this area.

5.0 RECOMMENDATION

The following recommendations are addressed to the former Manager of Finance and Administration of the Office of the former Minister of ESNHOMIA, Solicitor General, Secretary to Cabinet Services and the Financial Secretary.

The former Manager of Finance and Administration of the Office of the former Minister of ESNHOMIA should:

- 5.1 Ensure that all accounting records and documentation are given to MFEM.
- 5.2 Provide the CEO of the Office of the current Minister of Environment Services a copy of the audited fixed assets register verified by Audit.

The Solicitor General should:

- 5.3 Provide guidance as to whether any person employed in the public sector who is convicted can be re-employed as a public servant by a government ministry, department or agency.
- 5.4 Provide a legal opinion as to whether a Ministry, Department or Crown Agency can engage any person who is facing criminal charges to provide professional services.
- 5.5 Provide advice and a legal opinion as to who should be made responsible for signing off the letter of representation and the statement of responsibility for the Office of the Minister where the current Minister occupying the Office did not occupy the Office and the period in which the financial statements relates to.

The Secretary to Cabinet should:

- 5.6 Remind Cabinet Ministers that funds appropriated by Parliament to Ministerial Support Offices cannot be used to fund incidental or travel expenses for the Minister as their travel expenses are covered by the Civil List Appropriation. It is prudent that Cabinet ensures that Ministers observes and conforms to this directive.

The Financial Secretary should:

- 5.7 Consider and seek legal advice from the Crown Law Office as to who should be made responsible for signing the Letter of Representation and Statement of Responsibility for Ministerial Support Offices.
- 5.8 Decide as to how we can proceed and address this matter in an appropriate manner. This should be included as part of the audit procedures for the Ministerial handover process in the Cook Islands Government Financial Policies and Procedures Manual.

6.0 AUDIT CONCLUSION

The Office of the former Minister of Environment has complied with most the requirements outlined in Part D, Section 10 of the Cook Islands Government Financial Policies and Procedures Manual. Areas of concern have been highlighted and recommendations have been made for corrective measures. Proper financial records were kept and financial reports presented by the Office and were in accordance with generally accepted accounting practices. Fixed assets have been safe guarded and cash at bank have been properly reconciled on a monthly basis.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the audit clearance of the former Minister of Environment Services, Natural Heritage and OMIA (ESNHOMIA), Hon. Minister Teina Bishop was issued on the 13th September 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Hon. Teina Bishop, Former Minister of ESNHOMIA
- Kevin Carr, Financial Secretary, MFEM
- Janet Maki, Solicitor General, Crown Law
- Navy Epati, Public Service Commissioner, PSC
- Charles Little, Chairman, PERC

Specific recommendations were addressed to the following:

- Ø Janet Maki, Solicitor General
- Ø Kevin Carr, Financial Secretary.
- Ø Finance Manager for the Office of the Honourable Teina Bishop, Minister of ESNHOMIA

Attached is a copy of responses received by the Audit Office from:

- Tingika Elikana, Senior Crown Solicitor, Crown Law Office dated 18th October 2006.
- Kevin Carr, Financial Secretary of MFEM dated 13 November 2006
- Mrs. Rita Howard, Executive Secretary, Office of the Honourable Teina Bishop, Minister of ESNHOMIA dated 12th October 2006
- Charles Little, Chairman of PERC dated 23 November 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

REVIEW OF THE ISLAND ADMINISTRATIONS AND VARIOUS GOVERNMENT PROJECTS IN THE NORTHERN GROUP

RAKAHANGA ISLAND ADMINISTRATION AND GOVERNMENT PROJECTS

1. Introduction

1.1.1 A review of the Rakahanga Island Administration and various Government projects was carried out on Tuesday 11th July 2006. A meeting with the Mayor, Government Representative, Island Councillors and the newly appointed Island Secretary, Taunga Tuteru, was held after our welcome function on Monday afternoon 10th July 2006.

2. Island Administration Personnel.

2.1 A bona-fide check of all salary and wage workers was carried out, reconciling the latest print-out from MFEM payroll to actual employees signing the time-book/attendance register.

It was noted that:

- a) 18 salaries staff were paid. The Women's Development officer under Internal Affairs was transferred to central payroll and not Island administration from 1 July 2006.
- b) 17 wage workers were paid, Sema Peter was in N.Z. on LWOP, Temu Hagai, Mayor, was also Acting Principal.
- c) 5 Island Councillors were paid. Two were on LWOP – Danny Piho (NZ) and Teremaki Teinaki (Raro).
- d) Ngatupuna Iemina Temu is also the same person, known as N. Rubena.

Financial Administration

2.2 A review of the Island's financial records and daily transactions was carried out.

Balance Carried Forward	124.52	
Add Receipts		
Fuel	579.00	
Energy	590.39	
Is. Admin	790.00	
		<u>\$2.083.91</u>

BCI – Rental			<u>\$600.00</u>
<u>Notes</u>	100 x 2	200.00	
	50 x 5	250.00	
	20 x 42	840.00	
	10 x 12	120.00	
	5 x 8	40.00	<u>\$1,450.00</u>
<u>Coins</u>	5 x 2	10.00	
	2 x 7	14.00	
	1 x 9	9.00	
	.50 x 3	1.50	
	.20 x 6	1.20	
	.10 x 1	0.10	
	.05 x 5	0.25	
	.02 x 3	0.06	<u>\$36.11</u>
			\$2,086.11
	Balance		<u>2.20 Surplus</u>

- 2.3** A review of the Island’s annual financial statements showed that their 2002/03 and 2003/04 accounts were up-to-date, audited and filed with MFEM. Their 2004/05 accounts were in the process of being reconciled and analyzed by MFEM, ready to be audited. All outstanding audit fees had been settled.
- 2.4** The Island Secretary, Taunga Tuteru, requested that a basic office (PC) computer be purchased for the Office.
- 2.5** Two projects were reviewed. These being the Hospital and the School. An inspection of the Hospital project found that this project had not been completed since 1993. About 70% of the project had been completed. An estimation of the finishing work that needs to be carried out in the following areas:
- General Plumbing and fittings.
 - Electrical wiring and
 - Floor tiling

Stock on hand

- One Simpson Washing Machine.
- Boxes of Electrical fittings.
- 2 Boxes of Office furniture.
- 89 assorted boxes of mosaic and ceramic tiles.

Information was provided to Audit that the former Island Secretary (Nga Takai)

was alleged to have misused an undisclosed amount of materials from the Project. Further allegations were made that Danny Piho (currently in NZ) had borrowed 21 3 x 2 pieces of timber for his private house.

2.6 An inspection of the School Project showed that instead of 5 classrooms being built, only 4 classrooms were completed. The materials allocated for an extra classroom for Pre-School/ House Economics, had been used for building the Power Station Shed. Also, school materials, such as plywood, was used for the Island Council Pearl Seeding Shelter on the motu.

2.7 Recommendations

- a) That the Finance Manager of the MFEM Payroll Division checks to ensure that the three employees recorded as on Leave Without Pay, are actually on LWOP.
- b) That the Rakahanga Island Secretary procures a PC computer workstation from either the Computer Man, Summerfield or Pacific Computers, where the actual costs have been decreasing and competitive.
- c) That the Secretary of Health, liaises with the Minister of Health, to implement a plan to fully complete the long-awaited Rakahanga Hospital Project. A stocktake of all materials should be made, together with an estimation of costs to complete the Hospital.
- d) That the Rakahanga Island Secretary confirm the actual whereabouts of the missing or stolen materials. These should be returned forthwith and in the event that they have already been utilized on a permanent structure, than immediate reimbursement should be made to the Crown. Failing these steps, then the Police should be called in for a criminal investigation.
- e) That the Acting Secretary of Education takes the appropriate action it deems necessary to remedy the Education Project on the Island, given the re-allocation of building materials elsewhere for the Island Council's use.

MANIHIKI ISLAND ADMINISTRATION AND GOVERNMENT PROJECTS

1. Introduction

1.1 A review of the Manihiki Island Administration and various Government projects was carried out on Wednesday 12 July 2006. The Finance Officer is Angela Tobia and the newly appointed Island Secretary is Araipu Munokoatini.

2. Island Administration

Personnel

2.1 A bona-fide review of all salary and wage workers was carried out, reconciling the latest print-out from MFEM payroll to central employees signing the timebook / attendance register.

It was noted that:

1. There were 8 salaried staff paid by the Island Administration. Education and Health employees, who are paid by their central Ministry in Rarotonga and not part of this list. A separate review will be carried out for Central Ministries.
2. There were 14 wage-workers and 7 Island Councillors.

No anomalies were found.

Financial Administration

- 2.2 The Island Administrations financial records and transactions were reviewed. It was noted that only the 2002/2003 financial statements had been prepared and audited. The 2003/2004 financial statements had not been completed at the time of the review. Reasons for the delay was attributed to the lack of source documents, such as receipts, invoices, bank statements and cheque butts. This has been a concern for both MFEM and the Audit Office. There was also some concern over the finalization of invoices and administration relating to power accounts.
- 2.3 Three capital projects were inspected and reviewed. These being the Airport Shelter Project, the Tauhunu Hospital and the Tauhunu Harbour Project. An Audit Report on these two specific projects was completed on 23 May 2005 and was later tabled in Parliament, in June/July 2005.

a) Tauhunu Hospital.

An inspection of the Hospital Project showed that it was about 90% complete. Outstanding work required was all the installation of electrical and plumbing, fittings, tiling of floors and internal and external doors. According to the local contractor, Willie Katoa, the Hospital will be fully completed in about 2 months time depending on the availability of all materials needed to complete it.

The project commenced in April 2002. The following materials were found lying outside in the open but partially covered by tarpaulin in front of the old Government Representative's residence.

These consist of:

- 5 x tanalised poles
- 5 x steel mesh
- 24 pieces of plywood boards.
- Assorted timber - 3 x 2 pieces
 - 6 x 2 pieces

b) Airport Shelter Project

A review of the Airport (upgrade) Shelter Project was carried out.

It was found that due to a land dispute, materials allocated for up-grading the Airport Shelter was used elsewhere.

Materials included;

1. 12 x large tanalised posts
2. Assorted timber
3. Cement
4. Iron roofing
5. Plywood sheets

These were found to be used as a temporary shelter joining the Central Administration Centre in Tukao. Materials were also used for the Island Administration Workshop shed next to the Centre. Audit was informed that some cement was used to up-grade the internal wharf jetty in Tukao.

c) Tauhunu Harbour Project

A physical site inspection was made and it was very disappointing to see the wastage of materials purchased for the project, laying idle, decaying and as a result totally unusable. Materials identified included;

1. 21 x pallets of cement – all rock solid in the open with minimal covers.
2. 12 x large L shaped concrete slabs.

From observations, some clearing and blasting had been carried out but the main internal harbour area needed more blasting and dredging.

Audit was informed by the Island Secretary that cement for the project was used on the internal lagoon community wharf in Tauhunu. Also cement was used on the Marine Resources jetty.

2.4 Recommendations

- a) That the Island Secretary takes immediate action on the state of the Island's financial accounts, being two years in arrears and some key records missing.
- b) That the Financial Secretary considers providing some training assistance to the Finance officer, in order that timely, and accurate statutory financial statements are prepared and submitted to MFEM.
- c) That the Financial Secretary, together with the CEO of OMIA, Manager of Aid Management and Chief of Staff, Prime Minister's Office, meet to discuss the apparent unsatisfactory situation concerning the 3 major projects identified in Manihiki. It is recommended that a 'plan of action' be drafted for Cabinet to complete these projects in the near future.

PENRHYN ISLAND ADMINISTRATION AND GOVERNMENT PROJECTS

1. Introduction

A review of the Penrhyn Island Administration and various Government projects was carried out on Thursday 13th July and Friday 14th July 2006.

The Finance Officer is Mrs Twin Tonitara and the newly appointed Island Secretary is Mr Roland Long.

2. Island Administration

Personnel

2.1 A review of all salary and wage workers paid by the Island Administration was carried out. The following was noted;

- a) 12 salaried staff were on the MFEM payroll spreadsheet and agreed to the time book.
- b) Miimetua Mariri Nio, the previous Island Secretary had recently resigned.
- c) Jemima Peau - is working in the Office of Hon Wilkie Rasmussen in Raro, since July 2005.
- d) Ru Taime – Currently in Raro for Customs training since December 2005.
- e) Abela Williams – not on the MFEM payroll printout but signing the timebook – Infrastructure Supervisor.
- f) 27 wage workers and 6 Councillors.
- g) The majority of the wage workers were employed for Energy, Infrastructure and Environment purposes.
- h) Councillor Rio Teika is also the same person called Puremana R Tutavake, working for Energy in Tetautua.
- i) The employees checked exclude Health and Education staff, who is paid by Central Ministry.

Time books, leave records and payroll sheets were reviewed and found to be satisfactory.

Financial Administration

2.2 The Island Administrations financial records and transactions were reviewed. It was noted that;

- a) The Finance Officer neatly records all receipts and payments in a Cashbook. A monthly summary is checked before it is submitted to Willie John in the Office of Minister, Hon. W. Rasmussen. Bob Goodwin, the external contractor, at the end of each month, then provides a MYOB financial statement.

- b) Audit is aware of this process and is pleased with the timely and accurate production of monthly financial statements. The only exception, is the fact that the Finance Officer is not trained and knowledgeable in accrual accounting and MYOB.
- c) A review of the Administration payments and receipts showed normal business activities, except for the sale of cement. One bag of cement was sold for \$31.00, local retail at Fare Supplies on 23/08/06 was \$18.00 per bag. Inquiries revealed that cement sales originated from the materials purchased by the Hararanga Fund for the Island Council, under the former Island Secretary, Mii Mariri.
- d) Draft 30 June 2006 accounts showed;

	Budget	Actual	Variance
Total Expenditure	572,897	633,711	-60,814
Trading Revenue	58,000	70,196	12,196
Net Expenditure	514,897	563,515	-48,618

Over-expenditure due to unbudgeted power requirements.

- e) The Officer in Charge of Energy (Power) Mrs Takairangi Joseph had all power accounts up-to-date to 30 June 2006. All outstanding debtors had been paid in full at the end of each month. A PC computer was purchased in March 2006 for the Energy division; however, she has not had any computer training. There were 8 louvre blades that needed replacing in the Office and also some basic furniture (desk/chairs) needed and general painting, as the present work environment is not satisfactory.

It was further noted that because of the excellent state of her records and accounts, I was informed that she is on a salary (T.Joseph) of \$12,764.00 after 16 years Government service.

Government Projects

a) Underground Water Project.

This project is now no longer required. This is due to the fact that the original plan was to build underground concrete water catchments. An undisclosed amount of cement was provided for this project, over 4-5 years ago.

6 pallets of cement is now stored in the Harbour storage shed. An inspection of materials in the shed found a new fridge and store assigned for the Women's Centre.

b) Public Toilets and House belonging to John Vano, a former Island Secretary.

An inspection of the 2 public toilets and House (now used by the Council for storage of Government equipments and machinery) was made.

The House was completed, it was divided into 2 sections, one being a storage shed and the other being an enclosed garage.

It was found that, the former Island Secretary, John Vano, owned a private company, called J5 Express Ltd. Besides being the Island Secretary, he operated a building supplies business.

I have read some correspondence on the matter and cannot find any copy of the Island Council resolution agreeing to John Vano building the two public toilets and the house on credit. It was suggested that repayment would be by way of an Island Administration appropriation. This activity, in my view, indicates a conflict of interest, and before any payments are made to John Vano, that a legal opinion is sought from Crown Law.

John Vano, through his solicitor, Tepure Tapaitau, is now seeking compensation to the value of \$43,600.36, being \$19,300.86 for the 2 (uncompleted) public toilets and \$24,300 for the house.

Discussions with the newly appointed Island Secretary, Roland Long, suggests that the Island Council may make an offer based on current market rates, to purchase the house and 2 public toilets. But his would be in the vicinity of around \$25,000 for the lot. Roland Long believes that the current Island Council has no obligation to purchase these buildings, as it was John Vano who initiated and built these buildings, without authority from Government under Capital expenditure.

c) Marine Resources Compound

An inspection of the Marine Resources Compound found that all buildings were in urgent need of repairs. Also, from discussions with the Marine Resources Manager, the level of project activity was very low, due to the decreasing number of pearl farmers.

Recommendations

1. That the MFEM Payroll Division checks to ensure that:
 - a) Jemima Peau is actually working in the Minister's Office and if such, after 12 months, should be permanently transferred to the Minister's payroll.
 - b) Abela Williams payroll is accounted for in terms of budget and Ministry.
 - c) Rio Teika, also the same person known as Puremano R Tutavake is collecting only one pay.
2. That MFEM Finance Division considers to include Mrs Twin Tonitara to undertake financial accounting training with MYOB.
3. That the Island Secretary ensures:
 - a) To carry out a full stock take of all Island Council materials, purchased under the Hararanga Fund. The old and surplus cement stock should be sold, at cost, to avoid any losses to the Council.

- b) To review Mrs Takairangi Joseph's salary, considering her work record and years of experience. Also, to undertake some basic computer training, for which she has limited knowledge at present.
- c) To replace the louver blades in the Post Office area, provide some basic furniture and paint the internal working environment.
- d) To allocate the new fridge and stove to the Women's Centre as intended.
- e) To inform and liaise with the Solicitor General, Crown Law Office, on the situation of John Vano's claim of \$43,600.36 from the Island Council for building the 2 public toilets and house, without firstly seeking Government's authority through the budget appropriation.
- f) To repair and maintain the Marine Resources Compound buildings. Discussions should be held with the Island Council and Minister Hon. W. Rasmussen on the possible alternatives and uses the Compound may be utilized for.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the review of Island Administrations and various Government projects in the northern group was issued on the 18th August 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Kevin Carr, Financial Secretary
- Janet Maki, Solicitor General
- Navy Epati, Public Service Commissioner
- Charles Little, Chairman, PERC

Attached is a copy of responses received by the Audit Office from:

- Kevin Carr, Financial Secretary of MFEM dated 23 August 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.

AUDIT REVIEW INTO THE ALLEGATION OF THEFT OF GOVERNMENT FUEL IN ATIU

EXECUTIVE SUMMARY

Please find enclosed the audit report relating to the audit review into the allegation of misuse or theft of government fuel in Atiu.

The Audit Office received a written complaint dated 20 June 2006 from an anonymous person regarding the theft of diesel fuel from Government in Atiu. The complainant alleged that the Island Secretary, Tou (Man) Unuia and the former Member of Parliament, Hon. Eugene Tatuava have used government diesel from the Infrastructure Division of Atiu Island Administration (AIA) and the Atiu Energy Division (AED) for their private vehicles without payment.

The Director of Audit and Audit Manager of the Special Reviews Division of the Audit Office, Allen Parker visited Atiu Island from the 13 – 15 September 2006 to undertake a special review into this matter.

Major Audit Findings

1. Confirmation for the usage of government fuel (diesel) by the Island Secretary, Man Unuia and the former Member of Parliament, Hon. Eugene Tatuava.

Audit has confirmed that government diesel from the infrastructure division of the Atiu Island Administration (AIA) and the Atiu Energy Division (AED) was used in the private vehicles of the Island Secretary of Atiu Island Administration (AIA), Man Unuia and the former Member of Parliament, Hon. Eugene Tatuava.

This was confirmed through the documents, interviews with the staff of the infrastructure division and AED of AIA and with the Island Secretary, Man Unuia.

2. Substantiating the number in litres and value in dollars of diesel used by the Island Secretary and the former MP from the Infrastructure Division and the Atiu Energy Division.

Audit confirmed that the Island Secretary used a total amount of **802 litres** of government diesel for the 8 months period. This consists of **596 litres** of diesel from the infrastructure division and **205 litres** from the AED for the period 1 January to 31 August 2006. This in dollar value equates to **\$1,545.93** worth of government diesel. This was calculated by using the cost landed price for diesel in Atiu of \$1.93 per litre multiplied by the number of litres used.

The former MP of Atiu, Hon. Eugene Tatuava used a total amount of **202 litres** of government fuel for the 8 months period. This consists of **162 litres** from the infrastructure division and **40 litres** from the AED for the period 1 January to 31 August 2006. This in dollar value equates to a total **\$389.86** for the 8 months period.

3. Approval to use government diesel from the Infrastructure Division and AED.

Audit confirmed with the Island Secretary that he approved the usage of government diesel for the vehicles of the Island Secretary (himself) and former MP for Atiu. He was fully aware of all instances where government diesels were put in the private vehicles of the former MP and himself.

The Island Secretary provided written justifications for the usage of government fuel for his private vehicle as he had used his vehicle for government official use such as site inspection of ongoing projects, OMIA technician visits, Manea Games, Parliament Select Committee and ADB consultant's visits. He also provided verbal justifications for the usage of the former MP's vehicle for official duties.

4. The use of government fuel in lieu of the usage of the Island Secretary's equipment and tools

The Island Secretary also expressed his concern regarding the use of his equipments and tools for government related projects. According to Man Unuia, although he placed no value against the use of these equipment and tools for government projects, it was his view that the use of his tools for government projects will compensate for the fuel used for his private vehicle.

However, Audit disagrees with the Island Secretary's views given that there was no formal agreement and arrangement with AIA to suggest that the usage of government fuel for his private vehicles was in lieu of the usage of his equipment and tools for government projects. It appears that the tools and equipment was voluntarily given by the Island Secretary to AIA at the time it was given and there is no documentation or evidence to substantiate that a formal arrangement was in place. It is our opinion that the Island Secretary should have sought approval from the Public Service Commissioner as to whether he can enter into such an arrangement and to formalize this arrangement through proper documentation.

5. Entitlements and conditions of the Island Secretary under his current employment contract

Man Unuia was appointed as the Acting Island Secretary for AIA on the 23rd December 2005 by a warrant of appointment. His appointment was formally approved by Cabinet on the 7th March 2006. He did not have a formal employment contract with the Public Service Commissioner at the time, Mr. Joseph Caffrey. The warrant of appointment did not make any reference to any transport provisions or entitlements. Therefore, it raises the question as to what conditions were applicable to Man Unuia during the period 23rd December to 30 June 2006, when he was the Acting Island Secretary.

On the 1st July 2006, he was formally appointed as the Island Secretary of AIA and signed an employment contract with the Public Service Commissioner, Mr. Navy Epati. The current employment contract entitles the Island Secretary to a government vehicle or a transport allowance of \$5,000.00 per annum if no government vehicle is provided to the Island Secretary.

The Island Secretary uses a government motor bike that is also used by the AIA staff during government working hours. The motor bike is also taken by the Island Secretary after

working hours. We also note that AIA does not have an official government vehicle for transporting visiting government officials unlike some of the other Island Administrations that have government vehicles.

The Island Secretary's employment contract entitles him to a transport allowance of \$5,000.00 p.a if he does not have a government vehicle. The question that we need to satisfy ourselves is whether or not the motor bike used by the Island Secretary is classified as a government vehicle referred in the contract. It is Audit's view that the motor bike is deemed as a government vehicle and therefore the Island Secretary is not entitled to the transport allowance of \$5,000.00 per annum as he is using a government vehicle, which is the motor bike. However, clarification on this matter is required from the Office of the Public Service Commissioner.

6. Is the usage of government fuel for the private vehicles of the Island Secretary and the former MP of Atiu, constitute misuse or theft?

The usage of fuel for the private vehicle of the MP of Atiu, Hon. Eugene Tatuava was approved by the Island Secretary who had the appropriate authority to do so as he is responsible for the Atiu Island Administration appropriation. The MP's private vehicle was used for government official purposes before and during the Manea games and transporting government officials. Therefore, it is Audit's opinion that the usage of government fuel for the MP's private vehicle was not misuse or theft, as proper approval was given by the Island Secretary.

The Island Secretary has confirmed the usage of his private vehicle for government official duties and has provided a list of events where his vehicles were used for government official duties. We are satisfied that the vehicles belonging to the Island Secretary were used for government official duties and therefore it is Audit's opinion that the usage of government fuel for the Island Secretary's vehicle was not theft or misuse.

AUDIT CONCLUSION

The audit findings conclude that the allegations of misuse and theft against the Island Secretary and the former MP of Atiu for using government fuel for their private vehicles is found to be groundless and unsubstantiated. Proper approval was given by the Island Secretary to the MP of Atiu for the use of government fuel for his private vehicle. We are also satisfied that the government fuel used for the Island Secretary's vehicles was justified and are not misuse or theft.

There a number of areas of concern which relates to the entitlement's of the Island Secretary under his current employment contract and the usage of personal tools in lieu for government fuel. Audit has made recommendations to the Office of the Public Service Commissioner to provide some direction and clarification on these issues.

Recommendations have been made to the appropriate authorities to address areas of concern.

MANAGEMENT REPORT

1.0 INTRODUCTION

The Audit Office received a written complaint dated 20 June 2006 from an anonymous person regarding the theft of diesel fuel from Government in Atiu. The complainant alleged that the Island Secretary, Tou (Man) Unuia and the former Member of Parliament, Hon. Eugene Tatuava have used government diesel from the Infrastructure Division of Atiu Island Administration (AIA) and the Atiu Energy Division (AED) for their private vehicles without payment. The complainant further alleges that this practice began when Unuia became Acting Island Secretary on the 23rd December 2005 and there may have been one occasion where Hon. Eugene Tauava offered to pay for his diesel.

The Director of Audit and Audit Manager of the Special Reviews Division of the Audit Office, Allen Parker visited Atiu Island from the 13 – 15 September 2006 to undertake a special review into this matter.

The Audit Office has a responsibility to review and assess issues of this nature particularly where there are allegations of misuse and mismanagement of public resources and to report our findings accordingly.

1.0 AUDIT OBJECTIVES

- 1.1 To determine whether or not the Island Secretary, Man Unuia and the former Member of Parliament, Hon. Eugene Tatuava used government diesel for their private vehicles without payment.
- 1.2 To determine the total amount of diesel and its monetary value used by the Island Secretary and the former Member of Parliament for their private vehicles.
- 1.3 To determine whether proper approval was obtained for the use of government diesel by the two public officials.
- 1.4 To determine whether the usage of government diesel by the two individuals for their private vehicles were in breach of any legislation.

2.0 AUDIT SCOPE

The period reviewed was limited to 1 January 2006 to 31 August 2006. The following documents were reviewed:

- 2.1 Warrant of appointment for the Acting Island Secretary dated 23 December 2005
- 2.2 Cabinet Minute dated 7 March 2006 approval for the Atiu Island Acting Secretary new salary.
- 2.3 Employment Contract for the Island Secretary dated 1 July 2006
- 2.4 Fuel records from the Infrastructure division of the Atiu Island Administration (AIA).
- 2.5 Fuel records from the Atiu Energy Division (AED)
- 2.6 Letter dated 13 September 2006 from the Island Secretary to the Director of Audit
- 2.7 Interview notes with the Island Secretary, Island Council Administration Officer and staff of the Infrastructure Division.

3.0 AUDIT FINDINGS

4.1 Confirmation for the usage of government fuel (diesel) by the Island Secretary, Man Unuia and the former Member of Parliament, Hon. Eugene Tatuava.

- 3.1.1 The infrastructure division of the Atiu Island Administration (AIA) is responsible for keeping and maintaining government fuel at the complex of the infrastructure division. All government fuel are issued from and recorded at the office of the infrastructure division. Fuel is used mainly for government machinery. The original fuel records are kept at the office of the infrastructure division office and copies are submitted to the AIA office.
- 3.1.2 Audit reviewed the fuel records kept and maintained by AIA. We confirmed that government diesel from the infrastructure division was used in the private vehicles of the Island Secretary of Atiu Island Administration (AIA), Man Unuia and the former Member of Parliament, Hon. Eugene Tatuava.
- 3.1.3 During our interview with the staff of the infrastructure division, it was brought to our attention that diesel managed by the AED was also used by the Island Secretary and the former MP for Areora, Atiu for their personal vehicles.
- 3.1.4 The documents reviewed from the AED and the interview held with Rouru George confirmed that diesel from the AED was used in the private vehicles of the Island Secretary and the former MP.

3.2 Verifying the number in litres and value in dollars of diesel used by the Island Secretary and the former MP of Areora, Atiu from the Infrastructure Division and the Atiu Energy Division.

- 3.2.1 Audit compiled an analysis shown in table 1.1 of the diesel used by the Island Secretary and the former MP of Atiu, from Infrastructure Division and AED, based on the records provided to us by AIA and AED. This analysis does not include the months of May and June relating to the Island Secretary as the AIA and the infrastructure division could not find the records for these two months as of the date of this report.
- 3.2.2 Audit is concerned that records for these two months close to the year end could actually go missing. Audit has requested on a number of occasions for these records but AIA and the infrastructure division cannot locate them. Audit has estimated the average usage of fuel used by the Island Secretary for the months of May and June in the absence of the fuel records.

Table 1.1

Date	Supplier	Island Secretary – Man Unuia		Former MP – Hon. E. Tatuava	
		Litres	Dollar	Litres	Dollar
Jan to Aug 2006 (excluding May and June 2006)	Infrastructure Division	447	862.71	162	312.66
Jan to Aug 2006	Atiu Energy Division	205	395.65	40	77.20
	Total	652	1,258.36	202	389.86
May/June 2006 Average usage estimated		149	287.57	Nil	Nil
Total		802	1,545.93	202	389.86

- 3.2.3 Audit confirmed that the Island Secretary used a total amount of **447 litres** of diesel from the infrastructure division and **205 litres** from the AED for the period 1 January to 31 August 2006. This gives a total of **652 litres** for the 6 months period, excluding the months of May and June 2006.
- 3.2.4 The former MP of Atiu, Hon. Eugene Tatauava used a total amount of **162 litres** from the infrastructure division and **40 litres** from the AED for the period 1 January to 31 August 2006. This gives a total of **202 litres** for the 8 months period.
- 3.2.5 In calculating the dollar value of diesel used by the Island Secretary and the former MP for Atiu, Audit used the diesel landed cost price of \$1.93 per litre provided by AIA multiplied by the number of litres to derive at the total value of diesel used by each of them.
- 3.2.6 The result confirmed that the Island Secretary used a total of **\$1,258.36** worth of government diesel from the infrastructure division and AED while the former MP for Atiu used a total of **\$389.86** for the 6 months period.
- 3.2.7 In the absence of the May and June 2006 fuel records, Audit estimated the average usage for the Island Secretary for the months of May and June 2006. This was conducted by dividing the total litres used for the 6 months (447) by 6 to arrive at the monthly usage. This gives a 74.5 litres usage per month multiplied by the two months to arrive at the total usage for the two months of 149 litres.
- 3.2.8 The final result confirmed that the Island Secretary used a total of **\$1,545.93** worth of government diesel from the infrastructure division and the AED for the 8 months period.

4.3 Approval to use government diesel from the Infrastructure Division and AED.

- 4.3.1 Our interviews with the staff of both divisions and the Island Secretary confirmed that the Island Secretary was aware and approved the usage of government diesel for the vehicles of the Island Secretary (himself) and former MP for Atiu.
- 4.3.2 According to the Island Secretary, he has on occasions approved fuel issued for the MP Tatuava's private vehicle as he uses it for government duties when he is on the island.
- 4.3.3 The Island Secretary in his letter dated 13 September 2006 to the Director of Audit, provided justifications for the usage of government fuel for his private vehicle as he had used his vehicle for government official use such as site inspection of ongoing projects, OMIA technician visits, Manea Games, Parliament Select Committee and ADB consultant's visits.
- 4.3.4 The Island Secretary further stated in his letter that the AIA had used and is still using some of his equipments and tools for government related projects. According to Man Unuia, although he placed no value against the use of these equipment and tools for government projects, it was his view that the use of his tools for government projects will compensate for the fuel used for his private vehicle.
- 4.3.5 However, we do not agree in principal with the Island Secretary's views that the usage of his equipment and tools for government projects will compensate for the fuel used for his private vehicle. It is Audit's opinion that at the time the Island Secretary gave his tools and equipment for government use there was no formal agreement with AIA to suggest that the usage of government fuel for his private car will be compensated by the usage of his equipment and tools.
- 4.3.6 The Island Secretary should have sought advice and guidance from the Public Service Commissioner as to whether he can enter into such an arrangement.

4.4 Entitlements and conditions of the Island Secretary under his current employment contract

- 4.4.1 Man Unuia was appointed as the Acting Island Secretary for AIA on the 23rd December 2005 by a warrant of appointment. His appointment was formally approved by Cabinet on the 7th March 2006. He did not have a formal employment contract with the Public Service Commissioner at the time, Mr. Joseph Caffrey.
- 4.4.2 On the 1st July 2006, he was formally appointed as the Island Secretary of AIA and signed an employment contract with the Public Service Commissioner, Mr. Navy Epati. The current employment contract entitles the Island Secretary to a government vehicle or a transport allowance of \$5,000.00 per annum. The latter applies if no transportation is provided to the Island Secretary.
- 4.4.3 We note that the only government vehicle used by the AIA for administration purposes is a motor bike that is used by the Island Secretary and the administration staff during normal working hours. The motor bike is also taken by the Island Secretary after normal working hours. AIA does not have an official government

vehicle for transporting visiting government officials unlike some of the other Island Administrations that have government vehicles.

4.4.4 When Man Unuia was appointed as the Acting Island Secretary, he did not have a formal employment contract. The warrant of appointment did not make any reference to any transport provisions or entitlements. Therefore, it raises the question as to what conditions were applicable to Man Unuia during the period 23rd December to 30 June 2006, when he was the Acting Island Secretary.

4.4.5 Although it is quite clear in his current employment contract that a transport allowance is available to the Island Secretary if he does not have a government vehicle, it raises the question as to whether the government vehicle referred to in the contract refers to a car/truck or motor bike.

4.4.6 It is Audit's view that the motor bike is deemed as a government vehicle and therefore the Island Secretary is not entitled to the transport allowance of \$5,000.00 per annum as he is using a government vehicle, which is the motor bike. However, clarification on this matter is required from the Office of the Public Service Commissioner.

4.5 Is the usage of government fuel for the private vehicles of the Island Secretary and the former MP of Atiu, constitute misuse or theft?

4.5.1 The usage of fuel for the private vehicle of the MP of Atiu, Hon. Eugene Tatuava was approved by the Island Secretary who had the appropriate authority to do so as he is responsible for the Atiu Island Administration appropriation. The MP's private vehicle was used for government official purposes before and during the Manea games and transporting government officials. Therefore, it is Audit's opinion that the usage of government fuel for the MP's private vehicle was not misuse or theft, as proper approval was given by the Island Secretary.

4.5.2 As in the case of the Island Secretary, we confirmed that he takes the government motor bike home after working hours, which in our view, does not entitle him to a transport allowance of \$5,000.00 per annum. However, clarification is required from the Public Service Commissioner as to whether the motor bike is deemed as his official government vehicle under the Island Secretary's employment contract.

4.5.3 There is also some ambiguity over the arrangement where the Island Secretary has used government fuel for his private vehicles in lieu of the usage of his equipment and tools. We do not think that this arrangement was proper given that there was no formal agreement between AIA and the Island Secretary, nor was there advice sought from the Public Service Commissioner on this matter before the tools were used by AIA. It appears that the Island Secretary willingly volunteered to use his tools for government projects.

4.5.4 The Island Secretary has confirmed the usage of his private vehicle for government official duties and has provided a list of events where his vehicles were used for government official duties. As the list of events justifies the usage of the Island Secretary's vehicles, it is Audit's opinion that the usage of government fuel for the Island Secretary's vehicle was not theft or misuse.

- 4.5.5 It is prudent that the Public Service Commissioner provides some direction on this matter to ensure that there is a clear understanding between all parties on what entitlements are available to the Island Secretary.

4.0 AUDIT RECOMMENDATIONS

The recommendations in this report are addressed to the Manager of the Infrastructure Division of AIA, the Finance & Administration Manager of AIA, the Island Secretary and the Public Service Commissioner.

The Managers of the Infrastructure Division and Finance & Administration of AIA should:

- 4.1 Retrieve the fuel records for the months of May and June 2006 which are missing.
- 4.2 Ensure that all fuel records are maintained, kept in a secure area, made available to Audit for future inspection.

The Island Secretary of AIA should:

- 4.3 Seek clarification from the Office of the Public Service Commissioner as to which of the following he is entitled to:
 - Motor bike.
 - Transportation allowance of \$5,000.00 per annum in the absence of the government motor vehicle.
 - New motor vehicle

Given that he is using a government motor bike during and after working hours.

- 4.4 Immediately stop using government fuel for his private vehicles until further clarification and advice is received from the Public Service Commissioner.
- 4.5 Seek proper approval from the Public Service Commissioner in the event where the Island Secretary intends to use government resources in lieu of the usage of his personal equipment and tools for government projects.
- 4.6 Seek professional advice and guidance from the Public Service Commissioner and the Solicitor General regarding issues of this nature before engaging into such practice.

The Public Service Commissioner should:

- 4.7 Provide clarification as to whether Man Unuia is entitled to transport allowance while he was Acting Island Secretary during the period 23rd December 2005 to 30 June 2006 and whether he was entitled to transport allowance as the Island Secretary given that he is using the government motor bike during and after working hours.

- 4.8 Provide advice as to whether the Island Secretary is allowed to use government resources in lieu of his tools and equipment being used by AIA for government projects.

5.0 AUDIT CONCLUSIONS

The audit findings conclude that the allegations of misuse and theft against the Island Secretary and the former MP of Atiu for using government fuel for their private vehicles is found to be groundless and unsubstantiated. Proper approval was given by the Island Secretary to the MP of Atiu for the use of government fuel for his private vehicle. It is also noted that the government fuel used for the Island Secretary's vehicles was justified given that the vehicles were used for government official duties. Therefore the allegations against the Island Secretary are also unsubstantiated and groundless.

However, there a number of areas of concern which relates to the entitlement's of the Island Secretary under his current employment contract and the usage of personal tools in lieu for government fuel. Audit has made recommendations to the Office of the Public Service Commissioner to provide some direction and clarification on these issues.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the audit review into the allegation of misuse or theft of government fuel in Atiu was issued on the 13th October 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Hon. Kete Ioane, Minister OMIA
- Hon. Eugene Tatuava, former MP, Atiu
- Man Unuia, Island Secretary of AIA
- Kevin Carr, Financial Secretary
- Janet Maki, Solicitor General
- Navy Epati, Public Service Commissioner
- Charles Little, Chairman, PERC

Specific recommendations were addressed to the following:

- Ø Man Unuia, Island Secretary of the Atiu Island Administration
- Ø Navy Epati, Public Service Commissioner

Audit notes that as at the date of this report no response has been received by the Audit Office.

AUDIT REVIEW INTO THE MISUSE OF PUBLIC FUNDS AT THE AITUTAKI HOSPITAL

AUDIT SUMMARY

Please find enclosed the audit report relating to the misuse of public funds at the Aitutaki Hospital by an employee of the Aitutaki Hospital.

The Audit Office received a formal request dated 22 May 2006 from the Director of Finance & Administration (F&A) of the Ministry of Health, Adi Narayan, to undertake a review into the alleged misuse of public funds by a staff at the Aitutaki Hospital.

The Director of Audit and Audit Manager of the Special Reviews Division, Allen Parker of the Audit Office traveled to Aitutaki from the 6th to the 7th September 2006 to conduct an investigation into this matter.

The Audit Office has a responsibility under Section 27(g) of the PERCA Act 1995-1996 to pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation.

MAJOR AUDIT FINDINGS

1. Misappropriation of public funds at the Aitutaki Hospital.

The Audit Office received a request from the Director of Finance & Administration (FA) of MOH, Mr Adi Narayan, to conduct an investigation into the misappropriation of funds at the Aitutaki Hospital. We confirmed that the staff involved in this matter is Ms Teremoana George who was the former Pharmacy Assistant but now holds the position of Nurse Aide at the Aitutaki Hospital.

As a former pharmacy assistant, she was responsible for collecting and receipting all trading revenue received from customers at the front office of the Aitutaki Hospital. The Pharmacist Assistant was also required to give the cash takings together with the receipts to the Administration Officer, Victor Ioane at the end of each business day. However, we confirmed that this had not always been the case as the pharmacist assistant had used the money for her personal use and benefit.

Our interview with the former Pharmacist Assistant confirmed that she had used the money to buy food and other household items as she did not have much money since she had to pay her personal loan and her dad's loan with her small salary. She was receiving a sum of \$285.00 nett each fortnight and had to pay \$150.00 for her dad's loan and \$50.00 for her personal loan.

2. Total public funds misused by the Pharmacy Assistant, Ms Teremoana George.

Our findings from this review revealed and confirmed that Ms Teremoana has been using public money over a period of time since **June 2004 up to April 2006**. We confirmed that

she misused a total sum of **\$6,308.00** of public funds over a period of three years. This is made up of the following:

<u>Period</u>	<u>Amount</u>
June to December 2004	\$2,466.00
June to August 2005	\$2,583.00
January to April 2006	<u>\$1,259.00</u>
Total	<u>\$6,308.00</u>

The misuse of public funds was identified by the Administration Officer when Teremoana George failed to transfer to the Administration Officer the receipts and money received from customers as she was responsible for writing the receipts and receiving money from customers.

3. Teremoana George repaid in full all funds misused by her to the Aitutaki Hospital.

As of the date of this report, Audit has confirmed with the Medical Officer in charge of the hospital, Dr. Koko and the Administration Officer, Victor Ioane that Teremoana George had repaid in full all public funds used by her. She was assisted by her dad, an employee of the Aitutaki Hospital in repaying the total funds misused by her to Aitutaki Hospital.

4. Actions and Measures taken by the Aitutaki Hospital and the MOH in Rarotonga to address this issue.

The Administration Officer verbally reported the matter to Dr. Koko, Medical Officer in Charge of the Aitutaki Hospital when he initially identified in 2004 that Teremoana George was misusing public funds. The Administration Officer and the Medical Officer in Charge of the Hospital discussed this matter with Teremoana George and she was asked to repay the money back to the Aitutaki Hospital. Both officers verbally warned and instructed Teremoana to stop using public money for her personal use.

When the administration officer found Teremoana George misusing public funds again in August 2005, he formally reported this matter again to the Medical Officer, Dr. Koko by way of letter. The Medical Officer advised the Secretary of MOH, Vaine Tekotai, General Manager of MOH, Dr. Daniel and the Director of F&A for MOH, Adi Narayan of this matter.

The Secretary of Health, Vaine Teokotai advised Dr. Koko that Teremoana George is not to handle the money anymore. He further instructed for the Administration Officer to collect the money and balance the receipt book on a daily basis. Unfortunately, Teremoana George continued to received and receipt money from customers up until April 2006. In April 2006, Teremoana George was found to be misusing public funds again, for the third time.

On the 8 May 2006, Dr. Koko informed the General Manager of MOH, Dr. Roro Daniel, who was in Aitutaki at the time about the repeated misuse of public funds by Teremoana George. Dr. Daniel at the time made the decision to terminate the staff concerned, and informed the Secretary of MOH. The Secretary of MOH asked Dr. Daniel to hold on his decision as he was going to fly to Aitutaki the next day to address this issue. The Secretary of MOH flew to Aitutaki on the 11 May 2006 and met with Dr. Koko, Dr. Daniel and the staff.

Despite the three incidents of misuse of public funds, the former Secretary of MOH decided not to terminate the staff or report the matter to the Police but instead transferred Teremoana George to the Ward as a Nurse Aide.

The Director of F&A requested the Administration Officer and Medical Officer in Charge of the Aitutaki Hospital to provide a written report of the incidents. Upon the receipt of the report from the Administration Officer, the Director of F&A sought legal advice from Crown Law regarding these matters who have advised that the matter be reported to the Audit Office immediately. The Director of F&A wrote a letter dated 24 May 2006 to the Audit Office outlining the incidents and requested that the Audit Office conducts a review into this matter.

It is Audit's view that the Administration Officer and the Medical Officer in Charge of the Aitutaki Hospital took the appropriate steps in reporting this matter to their superiors at the Head Office in Rarotonga. It is also Audit's view that the Director of F&A took the appropriate steps in obtaining legal advice from Crown Law Office and reporting this matter to the Audit Office.

However, of concern is the fact that the Administration Officer did not take over the handling of money as instructed by the Secretary of MOH at that time in his email dated 16 September 2005. Had these instructions been followed, the misuse of public funds in April 2006 would not have reoccurred.

Audit is also concerned with the actions taken by the Secretary of MOH at that time, Vaine Teokotai, in not reporting this matter to the Police Department and Audit when this matter was reported to him in September 2005. The fact that Ms Teremoana George had repaid the money in full does not necessarily mean that this matter should not be reported to the appropriate authorities. It is prudent that any Head of Ministry report incidents of this nature to the appropriate authorities even if payments have been received in full by those misusing public funds.

5. Breaches to the MFEM Act 1995-96

Pursuant to section 64, subsection (2) d of the MFEM Act 1995-96, "Every person commits an offence against this Act who does any act for the purpose of procuring for that person or organisation – the improper payment of any public money or trust money; or the improper use of any public resource." Audit is of the view that Ms. Teremoana George breached section 64 (2) d of the MFEM Act 1995-96 by misusing public money for her own personal use and benefit.

Pursuant to section 66, subsection 2 (a) of the MFEM Act 1995-96, "Every person who commits an offence against subsection (2) of section 64 of this Act, is liable on conviction (a) in the case of an individual, to a fine not exceeding \$3,000." Audit has made recommendations to the Crown Law Office to provide a legal opinion as to whether further actions should be taken against Teremoana George taking into account that she has repaid in full the total public funds misused by her.

AUDIT CONCLUSION

The audit review concludes that a sum of **\$6,308.00** of public funds was misused by the former Pharmacist Assistant, Ms Teremoana George over a period of three years. The sum of \$6,308.00 has been repaid in full to the Aitutaki Hospital by Teremoana George.

The review further concludes that there were strong internal controls over the collection and receipting of public funds, however, there is a need to follow up and perform daily reconciliations of receipts and cash. This process will ensure that funds are banked daily and that any discrepancies identified can be addressed immediately.

Recommendations have been made to the appropriate authorities to address areas of concern.

MANAGEMENT REPORT

1.0 INTRODUCTION

The Audit Office received a letter dated 24 May 2006 from the Director of Finance & Administration (F&A) of the Ministry of Health, Mr. Adi Narayan. The Director of Finance & Administration of MOH requested the Audit Office to conduct a special audit review regarding the misappropriation of public funds at the Aitutaki Hospital. The Director of F&A alleged that a staff of the Aitutaki Hospital has misused funds in March 2006 to the amount of approximately \$800.00.

The Audit Office has a responsibility under Section 27(g) of the PERCA Act 1995-1996 to pursue any concern that arises in respect of the management of public resources which in its opinion justifies further investigation.

As a result, the Director of Audit and Audit Manager of the Special Reviews Division, Allen Parker of the Audit Office traveled to Aitutaki from the 6th to the 7th September 2006 to conduct an investigation into this matter.

2.0 AUDIT OBJECTIVES

- 2.1 To determine the name of the staff who has been alleged to have misused funds from the Aitutaki Hospital.
- 2.2 To ascertain the total amount of funds misused by the staff, if established funds were indeed misused.
- 2.3 To determine as to whether any of the funds that have been allegedly misused by the staff have been recovered by the Aitutaki Hospital.
- 2.4 To review the internal controls over the receipting and banking procedures at the Aitutaki Hospital.
- 2.5 To determine what actions and measures were taken by the MOH in Rarotonga and the Aitutaki Hospital to address this issue.

3.0 AUDIT SCOPE

The scope of this audit review was limited to the period 1 July 2004 to 30 August 2006. The following documents were reviewed.

- 3.1 Letter dated 6 September 2006 from the Administration Officer for MOH in Aitutaki, Mr. Victor Ioane to the Audit Manager, Allen Parker.
- 3.2 Letter dated 22 May 2006 from the Administration Officer, Victor Ioane to the Director of F&A, Adi Narayan.
- 3.3 Letter dated 1 September 2005 from the Administration Officer, Victor Ioane to the Medical Officer in Charge of the Aitutaki Hospital, Dr. Koko Lwin.
- 3.4 Email correspondence between the former Secretary of Health, Vaine Teokotai and the Aitutaki Hospital.
- 3.5 Letter of complaint dated 24 May 2006 from the Director of F&A to the Audit Office.

4.0 AUDIT FINDINGS

4.1 Misappropriation of public funds at the Aitutaki Hospital.

- 4.1.1 The Audit Office received a letter dated 24 May 2006 from the Director of F&A for MOH, Mr Adi Narayan, who alleged that a staff at the Aitutaki Hospital had misused public funds at the Aitutaki Hospital. The staff is Teremoana George, a pharmacy assistant.
- 4.1.2 Ms Teremoana George was the former Pharmacy Assistant but has now been transferred to a Nurse Aid at the Aitutaki Hospital. As a pharmacy assistant, she was responsible for collecting and receipting trading revenue from customers at the hospital. Trading revenue is mainly derived from medical consultation fees and medical drugs.
- 4.1.3 Ms Teremoana George was required to collect cash, receipt the funds and pass on the cash together with the receipts to the Administration Officer, Victor Ioane, who is located in a separate office at the Aitutaki Hospital. Unfortunately, Ms. Teremoana George did not provide all the cash received by her to the Administration Officer.
- 4.1.4 We held an interview with the Administration Officer, Victor Ioane at the Aitutaki Hospital. During the interview we confirmed with the Administration Officer that Ms Teremoana George had misused public funds over a period of time. We were advised that this issue had been previously discussed and addressed with Ms Teremoana George by the Administration Officer and the Medical Officer in charge of the Aitutaki Hospital, Dr. Koko Lwin.
- 4.1.5 We also held an interview with Ms Teremoana George to inquire and discuss the claims against her. She admitted and confirmed to us that she had used public money received from customers for medical consultation fees and medical drugs.
- 4.1.6 Ms Teremoana George advised us that the money was used to buy food and other household items as she did not have much money since she had to pay her personal loan and her dad's loan with her small salary. She was receiving a sum of \$285.00 a fortnight and had to pay \$150.00 for her dad's loan and \$50.00 for her personal loan.

4.2 Responsibilities of Ms Teremoana George

- 4.2.1 Teremoana George was appointed as Pharmacist Assistant with the Aitutaki Hospital. As a pharmacist assistant, she was responsible for collecting and receipting inpatient, outpatient and clinical consultation fees received from customers at the hospital.
- 4.2.2 All fees are received and receipted at the front office of the hospital by the pharmacist assistant but are sometimes receipted by the Nurses. The pharmacist assistant was instructed to carry out procedures of all hospital money received that she must transfer to the Health Administration Office that is located adjacent from the front office. She was required to transfer the money to the administration officer every Monday mornings for weekend takings and at the end of each working day during the week.

4.3 Total public funds misused by the Pharmacy Assistant, Ms Teremoana George.

- 4.3.1 The interview with the Administration Officer and the review of documents confirmed and revealed that Ms Teremoana has been misusing public money over a period of time since 2004. We confirmed that she misused a total sum of **\$2,466.00** for the period June to December 2004.
- 4.3.2 In 2005, she misused a total sum of **\$2,583.00** for the period June to August 2005.
- 4.3.3 In 2006, she misused a total sum of **\$1,259.00** for the period January to April 2006.
- 4.3.4 In total, Teremoana George had misused a sum of **\$6,308.00** of public funds over a period of three years. The misuse of public funds was identified when Teremoana George failed to transfer to the administration officer the receipts and money received from customers as she was responsible for writing the receipts and receiving money from customers.

4.4 Payments received in full by the Aitutaki Hospital from Teremoana George.

- 4.4.1 As of the date of this report, Audit has confirmed with the Medical Officer in charge of the hospital, Dr. Koko and the administration officer, Ioane Victor that Teremoana George had repaid in full all public funds used by her. She was assisted by her dad who is also an employee of the Aitutaki Hospital.

4.5 Actions and Measures taken by the Aitutaki Hospital and the MOH in Rarotonga to address this issue.

- 4.5.1 The Administration Officer at the Aitutaki hospital, Victor Ioane took the appropriate steps by reporting this matter to Dr. Koko, Medical Officer in charge of the Aitutaki Hospital when he initially identified in 2004 that Teremoana George was misusing public funds.
- 4.5.2 The Administration Officer verbally advised Dr. Koko that Teremoana George was misusing public funds. Both Victor Ioane and Dr. Koko met with Teremoana George in December 2004 to discuss this matter. She admitted to using those funds for her personal use. She was advised by Dr. Koko to repay those funds and to stop using

public money for her personal use. She agreed to repay the money and to refrain from using public funds.

- 4.5.3 In August 2005, Victor Ioane found that Teremoana George was using public funds again for her personal use. Victor Ioane informed Dr. Koko about this incident in August 2005 and wrote a letter to Dr. Koko on the 1 September 2005 regarding this matter.
- 4.5.4 Dr. Koko sent an email dated 2 September 2005 to the Secretary of Health, Vaine Teokotai, Dr. Roro Daniel and the Director of F&A, Adi Narayan advising them of this matter.
- 4.5.5 On the 6 September 2005, the Secretary of MOH, Vaine Teokotai sent an email to Dr. Koko advising him that Teremoana George is not to handle the money anymore. He further instructed for Victor Ioane to collect the money and balance the receipt book on a daily basis.
- 4.5.6 Unfortunately, Teremoana George continued to receive and receipt money from customers up until April 2006. In April 2006, Teremoana George was found to be misusing funds again.
- 4.5.7 According to the Director of F&A, Adi Narayan, on or around about the 8 May 2006, Dr. Koko informed Dr. Roro Daniel, General Manager MOH who was in Aitutaki at the time about the repeatedly misuse of public funds by Teremoana George. Dr. Daniel at the time made the decision to terminate the staff concerned, and informed the Secretary of MOH. The Secretary of MOH asked Dr. Daniel to hold on his decision as he was going to fly to Aitutaki the next day to address this issue.
- 4.5.8 The former Secretary of MOH flew to Aitutaki on the 11 May 2006 and met with Dr. Koko, Dr. Daniel and the staff. Despite the three incidents of misappropriation the former Secretary of MOH decided not to terminate the staff or report the matter to Audit and Police but instead transferred Teremoana George to the Ward as a Nurse Aide.
- 4.5.9 The Director of F&A requested the Administration Officer and Medical Officer in Charge of the Aitutaki Hospital to provide a written report of the incidents.
- 4.5.10 The Administration Officer, Victor Ioane wrote a letter on the 22 May 2006 to the Director of F&A, Adi Narayan outlining his report of the incidents of misuse of public funds by Teremoana George.
- 4.5.11 The Director of F&A sought legal advice from Crown Law regarding these matters who have advised that the matter be reported to the Audit Office immediately.
- 4.5.12 The Director of F&A wrote a letter dated 24 May 2006 to the Audit Office outlining the incidents and requested that the Audit Office conducts a review into this matter.
- 4.5.13 It is Audit's view that the Administration Officer and the Medical Officer in Charge of the Aitutaki Hospital took the appropriate steps in reporting this matter to their superiors at the Head Office in Rarotonga. It is also Audit's view that the Director of

F&A took the appropriate steps in obtaining legal advice from Crown Law Office and reporting this matter to the Audit Office.

- 4.5.14 However, of concern is the fact that the Administration Officer did not take over the handling of money as instructed by the Secretary of MOH at that time, Vaine Teokotai in his email dated 16 September 2005. Had these instructions been followed, the continued misuse of public funds in April 2006 could have been avoided.
- 4.5.15 Audit is also concerned with the actions taken by the former Secretary of MOH in not reporting this matter to the Police Department and the Audit Office when this matter was reported to him in September 2005. The fact that Ms Teremoana George had repaid the money in full does not necessarily mean that this matter should not be reported to the appropriate authorities. It is prudent that any Head of Ministry report incidents of this nature to the appropriate authorities even if payments have been received in full by those misusing public funds.

4.6 Teremoana George transferred from Pharmacist Assistant to Nurse Aide.

- 4.6.1 At a meeting held in May 2006 between the former Secretary of MOH, Vaine Teokotai, General Manager of MOH, Dr. Daniel and the Medical Officer in charge of the Aitutaki Hospital, Dr. Koko, they decided that Teremoana George be transferred from a Pharmacist Assistant to a Nurse Aide in the wards. The decision to transfer Teremoana George to a Nurse Aide was made on the basis that she will no longer be involved in the collection and receipting of money.
- 4.6.2 We note that the responsibility of collecting and receipting cash at the front office have now been passed on to the Nurses at the Wards. Audit is concerned over the current practice where the Nurses are made responsible for collecting and receipting the cash as Teremoana George will eventually be involved in this process given that she is now a Nurse Aide. Also, other Nurse Aides have not had any training in cash handling procedures.
- 4.6.3 It is Audit's view that the Administration Officer should take over the responsibility of collecting and receipting money from customers. This will ensure that all funds are properly collected, receipted and deposited into the MOH bank account. Although the Administration Officer is located in a separate office from the front office where clinical fees are currently collected and receipted, this process can be administered at the administration office adjacent to the Hospital.

4.7 Breaches to the MFEM Act 1995-96

- 4.7.1 Pursuant to section 64, subsection (2) d of the MFEM Act 1995-96, "Every person commits an offence against this Act who does any act for the purpose of procuring for that person or organisation – the improper payment of any public money or trust money; or the improper use of any public resource."
- 4.7.2 Audit is of the view that Ms. Teremoana George breached section 64 (2) d of the MFEM Act 1995-96 by misusing public money for her own personal use and benefit.

- 4.7.3 Pursuant to section 66, subsection 2 (a) of the MFEM Act 1995-96, “Every person who commits an offence against subsection (2) of section 64 of this Act, is liable on conviction (a) in the case of an individual, to a fine not exceeding \$3,000.”

5.0 AUDIT RECOMMENDATIONS

The recommendations are address to the Administration Officer at the Aitutaki Hospital, Secretary of Health, Solicitor General and the Public Service Commissioner.

The Administration Officer at the Aitutaki Hospital should:

- 5.1 At all times formally report to the Medical Officer in Charge of the Aitutaki Hospital and the Secretary of Health any persons who are found to be misusing public funds.
- 5.2 Discuss with the Medical Officer in Charge of the Aitutaki Hospital and the Secretary of Health on an appropriate procedure regarding the collection, receipting and banking of public money received at the Aitutaki Hospital. The Aitutaki Hospital must decide as to whether the Administration Officer is solely responsible for the management and collection of public funds at the hospital or whether the Nurses will be partly responsible for this process. It is our view and preference that the Administration Officer is made responsible for collecting and receipting public money and not the Nurses, as the Nurses have not been trained to handle cash.

The Secretary of Health should:

- 5.3 Immediately implement proper and appropriate disciplinary measures where an employee is alleged or found to have misused public funds.
- 5.4 Report any incidents or events of misuse of public funds to the Audit Office and Police when these matters are brought to his attention.
- 5.5 Issue clear instructions on receipting and banking procedures to all the staff employed at the Aitutaki Hospital.

The Solicitor General should:

- 5.6 Provide a legal opinion as to whether Ms Teremoana George breached section 64 of the MFEM Act 1995-96.
- 5.7 Assess the facts of this case and determine as to whether it is necessary to take further action against Ms Teremoana George taking into consideration the fact that she has repaid in full the amount misused by her.

The Public Service Commissioner should:

- 5.8 Ensure that all Heads of Ministries report to the Audit Office and the Financial Secretary any incidents of misuse of public funds and resources within their respective Ministry or Crown Agency.

6.0 AUDIT CONCLUSION

The audit review concludes that a sum of **\$6,308.00** of public funds was misused by the former Pharmacist Assistant, Ms Teremoana George over a period of three years. The sum of \$6,308.00 has been repaid in full to the Aitutaki Hospital by Teremoana George.

The summary of audit findings further concludes that although there were strong internal controls over the collection and receipting of public funds, there are still areas for improvement. It is prudent that the Administration Officer regularly checks and performs daily reconciliations of receipts and cash takings managed by the Nurses to minimize misappropriation of public funds. This process will ensure that funds are banked daily and that any discrepancies identified can be addressed immediately.

RESPONSE TO AUDIT REPORT

The Audit Report relating to the misuse of public funds at the Aitutaki Hospital by an employee of the Aitutaki Hospital was issued on the 3rd October 2006 to the following individuals for comment:

- Hon. Dr. Terepai Maoate, Deputy Prime Minister and Minister of PERCA
- Dr. Roro Daniel, Secretary of Health
- Janet Maki, Solicitor General
- Kevin Carr, Financial Secretary
- Navy Epati, Public Service Commissioner
- Charles Little, Chairman of PERC

Specific recommendations were addressed to the following:

- Ø Dr. Roro Daniel, Secretary of Health
- Ø Janet Maki, Solicitor General.
- Ø Navy Epati, Public Service Commissioner
- Ø Administration Officer at the Aitutaki Hospital

Attached is a copy of responses received by the Audit Office from:

- Dr. Roro Daniel, Secretary of Health dated 13th October 2006
- Tingika Elikana, Senior Crown Counsel, Crown Law dated October 17th 2006
- Charles Little, Chairman of PERC dated 30 November 2006

Audit notes that as at the date of this report no other response has been received by the Audit Office.