Ministry of Planning and Development
Office of the Permanent Secretary

Level 14 Eric Williams Finance Building
Independence Square, Port-of-Spain, Trinidad and Tobago, WI
Tel: 612-3000/ Fax 623-8123

PL&D: 6/12/3 Vol. III

February 25th, 2019

Ms. Jacqui Sampson-Meiguel
Clerk of the House
PARLIAMENT
Level G-9, Tower D
The Port of Spain International Waterfront Centre
1A Wrightson Road
PORT OF SPAIN

Dear Ms. Sampson-Meiguel,

Re: The Twenty-First Report of the Public Accounts Committee on the Examination of the Audited Financial Statements of the Chaguaramas Development Authority (CDA) for the financial years 2008 to 2014

Your letter dated December 19, 2018 on the above captioned subject refers.

Please find attached the Ministerial Response to the recommendations/comments of the Committee as contained in the Twenty-first Report of the Public Accounts Committee on the examination of the Audited Financial Statements of the Chaguaramas Development Authority (CDA) for the financial years 2008 to 2014.

Sincerely,

Joanne Deoraj

Permanent Secretary
Ministry of Planning and Development

PERMANENT SECRETARY
MINISTRY OF PLANNING
AND DEVELOPMENT

PL&D: 6/12/3 Vol. III

Ministerial response to recommendations/comments contained in The Twenty-First Report of the Public Accounts Committee on the Examination of the Audited Financial Statements of the Chaguaramas Development Authority (CDA) for the financial years 2008 to 2014

During the examination of the Audited Financial Statements of the CDA for the financial year 2008 to 2014, the following issues were identified and recommendations proposed:

1. Status of Outstanding Financial Statements

There was a lack of accountability to Parliament for the utilization of public funds by CDA, due to its failure to submit audited financial statements for scrutiny in accordance with the Exchequer and Audit Act's stipulated four (4) month period. The CDA contracted an external consultant to assist in the timely preparation and completion of all the outstanding financial statements and at the time of the public hearing, the audited financial statements for 2015 were in the process of being reviewed by Management. Officials from the CDA expected the 2015 financial statements to be completed by October 2018 and anticipated that the financial statements for 2016 and 2017 would be completed six months thereafter of each period. Essentially, the CDA expected that within eighteen months, the financial statements would be up to date. In preparation of the 2015 financial statement audit, officials from the CDA indicated that they would address all the shortcomings identified by the Auditor General in 2008 – 2014 reports by making adjusting where necessary so issues don't reoccur.

Recommendations:

- The CDA should strengthen its internal accounting controls and processes to ensure the timely preparation and submission of Financial Statements to the Auditor General's Department (AGD) by the statutory deadline of January 31 in each year;
- The CDA should include the timely submission of financial statements for auditing as a performance standards for the officer responsible for the preparation of financial statements; and

- The CDA should submit a report to the Parliament on the initiatives undertaken to address the weakness in the financial reporting system by February 28, 2019.

Response:

The CDA has indeed taken such steps to strengthen its accounting controls and processes. The approach is one that entails dealing with the backlog of outstanding accounts as well as ensuring that current periods are being adequately recorded and reported upon.

Regarding the overdue accounts, the draft financial statements for the year ended 30 September 2015 are being reviewed by the CDA's Finance and Audit Committee. The accounts for the year ended 30 September 2016 are at present being prepared. It is expected that the draft financial statements would be ready for review by 30 April 2019.

The Finance Department is being strengthened with a streamlining of duties and responsibilities. Moving forward, by the end of 2019 the CDA will have a fully functioning Finance Department with all accounts being up to date. This would ensure that both the Board and Management of the CDA are provided with timely reports.

The CDA will prepare and submit a report to Parliament on the initiatives taken to address the weakness in the financial reporting system by February 28, 2019.

2. CDA's Outstanding Debt Situation

The CDA's total debt was an estimated $109,007,607.35. Officials from the CDA stated that some of its debt was amounts payable to service providers, some of which have not been paid since 2013. Of the total debt owed, approximately $16million was attributed to litigation matters that were filed against the CDA from contractors and service providers. The $16million constituted the approximate cost associated for the damages incurred in those matters. Also mentioned was that most of the debt was actually arrears of debt owed to CDA's own employees which also included pension arrears. Due to CDA's large debt, a special team was formed with the responsibility for conducting an intensive collection drive to recover the debts outstanding from lease tenants in an attempt to acquire funds to pay creditors. To ensure that the CDA's creditors received what was due to them, the Authority began negotiating payment plans with all its contractors. The measures that were instituted to ensure the debt collection drive for rent was effective included:

a) A rental status report was updated on a regular basis (2 to 3 times per week) by the Finance and Audit Department.
b) The rental status report was submitted to the Senior Compliance Officer, who is the lead in rental collection, for an assessment of payments received.
c) Most tenants were required to pay rent at the beginning of the month. Thus tenants whose rent remained outstanding after the due date were contacted by the Senior Compliance Officer to request urgent payment.
d) After, demand letters were issued to errant tenants, a strict tracking of payment of rent with respect to those tenants was conducted by the Compliance Department and a report was submitted.
e) Should the tenant not comply, at all, with the demand letter, a recommendation was submitted to the Board to seek approval to proceed to either re-enter the premises, forfeit the lease or to commence action in the Court to recover the arrears. Such recommendation was made no later than two (2) months if the tenant shows no indication of making good on rental arrears.

Recommendations:

- CDA should submit a report to the Parliament on the CDA's plans to reduce its total outstanding debt and the amount expected to be paid off as a result by February 28, 2019; and
- CDA should submit a report to Parliament on the outcome of the initiatives for the collection of outstanding rent.

Response:

Both the Board and Management have recognised that in order to deal effectively with the settlement of this huge debt requires a rigid and disciplined approach. This will involve strategies to increase revenues as well as strict and rigid controls on expenditure.

The CDA as requested will prepare and submit a report to Parliament on the plans to reduce the levels of debt and the amounts expected to be paid by February 28, 2019. The CDA shall also submit a report on the outcome of the initiatives for the collection of outstanding rent by February 28, 2019.

3. Cost Reduction Initiatives

While the CDA is capable of generating its revenue to some extent in relation to its ability to meet its operational costs, when particular debt payments are due, fulfilling the Authority's operational costs becomes a challenge. Officials from the CDA noted that while there was an overdraft facility, over the last year, it was underutilised because the CDA was able to meet its operational cost for the most part. With the CDA being obligated to pay off its debt, cost reduction reviews were initiated. In submissions to the Committee, the reviews revealed wastages and overspending in various areas. As a result, the Board sought immediate reductions and instructed that expenditure be cut throughout the organisation. These cost reduction initiatives contributed to:

i. Salaries and Salary Related Costs seeing a 15% reduction.
ii. Costs for Consultancy and Contract Services being reduced by 76%.
iii. Overtime costs reduced by 82%.
iv. Maintenance expenses being reduced by 91%.
v. Public relations cost reduced by 100%.
vi. Legal fees were reduced by 86%.
vii. Sanitation and disposal costs reduced by 23%.

A review of all utility related operational costs was also conducted and this resulted in savings for the organisation with TTEC, TSTT and Insurance Companies. From these reviews, CDA discovered that they were being billed for services that were underutilized or in some cases, no longer required. An audit with WASA was also near completion and discussions were held with Columbus Communications (Flow) to further reduce the CDA's overall cost. Also noted in the submissions was that the outright purchase of rental vehicles resulted in a one (1) million cost saving. Finally, CDA indicated that all employees were encouraged to help reduce operating expenditure by turning off all electronic devices (lights, computers and air conditioning units) at the end of each work day and by reducing the printing, photocopying and personal calls.

Endorsement:

- The Committee endorses the cost reduction initiatives implemented by the CDA.

Recommendations:

- The CDA should treat cost reduction/avoidance as an ongoing exercise to reduce the likelihood of backpedalling;
- The CDA should focus on the necessity of the expense by drawing an explicit connection to its organisational strategy. This should ensure that long-term value creation isn't damaged; and
- The CDA should also analyse the major categories of expenditure and develop targets based on regional benchmarks. This should give an idea on how aggressive the cost reduction should be.

Response:

The recommendations of the PAC have been noted and the CDA will continue to implement stringent cost reduction measures.

4. Achieving Financial Self-Sufficiency

Amongst the series of measures and targets set out in the CDA's Strategic Plan, achieving financial self-sufficiency was one of the major areas of focus. To increase the CDA's chances of financial self-sufficiency, the CDA began implementing strategic projects geared towards:

a) Increasing Revenue from Existing Business;

b) Improving Financial Performance; and

c) Reducing Operating Costs.

With the implementation of these initiatives, the CDA's target goal was to increase revenue from \$33M to \$37M by the fourth quarter of the financial year 2019-20 whilst also reducing operating costs by 40% by 2020. Since the initiation of the action plans to achieve the aforementioned goals of the organization, CDA indicated that notable improvements in achieving financial self-sufficiency were observed when comparatives were drawn against preceding periods.

Recommendations:

- The CDA should actively pursue innovative strategies to expand its revenue stream to pay for the maintenance expenses, its day-to-day operations and capital projects;
- The CDA should actively engage stakeholders to expand its customer base in a cost effective manner; and
- The CDA should submit a report on the initiatives taken to ensure that total revenues sufficiently cover its total expenditure and provide a status update on the percentage increase of its revenue from the initiatives taken to expand its revenue stream to Parliament by February 28, 2019.

Response:

The recommendations of the PAC have been noted.

The CDA will submit a report to the Parliament by February 28, 2019 on all such initiatives.

5. Non-adherence to International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and the CDA Act

The Management Letters from the Auditor General identified numerous instances where there were non-adherence to IFRS, (IAS) and the CDA Act. For example, a motor vehicle which was involved in an accident in February 2014 remained non-operational to date. No impairment review has been done in accordance with IAS 36.9 which states: "At the end of each reporting period, an entity is required to assess whether there is any indication that an asset may be impaired (i.e. its carrying amount may be higher than its recoverable amount)..." Also, it was observed that there were instances where the Act was not adhered to such as Section 10 of the Act states that "The Authority shall within a period of three years of its establishment, by rules confirmed by the Minister, provide for the establishment and maintenance of a Pension Scheme for the benefit of the officers and employees of the Authority and officers transferred to it or transferred on secondment." The AGD indicated that a Pension Scheme was not established during the period audited. Officials from the CDA also indicated that inaccuracies noted in the financial statements were as a result of errors made by accounting personnel employed with the organization at the time.

However steps were taken to address accounting deficiencies identified in the financial statements, such as:

- Reviewing the financial policies and procedures manual; and
- Implementing internal controls that ensured the adherence to all the international accounting standards. The CDA assured the Committee that all deficiencies would be addressed and control mechanisms updated within the next six months (December 2018).

Recommendations:

- The CDA also implement a standards checklist to its financial statement reporting process to help reduce the possibility of errors and omissions; and
- The CDA should, by February 28, 2019, review the Accounting Department's financial reporting process to ensure that it complies with IFRS, IAS and the CDA Act.

Response:

The review of the financial reporting process is ongoing to ensure compliance with IFRS, IAS and the CDA Act.

The requirements of the CDA Act regarding the Pension Scheme were addressed in 2015 when a defined contributory Pension Scheme was set up to be administered by Sagicor.

6. Lack of Human Resources (HR) and High Employee Turnover in Certain Key Departments

Generally, human resources refers to the skilled and competent individuals who make up the workforce of an organization. The CDA has been plagued by insufficient human resources and high employee turnover no more so than in its Finance and Accounting Departments. Factors that may have contributed to the limited human resources identified by the CDA included:

i. Resignations;

ii. A lack of succession planning and cross functional team/teams. Employees were previously not mentored and or coached to move to the next higher position or become multi skilled in order to function in other areas; and

iii. A lack of training and development, employees lack the skills and learning to perform at the maximum.

The reasons for high employee turnover as expressed in the exit interviews conducted by the CDA revealed that:

i. Resources to conduct the job were not available;
ii. Dissatisfaction with avenues for conflict resolution;
iii. Persons lacked the (competencies) to carry out the functions; and
iv. Alternative job opportunities.

The CDA disclosed that following a review of its human resources, the HR department prepared a Competency Gap Analysis. Thereafter a Training Plan was developed from the analysis and training commenced. Subsequently, in March 2017, the Board approved the scheduling of Manpower Audit. The Consultant (Eastman and Associates Ltd) submitted its report in June 2017 and thereafter, the Board agreed in August 2017 to proceed with the implementation of the recommendations which is still in progress to date.

Recommendations:

- The CDA should review trends in staff turnover, setting out a plan on how the shortage of personnel will be addressed over the next three months and provide the Committee with a plan by February 28, 2019 on how it plans to improve staff retention;
- The CDA should develop a succession plan so that the Authority's departments and units will continue to run smoothly when experienced employees move on to new opportunities or retire; and
- The CDA should submit a status update on the filling of the vacant positions in the Finance and Accounting Departments to the Committee by February 28, 2019.

Response:

<u>Current Financial Position</u>

In 2015, the CDA inherited a debt of over One Hundred Million Dollars. The CDA has therefore not been able to give priority to investing in training and development of its human resource to meet its strategic demands. However, the CDA does take full advantage of all opportunities which become available through Ministries and Government Agencies for training at no cost.

The Human Resources Department encourages on the job training and job rotation in the Finance and Accounts Department to fill the operational gaps. This strategy commenced in February 2018. In addition, the CDA through the On-the-Job Training Programme ('OJT') of the Ministry of Labour and Small Enterprise Development recruited two trainees for the Finance and Accounting Department.

7. Absence of Internal Audit Function

From the Manpower Audit conducted by Eastman and Associated Ltd in 2017, no evidence of an Audit Plan was seen to show that operational audits or Electronic Data Processing audits were being conducted at the CDA. This led to many operational problems not being addressed, such as, low departmental efficiencies, non-utilization of software modules paid for by the Authority, and abuse of overtime. Officials from the CDA informed the Committee that there was no Internal Audit Unit at the Authority despite having one in place during the period under review (2008 to 2014). During the 2012/2013 audits, when the Auditors' concerns were divulged, the Ministry of Planning and Development (MPD) took note of this weakness at the Authority. To help alleviate the problems at the CDA, MPD provided its own internal audit services in an attempt to introduce better practices in accordance with the Exchequer and Audit Act. The hope was for the new practices to effect substantive changes in subsequent financial statements and accounts. While there was no dedicated Internal Audit Unit at the time, the MPD began implementing capacity building mechanisms at the CDA to help boost staff competency. Officials from the MPD indicated that this process would be repeated with the accounting unit at the CDA as a matter of urgency before the end of the year.

Recommendations:

- CDA should take urgent steps to establish a proper Internal Audit Department to oversee its accounting function by February 28, 2019;
- CDA should take urgent steps thereafter to implement an effective Internal Audit function;

- The Audit Committee of the Board should immediately increase its monitoring capacity over the internal controls and Internal Audit functions of the CDA;
- CDA should immediately develop a new internal audit policy which would clearly outline targets, goals and standards in order to improve the efficiency of the Internal Audit function; and
- CDA should urgently establish key performance indicators in order to measure the Authority's Internal Audit Performance.

Response:

The CDA accepts the recommendation of the PAC and the Finance and Audit Committee is actively considering measures to address these matters.

8. Status of Funds in US Dollar Account

The Auditor General's Department indicated that during its audit of the CDA, it was unable to acquire any source documents that related to a US dollar account opened in 2011/2012 at First Citizens Bank (FCB). Officials at the CDA indicated that the account was opened and funds were placed in the account as part of a lease arrangement where the tenant paid in US and was currently being investigated to find out where the funds from the account have since gone. Furthermore, it was stated that the account was opened with approximately US$1.45 million but had approximately US$763.82 as at June 6, 2018. In subsequent information submitted to the Committee, total withdrawals as at September 19, 2014 totalled US$644,317.21. Taking into consideration that the account was opened with US$1,449,830.41 and presently had US$ 763.82, there was approximately US$804,749.38 unaccounted for.

Recommendation:

- The CDA should submit a report to the Parliament on all the withdrawals from this account including the purpose of the withdrawals and the persons who authorised the withdrawals by February 28, 2019.

Response:

All available information will be submitted by February 28, 2019.

9. Valuation Exercise for Property Plant and Equipment

The last revaluation of the Authority's property, plant and equipment was conducted in 1991 which is twenty three (23) years prior to this reporting period under review which is in contravention of IAS 16. International Accounting Standards 16, Property, Plant and Equipment requires that: "Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period." As such, the figures in the 2008 to 2014 financial statements may not be the fair value of the Authority's property, plant and equipment. The Authority's Accounting Policies and Procedure Manual stipulates that an independent professional market valuation should be obtained before figures are reported in the in the end of year accounts. While a valuation exercise would allow the CDA's records and accounts to show a true and accurate reflection of the CDA's assets, the Authority doesn't have the sufficient finances readily available to conduct such an exercise. In the interim, CDA communicated in writing on August 28, 2018 to the Ministry of Finance - Valuation Division's requesting a meeting to discuss the way forward on the matter. However, the Commissioner of Valuations advised the CDA that due to the vast number of properties and items to be valued, the process would take at least six (6) months to complete. Officials from the CDA indicated that historically, when interest was received for a particular parcel of property under its remit, an independent valuation would be done for that parcel of property. The CDA's leasing policy dictates that rents be determined by property valuation.

Recommendations:

- In addition to the valuations of property by the Commissioner of Valuations, if resources allow it, every three (3) to five (5) years, the CDA should conduct a comprehensive physical fixed assets verification exercise of all the fixed assets it owns to be at least up to date in its valuations;
- During the year, spot-checks should be conducted on selected assets or classifications of assets, and any differences, promptly investigated; and
- The Ministry of Finance through its Valuation Division should prioritise the execution of the revaluation exercise at the CDA.

Response:

Meetings have been held with the Commissioner of Valuations with the aim of having the Valuation Division of the Ministry of Finance conduct a full valuation of the Chaguaramas Peninsula. The CDA is presently collating data by way of maps, valuations, deeds, etc to submit to the Commissioner of Valuations for commencement of the exercise. This it is anticipated will take at least six (6) months in light of the severe restrictions faced by the Valuation Division in terms of personnel.

This exercise is being given high priority status inclusive of fixed asset counts.

10. Low Lease Rental Payments

The CDA stated that with the completion of long outstanding rent reviews for nine (9) tenants during the period 2016-2017, rental income from those tenants increased by 66%. The CDA has approximately one hundred and fifteen (115) tenants. Of this total, some have been holding leases which expired some time ago while others have been on their properties by virtue of letters of offer which haven't produced any kind of benefit for the CDA. Officials from the CDA indicated that while some of its highest earning leases paid as much as $300,000 per month, some tenants were paying a nominal rent of $100. It was indicated that these nominal payments of $100 were from lease arrangements made thirty years ago which didn't allow for the undertaking of periodic rent reviews at the time of signing. The CDA's lease regularization process involved examining all leases to determine whether there was compliance with leases and whether the rental value may require adjustments.

Recommendations:

- The CDA should include a market rent review clause in all its subsequent lease agreements. This would allow for changes to the rent payable which would reflect the true market value of the property/premises under the CDA's remit; and
- The CDA should also seek legal advice on how to extract rental payments from those tenants who have expired leases and those operating on properties by virtue of letters of offer.

Response:

For expired leases and letters of offer, rent reviews are being done. Legal advice is sought where necessary.

Rent review clauses have been inserted in all new leases.

11. Establishment of an Internal Tourism Specific Unit

The CDA offers a wide array of services that can be either categorized as resort/leisure-centred services or commercial/ industrial services. Officials from the CDA indicated that while the organisation had different departments which covered all the activities on the peninsula, they were not separated into leisure or commercial services. It was further stated that due to the limited resources available to the CDA, it is unable to have a unit purely dedicated to the promotion and administration of resort/leisure-centred-type services. While having a Tourism specific unit was definitely needed, officials from the CDA proposed having partnerships with the Ministry of Tourism (MoT) where the Ministry could market the peninsula to international tourists by advertising the marinas, the National Park, the caves and Down the Islands.

Endorsement/Recommendation

- The Committee endorses the CDA's position on maintaining partnerships with the MoT with regards to rejuvenating, sustaining and marketing tourism activities in the Chaguaramas peninsula and requests the submission of a status report on this partnership by February 28, 2019.

Response:

<u>Partnership with Ministry of Tourism ('the Ministry')</u>

As an entity utilising a number of revenue generating facilities (including facilitating visitor tours to its many Mainland and Offshore Islands' tourist sites and attractions), the CDA works in close collaboration with tour and adventure operators to facilitate such expeditions.

It is in this context that the CDA has been seeking the ongoing assistance of the Ministry towards attaining a deeper market penetration regionally and internationally as it seeks to bring to Chaguaramas' borders more foreign tourists and, by extension, more foreign exchange.

To date, the major accomplishment made of the partnership has been:

i. The assistance rendered by the Ministry in 2017 towards the refurbishment of CDA's Gasparee Caves. Such support played a pivotal role in ensuring that CDA's major tourist attraction was brought up to the required international standards for the enjoyment of all visitors to the Chaguaramas Peninsula.
ii. CDA's inclusion in the Ministry's "Stay To Get Away" Campaign. Since then the CDA continues to co-operate with the Ministry in the marketing of CDA's Tourist Sites and Attractions as well as special events.
iii. The presentation of a complete CDA Business dossier to the Ministry for presentation at the Florida Caribbean Cruise Association (FCCA) Conference and Trade Show held in Puerto Rico from November 5 to 9, 2018.
iv. CDA's continued participation in the Ministry's networking events to bring further business into the Authority.

Further to the above, a CDA team of officials met with the Ministry's representatives on April 30th, 2018 at the Ministry's Head Office where a number of other initiatives were discussed including:

- The CDA's repositioning as a National Park;
- CDA's Tour Guides; and
- Capturing Cruise Ship passengers.

These initiatives continue to be in-train. Still outstanding, however, is a meeting with the Tourism Trinidad Limited (TTL) towards seeking further assistance with marketing and product development. The CDA would have written to the Ministry's Permanent Secretary seeking an audience with the TTL to discuss same, but this meeting, unfortunately, never took place since the TTL was not fully commissioned. A meeting has been requested with the recently appointed CEO of TTL.

12. Documents not Produced for Audit

The Authority was not able to locate all the documents requested by Auditor General but was able to provide some of the supports. Limitations in CDA's storage capabilities directly affected its ability to provide the required documents for audit examination. Specifically, documents were either misfiled or misplaced. Currently, the CDA is guided by the following policies in relation to the filing and placement of supporting documents:

i. Records Management Policy.
ii. Records Retention and Deposition Policy.
iii. Records Management procedure.

The CDA disclosed that in order to reduce those errors, it will conduct a Document Management exercise to review and revise its existing record keeping policies as well as its Accounting Policies and Procedures Manual. The aim is to implement systems that will allow for the proper filing, storage and retrieval of supporting documents both physically and electronically.

Recommendations:

- The CDA should ensure that in future, all transactions be supported by reliable and relevant documentation to provide indisputable evidence of agreements between Contractors, serviced providers, tenants and the Authority; and
- The CDA should take urgent steps to ensure that a computerized document management system for storage and a filing system is implemented in a timely manner and provide a status update on the initiatives taken to ensure that such a system is implemented by February 28, 2019.

Response:

The implementation of a computerized document management system for storage is ongoing as we are presently reviewing different options.

13. Inability to Recover Rental Arrears from all State Tenants

Since the CDA's implementation of its collection drive, the Authority was able to collect on average 96% of the current rental income monthly from state tenants. Efforts to collect rental arrears from these tenants included writing the tenants and their respective Permanent Secretaries. The total sum owed by state tenants as at July 13, 2018 amounted to $12,332,103.00. The CDA disclosed that some of the reasons for the non-recovery of rental income from state tenants included:

i. Dispute of the amount of rent owed (Reconciliation ongoing).
ii. Age of debt (possibly statute barred).
iii. Tenant no longer occupies the property (transferred to Legal).
iv. Tenant no longer exists (Legal to advise and Board to approve write-offs).
v. Failed promises to pay.
vi. Tenants complain that they have an inability to pay because of their own financial constraints.
vii. Policy to not commence legal action against another state entity for recovery of rental arrears.

Recommendation:

- The CDA should continue its efforts to collect outstanding funds, including accounts receivables and rental incomes, from all its state tenants.

Response:

The CDA has been continuing in its efforts to collect outstanding rents from state tenants.