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October 09, 2008

The Board of Governors
University College of the Cayman Islands
Olympic Way
George Town
Grand Cayman

Dear Sirs,

Re: Management Letter on the audit of the University College of the Cayman Islands for the year ended 30 June 2007

I acknowledge receipt of your responses to our draft management letter arising from the audit of the 2007 financial statements.

I noted that there was no dispute as to the matters contained therein or suggestions for amendments to be made to the draft management letter. As such, please consider our draft report as our final report on the audit of the financial transactions for the year ending June 30, 2007.

We would like to take this opportunity also to thank the management and staff of the University College, especially those persons who have assisted our Office in conducting our audit.

Yours Sincerely,

Dan Duguay MBA, FCGA
Auditor General



Cayman Islands

Cayman Islands Audit Office
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George Town
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20 June, 2008

The Board of Governors

University College of the Cayman Islands
Olympic Way
George Town
Grand Cayman

Dear Sirs,

Re: Management Letter on the audit of the University College of the Cayman Islands for the year ended 30 June 2007

We have completed the audit of the University College's financial statements for the year ended 30 June 2007 and would like to draw your attention to weaknesses in the system of internal control or the implementation thereof, which came to our notice during this examination and to recommend ways in which the system may be improved.

We take this opportunity to remind you that the responsibility for establishing and maintaining controls adequate to safeguard the assets of the University College and to ensure that accounting records are accurate and reliable, rests with management and that our audit procedures are designed primarily with a view to expressing an opinion on the financial statements. This report deals only with the principal matters, which came to our attention during the course of our work and does not include all the possible improvements in internal control, which a special review might develop.

We encourage the University College to continue making improvements in their system, which will ensure that the figures reproduced are more accurate and reliable.

We shall be grateful if you will let us have your views upon the observations and recommendations contained in this letter, which we emphasize, deals only with those matters which have come to our attention as a result of carrying out tests which are aimed at enabling the Office to reach an opinion on the University College's accounts.

We shall be pleased to provide any further information or advice that may be of assistance to you and will continue to provide independent and unbiased information and assistance to management and the Board.

We would like to take this opportunity also to thank the management and staff of the University College, especially those persons who have assisted our Office in conducting our audit.

Yours truly,

Dan Duguay MBA, FCGA
Auditor General

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Management Comments

a. President's Comment:

b. Board of Governor's Comment:

[REDACTED]

[REDACTED]

[REDACTED]

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a President's Comment:

b Board of Governor's Comment:

3. Recruitment of [REDACTED]

3.1 Recruitment process

The post of [REDACTED] was filled on August 1, 2007; however, no evidence was seen that the post was publicly advertised.

This denies the recruitment system being perceived as open and fair to equally or more qualified and experienced candidates for the benefit the UCCI.

Management Comments

a President's Comment:

b Board of Governor's Comment:

3.2 Unusual Salary arrangements

The annual basic salary agreed for the post of [REDACTED] was CI\$55,932 plus incremental increases annually upon satisfactory completion of each year of service. A performance bonus of 20% is payable if the officer generates in excess of CI\$200,000 of gross revenue in the year.

No evidence of Board approval was seen for this contract which is a departure from the standard contracts issued by the UCCI. It is also a deviation from the accepted recommendations of the salary review committee where *academic staff* was allowed a profit sharing arrangement for consulting work done by them for the UCCI for industry clients.

This arrangement appears to have lacked sound business practice, as the parameters of the revenue generation were not clear, as well the logic of bonus based on revenue and not profit.

It should be noted also that the Board approved the recommendations for a “profit sharing” formula and not the ‘revenue sharing’ formula used in the contract.

Given the timing of this report, no bonus had accrued for this position, as one year of the contract has not yet elapsed.

Management Comments

a President’s Comment:

b Board of Governor’s Comment:

4. Recruitment of [REDACTED]

The post of [REDACTED] was filled on January 1, 2007 with an annual basic salary of CI\$65,000. The contract also had a revenue sharing element. If the income from this department exceeded CI\$150,000, the excess would be split 80:20 in favour of the college.

The Board had approved this provision in the salary review exercise, in November 2006 not specifically for the post of [REDACTED], but for all academic staff where work could be contracted to the UCCI and the staff compensated for the additional work as a means to augment income.

In March 2008, one year into the contract, the terms were revised. The holder of the post received a 31% increase to CI\$85,000 per annum retroactive to January 2008, still with the 20% provision for consulting work. No evidence of Board approval for this salary increase was seen. (*Appendix 10*)

It should again be noted that the Board approved the recommendation for a “profit sharing” formula and not the ‘revenue sharing’ formula used in the contract.

Management Comments

a President’s Comment:

b Board of Governor's Comment:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Management Comments

a President's Comment:

b Board of Governor's Comment:

6. Substantial cash withdrawn for Hurricane preparedness.

The threat of Hurricane Dean in August 2007 saw a flurry of activity as the UCCI sought to secure the assets and staff. The UCCI offered staff evacuation airfare and accommodation in the USA. Only 12 staff took up the offer, at a total cost of \$10,000 to the UCCI. This was not reimbursed. The audit office was presented with the hurricane disaster recovery plan which makes provisions for the evacuation of staff to Jamaica and Miami for three days (*Appendix 8*).

In addition, staff was offered salary advance to help with contingency expenses which may arise. To finance this, the UCCI withdrew \$100,000 cash. Twenty one (21) staff took up the

salary advance (which was recovered the following month), leaving approximately \$56,700 cash on hand during the threatened hurricane. The audit office could not confirm where the cash was kept during the hurricane.

After the threat was lifted, cleaning up expenses was incurred amounting to \$6,700 and the balance of \$50,000 deposited in the account on 22.08.07.

While it was responsible management to attempt to help staff during this period, such large sums of cash may have been at risk. Given that the UCCI has no insurance cover to recoup losses of this nature, a more structured approach needs to be followed should the threat of disaster looms again.

Management Comments

- a President's Comment:

- b Board of Governor's Comment:

7. Credit cards not approved by the Board of Directors.

Approval was granted by the Board of Directors on March 7, 2007 for the procurement and use of a credit card for the official use of the UCCI.

No evidence was seen from the Board minutes that the Board was informed that the UCCI already had a credit card with a USD\$20,000 limit

This credit card facility was in part inherited from the former President, whose corporate credit card was closed upon his departure, and replaced in favour of the incumbent.

Subsequent to the Board approval to procure a credit card, additional credit cards were obtained for all the executive staff of the UCCI. These credit cards were supplied by [REDACTED]

This appears to be in violation of the wishes of the Board, who approved one credit card for the UCCI's official use.

[REDACTED]

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Management Comments

a President’s Comment:

b Board of Governor’s Comment:

8. Cayman Brac Campus

The minutes of the Board of Governors indicated that they had serious reservations about the viability of the Cayman Brac Campus. In particular, that the lease was signed by the UCCI and therefore the obligation to honor the lease will be the UCCI’s burden to bear should the concerns about the financial viability is realized.

In addition, there was an absence of empirical evidence that such a project was viable and justified. The numbers presented at the Board meeting justifying the need for the Brac Campus were:

- 45 students to graduate from Cayman Brac High School
- 175 – 200 Civil servants who could benefit from the Civil Service College
- 175 students were pre-registered in the Brac
- 26 students indicated a willingness to join the Cayman Campus for the Spring Semester.

Currently, the Grand Cayman campus has approximately eight (8) students from Cayman Brac. These students are provided with accommodations at no cost to them, scholarships for tuition and books and a stipend of CI\$100 per week. All these are paid for by the Ministry of Education.

From reading the Board minutes it did not appear that the Board had made definitive positions on the Brac Campus, despite their reservations about its long term appeal. There was the absence of a resounding mandate to proceed with the Brac campus. This may raise questions about the intent of the Board on this matter.

No financial projections were presented to the Board for consideration; no evidence of empirical research was done to more accurately determine the level of demand, so as to properly evaluate the impact on the UCCI should actual demand does not equate to what was projected.

Lease agreement for Cayman Brac campus

The UCCI entered into a lease agreement for a property on Cayman Brac with [REDACTED] to be used for the UCCI campus. The lease is \$171,402 per year for three years and the gross area is 5830 square feet.

In light of the aforementioned, the audit office questions the reasons for the UCCI signing a three year lease in an environment where the demand for the facility is uncertain. The audit office is uncertain of the suitability of the size of the property for the intended purpose.

The Audit office was also unsure as to whether other options were considered prior to signing this lease agreement. Given the potential falloff in demand, a one year lease might have been more appropriate, or consideration given to utilizing other available suitable accommodations at a lower cost to the UCCI.

In light of this, the Audit office cannot conclude that this lease was fully in the best interest of the UCCI.

Management Comments

a President's Comment:

b Board of Governor's Comment:

c Ministry of Education:

[REDACTED]

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Management Comments

- a President's Comment:

- b Board of Governor's Comment:

- c Ministry of Education

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Management Comments

a. President's Comment:

b. Board of Governor's Comment:

11. Civil Service College

An undated agreement for the formulation of a Civil Service College between the UCCI and the Portfolio of Civil Service was reviewed to determine the parameters within which the Civil Service College would operate and the operational requirements and procedures covered.

11.1 Structure

The Civil service College would be owned by the Portfolio of Civil Service and administered jointly by a Director recruited by the UCCI, and the President of the UCCI. The faculty would be part of the Faculty of Public Administration of the UCCI.

11.2 Cost Involved

To be borne by UCCI

Particulars	Cost – C1\$
Recruitment and relocation of staff	85,000
Salaries and expenses (design development and delivery of courses)	150,000
Physical Training facility with capacity of 120 people	0
Fully functional Multi-Media Equipped Training rooms	0
Fully furnished facilities	0
ICT Resources for students including laptops Broadband services etc.	0
Food and Beverage facilities at the Training Centre	0
Availability of its other faculty and support staff on required basis	0
Total projected cost to UCCI – 2007/8	235,000

To be borne by Portfolio of the Civil Service

Particulars	Cost – C1\$
Salaries and expenses (design development and delivery of courses)	150,000

Initial assessment of the Civil Service: design delivery and administration of an assessment tool; assessment matrix; conduct assessment of the Civil Service	200,000- Payable upon delivery of assessment tool and succession planning model
Investment funds for development of the On – Line training resources	100,000 – Payable upon development and testing of online system by the UCCI
Total based on Agreement	450,000
Other costs for the CSC	348,368
Total projected cost to POCS – 2007/8	798,368

[REDACTED]

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It was also noted that the Bank in question honoured the transaction on 18.10.07. They should have been aware that the Public Management and Finance Law (2005 Revision) Financial regulations (2007 Revision) Part V section 20 (3) require all payments from an entity's bank account of \$10,000 or more to be signed by two signing officers. The bank should be reminded of this stipulation.

Management Comments

- a President's Comment:

- b Board of Governor's Comment:

- c Ministry of Education:

11.5 Payments to Lecturers for work at the Civil Service College

We noted payments to five lecturers at the UCCI for work done on behalf of the Civil Service College. The Audit Office was informed that the lecturers selected for the Civil Service College hold Ph.D.'s in Public Administration, and were used during the summer to do the ground work for the Civil Service College. The payments inclusive of bonus were as follows:

Lecturers	Position	Amounts Paid	Rationale
[REDACTED]	Lecturer seconded to Civil service college	10,000	Work on CSC Project
[REDACTED]	Former Lecturer	10,000	“
[REDACTED]	Lecturer	10,000	“
[REDACTED]	Lecturer	10,000	“
[REDACTED]	Lecturer	13,669	“
[REDACTED]		5,000	“
[REDACTED]	[REDACTED]	3,000	“

The audit office did not see any objective basis to determine the appropriateness of the amounts paid to the officers. Included in the amounts quoted above are bonus payments totaling \$23,000. (Appendix 14).

While the audit office concedes that work was done for the Civil Service College, the amounts paid appeared arbitrary. This office was also uncertain about the appropriateness of the bonus payment made to the staff.

11.6 Financial administration of the Civil Service College

There was no evidence from the documents examined that the financial administration affairs of the CSC bore any segregation of duties, apart from the drawing of cheques by the accountant.

The revenue for the CSC is via billings to the portfolio of the Civil service for agreed expenditure sharing. These are done by the President. He also determines who is employed and the salaries and other incentives payable to CSC staff, as well as his own

For transparency's sake, policy directives should remain with the President as joint chair of the CSC faculty and administration in accordance with the Agreement, but the day to day financial administration should be delegated. In addition, where payments are to be made to the President for work done for the Civil Service College, they should be reviewed and approved by the Portfolio of the Civil Service, or another appropriate authority. This will provide checks and balances in the administration of the CSC affairs.

Management Comments

a President's Comment:

b Board of Governor's Comment:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Management Comments

a President's Comment:

b Board of Governor's Comment:

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[REDACTED]



Management Comments

- a President's Comment:

- b Board of Governor's Comment:

14. Waiver of rent without evidence of Board approval

An agreement was seen between the UCCI and [REDACTED] Church for the use of the Multi Purpose Hall for religious services [REDACTED]. The agreement was effective December 1 2005. The fee was CI\$1000 per month. *(Appendix 16)*

A letter was seen on file dated May 2, 2007 from the Pastor of the Church thanking the President for waiving the fees due with effect from June 1 2007.

A check of the records revealed that rent was not paid by the church from June 1 2007.

There was no evidence that the Board approved this action. In addition to lost revenue of \$12,000 per annum, there are other costs such as utilities and maintenance which have to be borne by the UCCI at no cost to the users.

The UCCI recorded a loss of \$1.3M for the financial year under review, and is arguably not in a position to refuse revenue and incur further costs for activities that have no relation to the mandate of the UCCI.

Any waiver of fees due to the UCCI should have the approval of the Board prior to such action being done. In addition, the financial position of the UCCI should be assessed to determine whether such waivers are in the best interest of the UCCI.

The Board should take the necessary steps to address this situation, as well as formalise a policy that governs how such matters should be handled in the future.

Management Comments

a President's Comment:

b Board of Governor's Comment

15. Car Park and Landscaping Project

15.1 Overview

A project to extend the car park and to landscape the grounds of the UCCI began in the summer of 2006. No evidence was seen to indicate that a proper contract was executed for the project, preceded by a tender process to identify a contractor who offered the best deal as regards price, delivery and competence for the scope of works envisioned.

At the end of the project, 14 service providers and suppliers participated. These are summarised below:

	135,756
	62,230
	27,202
	38,215
Total	263,403

The breakdown of the project was:

Car Park	CIS
Aggregate	96,268
Equipment	62,230
Sub total	158,498
Landscaping	104,907
Total	263,405

The contractor of the project was [REDACTED]
[REDACTED] with the UCCI.

No evidence was seen that this company had the expertise to handle the project, and that a competitive process was involved in the selection of the contractor.

The cost of the work done indicated that this required to be submitted to the Central Tenders

committee for approval before the work was undertaken, in accordance with Section 40 (2) of the Public Management and Finance Law (Regulations) (2007 Revision).

In addition, there was no indication from the documents examined, that proper supervision existed, with adequate verification of the work performed (including quality considerations) before payments were made.

Consequently, CIAO cannot conclude that the UCCI got value for money or received the best price and quality for the job performed.

Management Comments

a President's Comment:

b Board of Governor's Comment:

15.2 Destruction of Car Park

After the commencement of the academic year 2006/7, it was decided to upgrade the parking lot as the initial project had not yielded the desired results. The parking lot only had aggregate spread and packed. Users of the UCCI facility were not using the car park due to the loose nature of the surface.

It was therefore decided to use asphalt to upgrade the surface. The company who was engaged to do the job indicated that they needed to remove the aggregate and prepare their own substructure for the parking lot. They proceeded to undo what was done a few months previously, in constructing the parking lot, at a cost of \$68,448.

Some of the aggregate taken from the lot was used to spread at the rear of the UCCI campus at an additional cost of \$1,500, and the rest stored in an unsecured location where the quantity appeared to have diminished over time.

This project was not handled with due care and as such resulted in the UCCI wasting resources estimated to be at least \$100,000. This estimate was based on the cost of the car park construction less the value of aggregate estimated to have remained on the premises.

The UCCI did not receive value for money spent. Steps should be taken to ensure that future projects are well planned and executed to minimize incidence of loss and ensure value for money.

Management Comments

a President's Comment:

b Board of Governor's Comment:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Management Comments

a President's Comment:

b Board of Governor's Comment:

17. Weakness in salary controls

The audit office observed a lack of segregation of duties between the HR and Accounting function, as well as inconsistent oversight over payroll review and approval.

The Accountant of the UCCI [REDACTED] is functionally the Human Resources Manager. Although changes to the salaries paid to staff are approved by the President, all other payroll related matters are handled exclusively by the Accountant.

There is a risk here that changes could be made to the payroll details that could escape the scrutiny of the President, who approves the payroll.

Control over the payroll function is limited to the approval of the payroll by the President each month. Evidence of his review and approval is via signature on the payroll spreadsheet.

It was noted that for the period August 2006 to March 2008, evidentiary support indicating that the payroll was reviewed and approved was not seen for 17 months.

This indicates that there is a breakdown or non-existent controls over the payroll function. This situation could lead to abuse, misappropriation or errors going undetected for protracted periods.

Management Comments

a President's Comment:

b Board of Governor's Comment:

Prior Year's Observations

18. Adequacy of insurance cover

It was noted that the insurance coverage in place at the UCCI for the 2006/7 year only covered the buildings. The other categories of fixed Assets were uninsured:

Asset	Cost	NBV (4)	Coverage
Furniture & Equipment	572,933	290,363	nil
Computers	473,632	261,644	nil
Library Books	403,827	78,187	nil
Total Cost	1,450,392	630,194	

The uninsured assets are exposed to the risk of loss should the Island face a major disaster. This may place additional strain on the UCCI and impair its ability to return to normalcy in a timely manner. It is also prudent to fully cover the assets of the entity given the disaster zone in which the Island is located

Management Comments

- a President's Comment:

- b Board of Governor's Comment:

19. Vesting of Assets

Land and buildings with a net book value of \$6,475,433 at the balance sheet date is still not vested in the name of the University College. This situation has prevailed despite our continued highlighting of this issue in the management letters for the past several years.

Efforts should continue to bring this matter to satisfactory closure.

Management Comments

- a President's Comment:

- b Board of Governor's Comment:

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