



REPORT OF THE AUDITOR GENERAL

ON

**A REVIEW OF THE OLD AGE
PENSION PROGRAMME
IN GUYANA**

A Performance/ Value for Money Audit

PERFORMANCE/VALUE-FOR-MONEY AUDIT

A Review of the Old Age Pension Programme in Guyana





The Auditor General is the Head of the Supreme Audit Institution of Guyana. He is the external auditor of the Public Accounts of Guyana, and is responsible for conducting Financial, Compliance, Performance/Value-for-Money and Forensic Audits with respect to the Consolidated Financial Statements, the accounts of all budget agencies, local government bodies, all bodies and entities in which the State has a controlling interest, and the accounts of all projects funded by way of loans or grants by any foreign state or organization.

In conducting Performance/Value-for-Money Audits, the Auditor General examines the extent to which a public entity is applying its resources and carrying out its activities economically, efficiently and effectively with due regard to effective internal management control.

This Performance Audit was conducted in accordance with the Audit Act 2004. We followed the Code of Ethics, Standards and Guidelines for Performance Auditing of the International Organization of Supreme Audit Institutions (INTOSAI), of which the Audit Office of Guyana is a member.

For further information about the Audit Office of Guyana please contact:

Address: **Audit Office of Guyana,**
 63 High Street,
 Kingston, Georgetown.

Telephone: **(592) 225-7592**

Fax: **(592) 226-7257**

Website: **<http://www.audit.org.gy>**

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ACRONYMS

ACPO	-	Assistant Chief Probation Officer
CPO	-	Chief Probation Officer
DPD	-	Data Processing Department
DPO	-	Data Processing Operator
DSS	-	Director of Social Services
GPOC	-	Guyana Post Office Corporation
GRO	-	General Register Office
HBA	-	Head of Budget Agency
ISR	-	Internal Stores Requisition
MLHSSS	-	Ministry of Labour, Human Services & Social Security
MOF	-	Ministry of Finance
MOHA	-	Ministry of Home Affairs
OAP	-	Old Age Pension

EXECUTIVE SUMMARY

1. The Old Age Pension Programme in Guyana came into effect through the passing of the *Old Age Pension Act 1944*, which sets out the eligibility criteria for the payment of the Old Age Pension (OAP). The Act is administered by the Ministry of Labour, Human Services and Social Security (hereinafter refer to as the 'Ministry'). At 30 September 2009, there were 42,666 persons in receipt of pension payments totalling \$2.419 billion.

2. Our review of the Old Age Pension Programme in Guyana revealed the following weaknesses:

- a. The Ministry has adopted a policy with effect from 2005, whereby re-migrants must have resided in Guyana for 2 years prior to application for OAP. Consequently, all pensions paid to re-migrants based on the adopted policy are outside the scope of the Minister's legal authority.
- b. Although the Ministry has an undocumented internal policy, which requires applications for Georgetown and its environs, and hinterland areas be processed within 5 and 15 working days respectively, these targets are not being met. On average, it took 12 and 36 working days to process applications for Georgetown and its environs, and the hinterland areas respectively.
- c. In relation to the OAP Programme in the hinterland areas, irregularities may occur from payments made to ineligible, deceased or non-existent persons, as a result of the lack of verification of applicants and the manner in which payments are made in those areas.
- d. The General Register Office (GRO) of the Ministry of Home Affairs (MOHA) issues *Death Returns* to the Ministry every 90 days. These returns are entered into the database by the Ministry on average 41 days after receipt. Therefore, death return information was entered into the database between 42 to 131 days after a

pensioner's death. Furthermore, from a sample of death notifications throughout the years 2008 and 2009, the audit found that in some cases the database had not been updated at all. As a result, stickers will be produced by the OAP database for deceased persons, books may be issued for such persons and pension payments could be made to mediating parties or authorized persons beyond the date of death. This increases the risk of inappropriate pension payments.

- e. Physical access to the rooms at the Ministry where the server and workstations supporting the OAP database are located is not restricted. Although the Ministry has established backup procedures, there is no security software on the server.
- f. The contract with the printery regarding pension books had significant deficiencies and resulted in weaknesses over the security and control of pension books. The Ministry did not design, control nor have ownership of the software used for the printing of pension books. In addition, there were no measures in place to monitor the printing process and the quality of printed books. As a result of the lack of control over the software and printing process, there is a risk of fraud occurring.
- g. The serial numbers of pension books issued to pensioners were not entered into the Old Age Pension (OAP) database as a means of tracking the allocation of pension books and coupons to pensioners. In addition, information on pension payments processed by the Guyana Post Office Corporation (GPOC) was not entered into the database. As a result, the Ministry could not match payment information to pensioners recorded in the database to ensure that only eligible persons were in receipt of pension payments. Furthermore, without cost information entered into the database, the Ministry could not readily monitor pension programme costs.

A REVIEW OF THE OLD AGE PENSION PROGRAMME IN GUYANA

Introduction

1. A Review of the Old Age Pension Programme in Guyana was undertaken by the Audit Office for the period January 2008 to 30 September 2009. This programme is administered by the Ministry of Labour, Human Services and Social Security and dates back to 1944 when the *Old Age Pension Act* was enacted. It provides financial support and other benefits to Guyanese senior citizens based on the eligibility criteria, which qualifies them for receipt of a monthly pension.

2. In accordance with the Act, the following statutory conditions must be fulfilled to be a recipient of an old age pension:

- The person must have attained the age of sixty-five (65) years.
- The person must satisfy the appropriate authority that he/she has been a citizen of Guyana for at least ten (10) years immediately preceding his claim for a pension.
- The person must have been ordinarily resident in Guyana during twenty (20) years immediately preceding the claim for pension.
- The person must satisfy the appropriate authority that his monthly income as calculated under the Act does not exceed such amount as may, by order be prescribed by the Minister. (calculation of means)

Reasons for undertaking the Audit

3. The Audit Office of Guyana has undertaken this review to determine whether:
- the Old Age Pension Programme in Guyana was being administered in an efficient and effective manner;
 - old age pension was being paid in accordance with the law and made only to eligible persons;
 - the OAP database was accurate and complete; and
 - there were systems in place to monitor pension payments made by mediating parties on behalf of pensioners living in remote areas.

Audit Objectives

4. The audit reviewed the operations of the Old Age Pension Programme to determine whether:-
- a. old age pensions were paid to eligible persons;
 - b. the Ministry's old age pension database was accurate, complete and secure;
 - c. security and control measures were in place for the printing, storage and distribution of old age pension books; and
 - d. pension payments were accounted for and reconciled to the database.

Audit Criteria

5. Audit criteria are reasonable standards against which management practices, controls and reporting systems can be assessed. The audit criteria and their sources are presented in the "About the Audit" section of this report.

Old Age Pension Process

6. Applicants are required to uplift, complete and return application forms to the Ministry/Probation Officers, which are examined and verified with supporting documents. The applications that meet the statutory requirements are approved by the Director of Social Services (DSS) and subsequently entered into the OAP database from which issue sheets and stickers are generated. Pension books comprising of twelve coupons are then issued to pensioners who are required to sign or affix thumbprints to issue sheets and the inner covers upon receipt. To obtain their pensions, pensioners submit coupons to the various Post Offices where they are en-cashed. The flow chart at Fig. 1 outlines the OAP process.

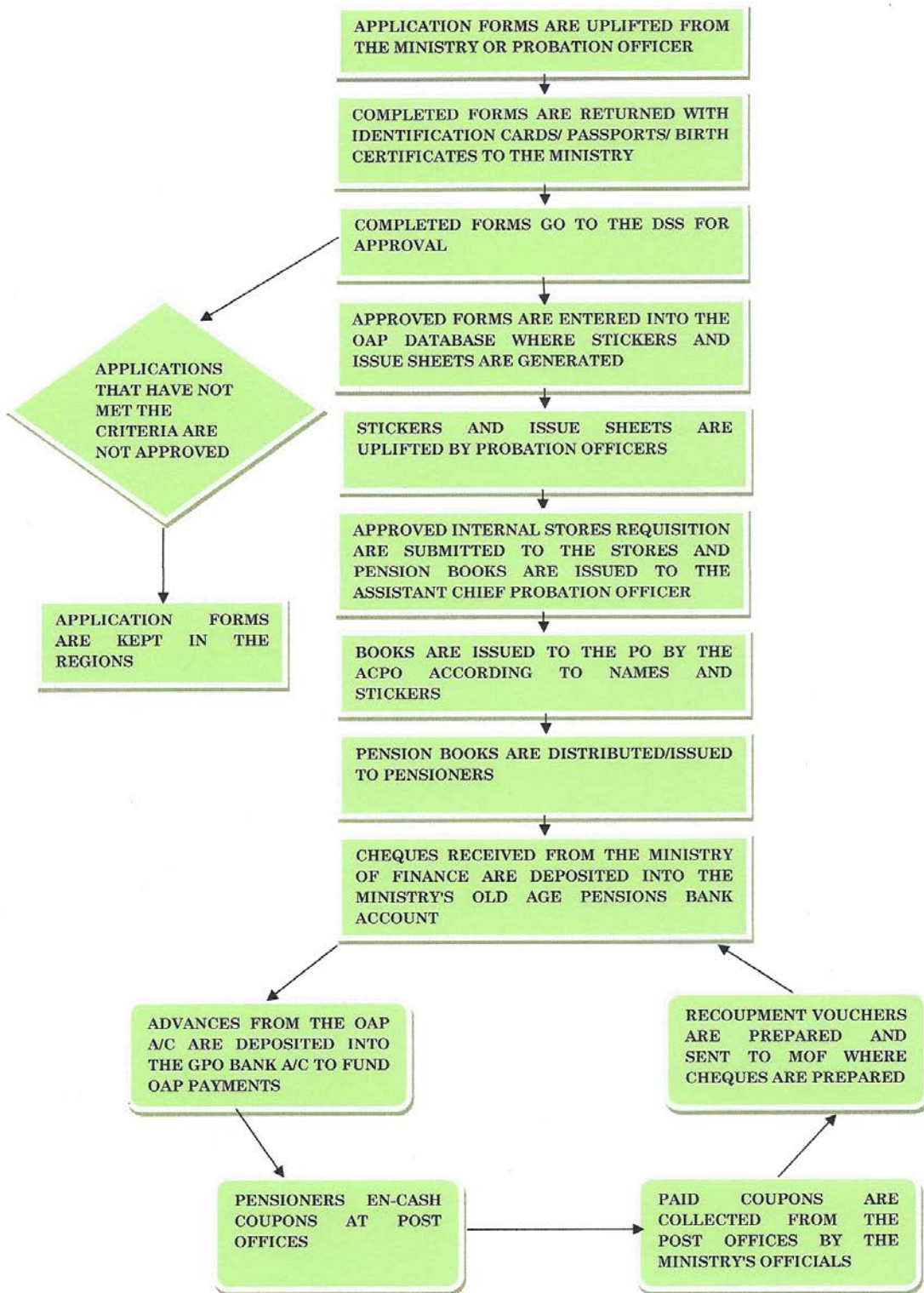


Fig.1- Flowchart showing OAP Process

Old Age Pension Book

7. Pension Books are issued to pensioners annually by the Ministry. These books have security features to verify their authenticity. Each book is serially numbered and comprises 12 colour coded coupons, as shown in Fig. 2. A sticker is attached to the inner cover of pension books and contains information of the pensioner, such as name, address, national identification number, a database number and date issued. Pensioners and Probation Officers are required to sign the inner cover of the pension books during the distribution process. This aids in the verification of payments when coupons are encashed.



Fig. 2 - Old Age Pension Book

Pension Population

8. As at 30 September 2009, there were 42,666 pensioners in the Ministry's database who may be entitled to a monthly pension of \$6,300, payable from the first working day of each month at Post Offices throughout the country. Monies are remitted to the GPOC

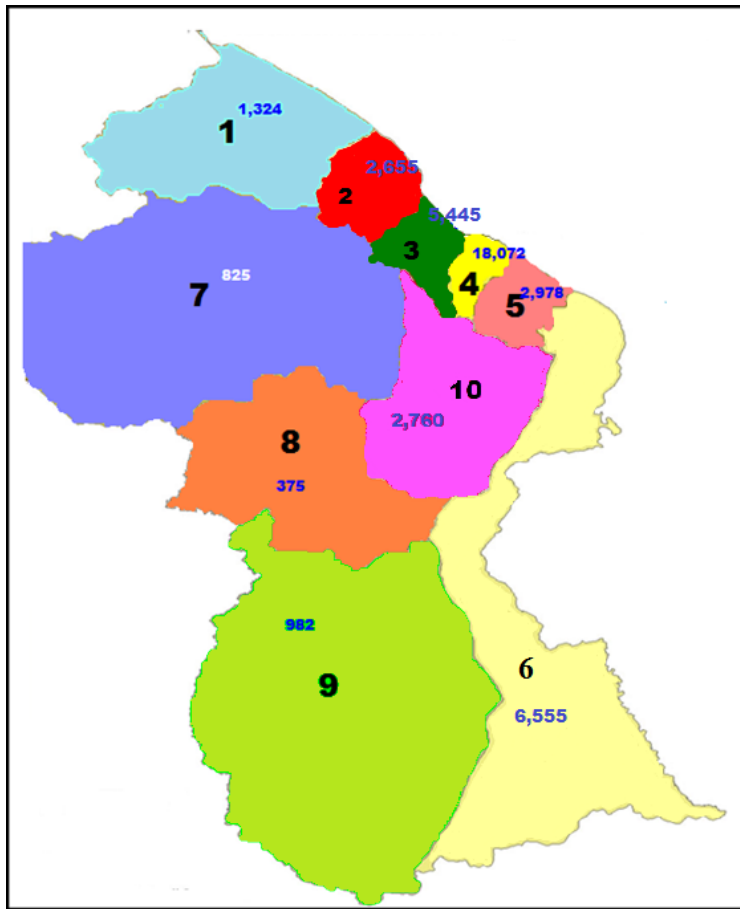
to effect payments to pensioners, and a fee of \$40 is paid by the Ministry to the GPOC for each coupon en-cashed by pensioners. Information on the number of pensioners, rates per month and total estimated expenditure for the last 7 fiscal years and for the period January to September 2009, is outlined in Table 1.

Year	No. of Pensioners	Rates per Month \$	Total Estimated Expenditure \$'000
2002	31,582	1,728	654,884
2003	34,485	1,820	753,152
2004	33,107	1,910	758,812
2005	33,492	2,005	805,818
2006	33,438	3,500	1,404,396
2007	36,813	3,675	1,623,453
2008	40,389	6,000	2,908,008
At Sept 2009	42,666	6,300	2,419,162

Source: Statistical Unit (MLHSSS)

Table1 - OAP Program Information for the period Jan. 2002 - Sept. 2009

9. The Ministry took action to sanitize its OAP database, thereby reducing the number of pensioners from 42,666 to 41,971 as at 31 December 2009, as shown in Fig 3. The difference of 695 represents deceased pensioners removed from the database.



Source: Management Information Systems Unit (MISU) MLHSSS.

Fig.3 - Pension Recipients by Region
As at 31 December 2009

KEY			
Administrative Regions			
1	Barima - Waini	1,324	
2	Pomeroon - Supenaam	2,655	
3	Essequibo Islands - West Demerara	5,445	
4	Demerara - Mahaica	18,072	
5	Mahaica - Berbice	2,978	
6	East Berbice Corentyne	6,555	
7	Cuyuni - Mazaruni	825	
8	Potaro - Siparuni	375	
9	Upper Takutu - Upper Essequibo	982	
10	Upper Demerara - Berbice	2,760	
Total			41,971

Key: Showing Pension Recipients by Region

Funding

10. The OAP is funded by an annual appropriation. Table 2, outlines the original budgets and expenditure for the years 2008 and 2009, relating to the Ministry's Social Services Programme, which includes OAP and Social Assistance costs.

Line Item	Description	Original Budget 2008 \$'000	Expenditure 2008 \$'000	Original Budget 2009 \$'000	Expenditure 2009 \$'000
6343	OAP and Social Assistance	3,549,000	3,548,912	4,031,154	3,705,608

Source: Estimates of the Public Sector, for the years, 2008, 2009 and 2010

Table 2 – Details of the Original and Revised Budgets for the Years 2008 and 2009

Government's Policy for the Elderly

11. The Government of Guyana seeks to promote the Social Welfare of the elderly through its policy of providing non-contributory financial assistance to the elderly and less fortunate so as to improve their standard of living.

The Ministry's Mission with regards to the Elderly

12. The Ministry seeks to provide psychological, social, financial and other material assistance as well as regulatory services to senior citizens, the infirm, the indigent and destitute to improve their status and complement their abilities to cope with the stress of living.

Report Structure

13. This report consists of the following chapters, which cover the Lines of Enquiry considered by this audit:

Chapter 1 Payment of Old Age Pensions.

Chapter 2 Accuracy, Completeness and Security of the Old Age Pension Database.

Chapter 3 Security and Control of Pension Books; and

Chapter 4 Reconciliation of Pension Payments to Database.

1 *Payment of Old Age Pensions*

Objective 1: *To determine whether Old Age Pensions were paid to eligible persons.*

Application Process

1.1 We expected applicants to meet the statutory requirements for Old Age Pension in accordance with the Act before their applications were approved.

1.2 The Old Age Pension Act 1944¹ sets out the eligibility criteria for the payment of OAP in Guyana as illustrated in Table 3.

Requirement of the Act	Criteria applied by the Ministry
Applicant must attain the age of 65	Same as the requirement of the Act.
The applicant must be a citizen of Guyana for ten (10) years prior to the application.	Same as the requirement of the Act.
Not mandated by the Act	From 2005, re-migrants must have resided in Guyana for two (2) years prior to application
Applicant must be resident in Guyana for twenty (20) years prior to application.	Same as the requirement of the Act.
The person must satisfy the appropriate authority that his monthly income as calculated under the Act does not exceed such amount as may, by order be prescribed by the Minister. (calculation of means)	The Ministry indicated that this criterion had not been applied since 1992.

Table 3 - Level of compliance with OAP Act

¹ OAP Act - Section 4 and 5, 1944

1.3 As illustrated in Table 3, the Ministry has adopted a policy whereby re-migrants must have resided in Guyana for two years prior to their application for OAP. This is contrary to Section 4(c) of the Act which requires applicants to have resided in Guyana for 20 years prior to their application. As such, all pensions paid to re-migrants based on a 2-year residency are outside the scope of the Minister's legal authority.

1.4 Application forms for OAP are examined and verified with national identification cards or passports or birth certificates by the Probation Officers in the various Regions. The verified forms are then submitted to the Ministry for approval and entered into the OAP database from which issue sheets and stickers are generated. Pensioners are required to sign or affix thumbprints to issue sheets and inner covers of their pension books upon receipt.

1.5 Pension application forms were not kept at the Ministry, they were returned to the respective Regions after processing. As part of this audit, 63 applications from a population of 2,277 were examined before they were returned to the Regions. There was evidence on file that applications were processed in accordance with the eligibility criteria now being used. However, from interviews with Ministry's officials we were informed that no eligibility checks were undertaken on application forms from 14 Villages in Region No. 8.

1.6 We expected the Ministry to have an internal policy for the processing of applications for the OAP payments and to have feedback mechanisms in place to identify processing delays.

1.7 We found that the Ministry had an undocumented internal policy for processing OAP which required applications to be processed within 5 and 15 working days for Georgetown and its environs, and hinterland areas respectively. Our review indicated that the Ministry did not meet its internal targets for the processing of OAP application. On average, it took 12 and 36 working days to process applications for Georgetown and its environs, and the hinterland areas respectively. As a result of the delays, pensioners' will lose their entitled benefits since pension payments are not backdated.

1.8 The Ministry did not analyze the steps involved in processing applications to ascertain the main reasons for the targets being missed and to identify areas where delays can be reduced.

Pension Payments

1.9 The OAP is funded by an annual appropriation through the Ministry under the Social Services Programme. As at 30 September 2009, there were 42,666 pensioners in the Ministry's database who may be entitled to a monthly pension of \$6,300, payable from the first working day of each month at Post Offices throughout the country. Monies were remitted to the GPOC to effect payments to the pensioners. In addition, the GPOC received a fee of \$40 for each pension coupon that was en-cashed.

1.10 On an annual basis, the Ministry provided the Post Offices as well as the Regional Democratic Councils with covering letters along with laminated specimens of OAP coupons, outlining the security features, to sensitize those involved in making pension payments.

1.11 We expected the staff at the Post Offices and Regional Democratic Councils to be able to identify recipients and/or mediating parties when making payments. Our review revealed that those involved in making payments were aware of the security features and conducted checks before making payments. In addition, pensioners, authorized parties and witnesses, endorsed coupons while national identification cards or passports were presented for verification.

1.12 It is a requirement, that the inner covers of the pension books must be signed or thumbprints affixed by pensioners at the time of distribution. Details from the pension coupons should be compared with the stickers and signature/thumbprint on the inner covers of pension books by Post Offices and staff of the Regional Democratic Councils. This is a control measure used to assist in the verification of pensioners' signature when payments are made.

1.13 We visited 4 Post Offices, one riverine area, and a home for the elderly, where we examined 113 pension books from a population size of 42,666. We found that 54 percent of the books did not have the required signature or thumbprint on the inner cover of the pension books. As such, the verification of the identity of recipients was not complete and increased the risk of ineligible persons receiving pension payments.

1.14 Authorized parties also en-cashed pension coupons for shut-in (immobile) pensioners. However, the Ministry was unable to provide a list of these pensioners for audit verification.

1.15 The Ministry should have systems in place to monitor pension payments made to mediating parties, and to verify the receipt of pensions by pensioners living in remote areas. We found that the Ministry entrusted Village Captains of 14 villages in Region No. 8 with monies on a quarterly basis to be paid to pensioners living in remote areas. The Captains were required to submit signed coupons, along with the identification cards of himself/herself and pensioners to Ministry's officials before uplifting monies. The Ministry did not have systems in place to verify that pensioners in these areas were in receipt of their pensions, since reliance was placed on the honesty and integrity of the Captains to distribute the correct amounts to pensioners.

1.16 Therefore, due to the lack of verification of applicants and the manner in which payments are made to pensioners in remote areas there is a risk of irregularities occurring since payments may be made for ineligible, deceased or non-existent persons.

Recommendations:

- i. *The Minister and the Head of Budget Agency of the Ministry of Labour, Human Services and Social Services should ensure that the eligibility criteria applied for the qualification and receipt of an old age pension complies with the OAP Act.*

- ii. *The Head of Budget Agency in collaboration with the Director of Social Services should ensure that targets set for the processing of Old Age Pension applications are met, so as to ensure that pensioners do not lose their benefits.*

- iii. *The Director of Social Services in collaboration with the Data Administrator should be able to identify shut-ins (immobile) from its population of pensioners to allow for an audit trail.*

- iv. *The Head of Budget Agency and the Director of Social Services should ensure that the inner covers of pension books are signed or thumbprints affixed by pensioners.*

- v. *The Head of Budget Agency in collaboration with the Director of Social Services should put systems in place to verify that pensioners in remote areas are in receipt of their Old Age Pension payments.*

2 Accuracy, Completeness and Security of the Old Age Pension Database

Objective 2: To determine whether the Ministry's Old Age Pension database was accurate, complete and secure.

2.1 The Ministry maintains a computerized database to record and update details of all eligible old age pensioners and to make projections for the printing of pension books for the following year. Issue sheets, stickers and monthly activity reports are generated as a form of control over the distribution of pension books. The Database Department is a restricted area and access to the database is gained by login passwords.

Accuracy and Completeness

2.2 Sequential Query Language (SQL), designed with the Microsoft Access software was used by the DPOs of the Ministry for inputting information to the OAP database. We expected the database to be updated promptly, as information was made available for OAP. We found that the:

- Database was not updated on a regular basis. In October 2009, information relating to new applicants had only been inputted to July 2009; and
- Information used for updating the database is obtained from (a) OAP application forms, which includes data such as pensioner's

name, gender, date of birth, home address, region, national identification/ passport number, telephone number and the date of the application; (b) change of address requests; and (c) death returns received quarterly from the GRO. In October 2009, death returns were received for the period January to September 2009. However, the database was only updated to July 2009.

2.3 As a result of the database not being updated in a timely manner, with information on new applicants and deceased pensioners, the current status of pensioners in receipt of the OAP was not readily available during the period of the review.

2.4 Issue sheets are used to record pension books issued to pensioners. These sheets contain information such as pension book number, name of pensioner, address, gender, date of birth, identification number, case ID and signature/thumbprint of pensioner. In addition, stickers were generated by the Ministry's database and were affixed to the inner cover of pension books as a form of control for the allocation of pension books. These contain the name of pensioner, address, case number, and identification number.

2.5 Although pension books are sequentially numbered, the numbers are not entered into the database as a means of tracking the allocation of books and accompanying coupons to pensioners. Therefore it was not possible to determine (a) whether the books were allocated to the right pensioners and (b) cases not closed as shown at Fig.4, and (c) whether coupons were en-cashed for deceased persons.

2.6 Sanitization of the database is important for data accuracy and completeness. We expected the database to be sanitized promptly, to

ensure that pension payments were made only to existing pensioners. We observed that the GRO issued death returns to the Ministry every 90 days. These were entered into the Ministry’s database on average 41 days after receipt. Therefore, death return information on pensioners was updated into the database between 42 to 131 days. In addition, GPOC was notified of the names of deceased pensioners in order to stop pension payments.

2.7 We conducted audit tests on a random sample of 50 names from a population of 541 deceased persons from the death returns produced by the GRO for the years 2008 and 2009, who were 65 years and above. We found that 50 percent had “*case closed*” affixed to their names in the database, indicating that these pensioners were deceased; while for 26 percent there was no indication whether these persons were deceased. However, in February 2010, it was noted that 6 names of deceased pensioners for the year 2008 remained on the Ministry’s database. The remaining 24 percent were not found, indicating that they were not claiming the OAP.

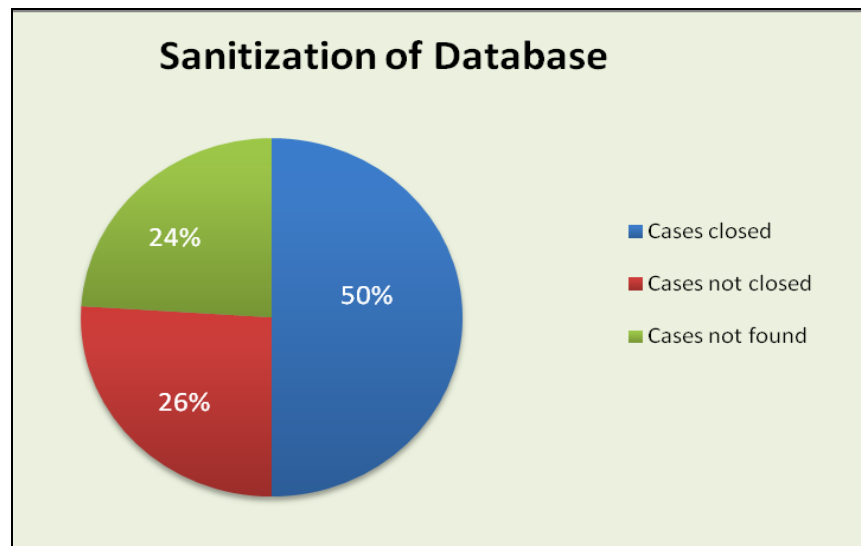


Fig. 4- Status of death notifications

2.8 As a consequence of the print run only being updated to July 2009, to remove deceased pensioners from the database, there is a risk that stickers may be produced and pension books issued for deceased persons. Due to late notification of deceased pensioners to the GPOC by the Ministry, pension payments could be made to mediating parties or authorized persons beyond the date of death. As a result of these weaknesses, the Ministry could not determine whether payments had been made for deceased persons.

2.9 We expected reports generated from the database to be reviewed by senior officers and properly stored. We found that DPOs generated and maintained issue sheets and stickers on a daily basis for new applicants, while reports were generated monthly. However, there was no evidence to support the review of monthly reports and issue sheets for the period reviewed. As a result of reviews not being conducted, errors in the system may go undetected.

Security of Database

2.10 One of the primary means of internal control within an organization is the separation of those duties, which would deter an individual to record and process a complete transaction. Segregation of duties reduces the risk of intentional manipulation and increases the element of checking. Functions, which should be separated include: authorization, execution, custody and inputting data. We expected controls to be in place for the segregation of duties to ensure that those responsible for entering data should not have the access to create, amend or delete standing data.

2.11 The DSS approved all OAP applications, which were checked by the Database Administrator, before they were distributed to the DPOs, for entry into the system. We observed that there was no segregation of duties among the authorized users, since the Data Administrator and 4 Data Processing Operators had access to create, amend or delete standing data. As a result, the lack of segregation of duties by authorized users increases the scope for manipulation.

2.12 The Ministry's database resides on a microcomputer network. We expected the location of the network to be a restricted area, with computer logs maintained. We found that physical access to the rooms at the Ministry where the server and workstations are located were not restricted. There were no signs indicating that only authorized personnel were allowed entry.

2.13 In an interview conducted with the Systems Analyst, it was indicated that this department was a restricted area and that only the Director of Social Services (DSS), four (4) Data Processing Officers (DPOs), the Systems Analyst, the Database Administrator and Probation Officers were authorized to have access. Except for the DSS and Probation Officers, these officers have usernames and login passwords in order to gain access to the database. Computer logs were also maintained to record log dates, user names and codes.

2.14 However, during our visits we observed unauthorized personnel entering the Department without challenge, and spending as long as ten minutes, even though the area was considered restricted. As a result, unauthorized individuals could have accessed the database.

2.15 We expected the database to have backup storage on and off-site. We found that the Ministry used a Universal Serial Bus (USB) flash drive and two external hard disk drives, to store a back up copy of its database off-site by 3 senior officers. The use of external hard disk drives stored offsite along with the frequency of the backups was adequate. However, although the Ministry had established backup procedures in place, there was no security software on the server and workstations to detect viruses that could be transmitted by the use of USB flash drives.

2.16 Additionally, the DPO used the Relational Database Management System (MS SQL 2000), which maintained transaction log files that are used to return the database to a consistent state in event of system failure or incomplete transactions. The database also has an auto file recovery system in place to safeguard the database from loss or damage.

- Recommendations:*
- i. *The Database Administrator should ensure that the database is promptly updated to allow for accuracy and completeness of the Ministry's pension population.*
 - ii. *The Director of Social Services should restrict access to the Database Processing Department to authorized personnel only.*
 - iii. *The Head of Budget Agency and Director of Social Services should review the access of users so as to reduce the risk of fraud or misuse.*
 - iv. *The Director of Social Services in collaboration with the Database Administrator should establish a mechanism to provide evidence of all monthly reviews conducted.*

- v. *Head of Budget Agency in collaboration with the Database Administrator should:*
- *perform automated daily backups;*
 - *procure antiviral software for all servers; and*
 - *consider using higher performing servers that can easily accommodate antivirus and database software without degradation to its system performance, as these servers can carry tape drives to allow for regular full system backups.*
- vi. *The Head of Budget Agency should collect death return information on a more regular basis from the General Register Office, since this information is available monthly, so as to ensure that the database is promptly sanitized.*

3 *Security and Control of Pension Books*

Objective 3: *To determine whether security and control measures were in place for the printing, storage and distribution of Old Age Pension Books.*

Awarding of Contracts

3.1 We expected the Ministry to award printing contracts in accordance with the Procurement Act 2003² to suppliers/printers for the printing of OAP books. We found that the Ministry complied with the Procurement Act for the awarding of contracts for the printing of pension books for the years 2008 and 2009.

3.2 In 2008, a contract in the sum of \$2.145M was awarded to the second lowest of four bidders for the printing of 39,000 pension books, on the basis of the lowest bidder being disqualified for using the wrong bid document. In September 2008, the Ministry printed 2,500 additional books at a cost of \$187,500 due to the shortage of pension books for distribution. In 2009, a contract was awarded in the sum of \$2.436M to the same supplier through the process of selective tendering for the printing of 42,000 books.

3.3 We expected the Ministry to enter into detailed contracts with the supplier for the printing of pension books and to include clauses to protect the interest of the Ministry. The contracts should include the following clauses (a) duration of the contract; (b) remedies for breach of contract; (c) ownership and control of printing software; (d) minimum

² Procurement Act – Part 1 Preliminary, page 8, 2003

security standards required at the printing facility; and (e) responsibility for the disposal of spoilt coupons.

3.4 We found that contracts entered into for the printing of pension books were deficient. An examination of these contracts revealed that clauses as stated in the above paragraph were not included. Consequently the Ministry may be exposed to exploitation.

Printing of Old Age Pension Books

3.5 Pension books are printed annually for distribution to persons who meet the criteria to receive an old age pension. As such, we expected the Ministry to:

- design and have ownership of the printing software;
- have measures in place for the security of the software, pension books and the disposal of spoilt coupon;
- supervise the printing process; and
- transport pension books to the Ministry.

3.6 We found that the Ministry did not design, control nor have ownership of the software used to print pension books. It was noted that the supplier designed and owned the software. Although the Ministry conducted security checks of the physical environment at the printery before entering into contractual agreements with the supplier, it did not have appropriate measures in place to monitor the printing process, the quality of OAP books and security of the software. The Ministry did not take responsibility for the collection of pension books from the printing facility nor the disposal of spoilt pension books. As a result of the lack of control over the software and printing process, there is a risk of irregularities occurring.

Receipt and Storage of Pension Books

3.7 All pension books received from the printery shall be subjected to store-keeping procedures, that is, taken to the stores and brought to account in the Bin Cards. We expected the Ministry to verify pension books upon delivery and maintain the required stores records.

3.8 We found that pension books were delivered to the Ministry in sealed packages with Delivery Notes. For the period January 2008 to September 2009, 83,500 pension books were delivered and brought to account in the stores records of the Ministry. Records maintained in the stores for OAP books were Bin Cards, Internal Stores Requisitions (ISRs) and Delivery Notes.

3.9 Contrary to Section 16 of Stores Regulation 1993, the Ministry did not verify the completeness and quality of pension books upon delivery. Instead, responsibility fell on the pensioners and Post Office representatives to detect defected and damaged coupons. As a result, printing defects were not identified in a timely manner and caused disruption in the payment process. Further, it was noted that sealed packages of pension books were not opened as required for examination upon delivery. This was evidenced by the fact that pension coupons for the month of October 2008, were missing from 160 pension books issued to pensioners. The defective books for 2008 were stored in the office of the ACP, instead of being returned to the stores.

3.10 In December 2009, pension books for the year 2010 were issued to pensioners. However, these books had defective coupons for the month of February 2010, whereby coupons for Social Assistance and Old Age Pensions were reversed. This was only observed when pensioners attempted to en-cashed their coupons for that month. These

books were returned to the printery to be rectified. This demonstrates the importance of having a stringent quality control system in place for the production of pension books.

3.11 Coupons in pension books have monetary value and are therefore susceptible to theft; therefore, the Ministry should ensure that reasonable safeguards are in place to restrict access to these books. Two Stock Verifiers were responsible for performing store-keeping duties periodically. This is not in keeping with Sections 3 and 4 of the Stores Regulations 1993, which describes the general responsibility of store-keeping and the duties of the storekeeper. We expected the Ministry to store and safeguard pension books from loss and damage. We noted that a restriction sign was posted at the entrance of the Stores permitting access to authorized persons only, as shown in Fig. 5.



Fig. 5 – MLHSSS Entrance to Stores (Photographed 29/09/09)

3.12 Pension books were kept within the Stores in sealed packages, on wooden shelves, off the ground and away from elements of the weather, as shown in Fig. 6. As part of this audit, a physical verification carried out on 25 September 2009, revealed that there were 1,775 books in stock, of which, none were damaged and the total was in agreement with the stores records. However, these did not include undistributed books kept by the ACPO as well as those returned by Probation Officers after the distribution process. These books are not returned to the stores, but were kept in the possession of the ACPO.



Fig. 6 Storage of Pension Books (Photographed 29/09/09)

Distribution of Pension Books

3.13 Internal Stores Requisitions were used to issue pension books from the Stores to the Assistant Chief Probation Officers for distribution to Probation Officers and pensioners. These were prepared by the ACPO and approved by the Chief Probation Officer (CPO). Bin cards were updated perpetually by Stock Verifiers to reflect the current balance of pension books in stock. The ACPO maintained a Control Forms Register/Movement Book to record the receipt of pension books from the stores and the issue of books to

Probation Officers for distribution to pensioners.

3.14 A pensioner's identity must be verified before being issued with a pension book. We found that pensioners' identity was verified with their national identification cards or passports. During the distribution process, mobile pensioners collected their books at advertised locations. The Ministry indicated that no authorized persons are allowed to collect pension books on behalf of pensioners during this process. In the case of shut-in (immobile) pensioners, Probation Officers visited their homes and issued pension books to them. Upon the receipt of pension books, pensioners are required to sign or affix their thumbprints to issue sheets and the inner covers of pension books.

3.15 Pension books and stickers received from the Ministry for distribution to pensioners, should be transported and stored securely by Probation Officers. We found that Probation Officers were responsible for pension books and stickers during the distribution process and were assisted by Board of Governors and Accounts Staff of the Ministry.

3.16 However, there was a lack of control over pension books and stickers issued to the Probation Officers during the distribution process. Responses, based on interviews conducted with 19 Probation Officers, indicated that pension books were not properly secured overnight during the distribution process. As shown at Fig. 7, unissued pension books and stickers were stored overnight in boxes, officers' bags/brief cases, officers' residence or government vehicles, where there were no District Offices to secure them. After the distribution process, unissued pension books and stickers were returned to the Ministry by Probation Officers.

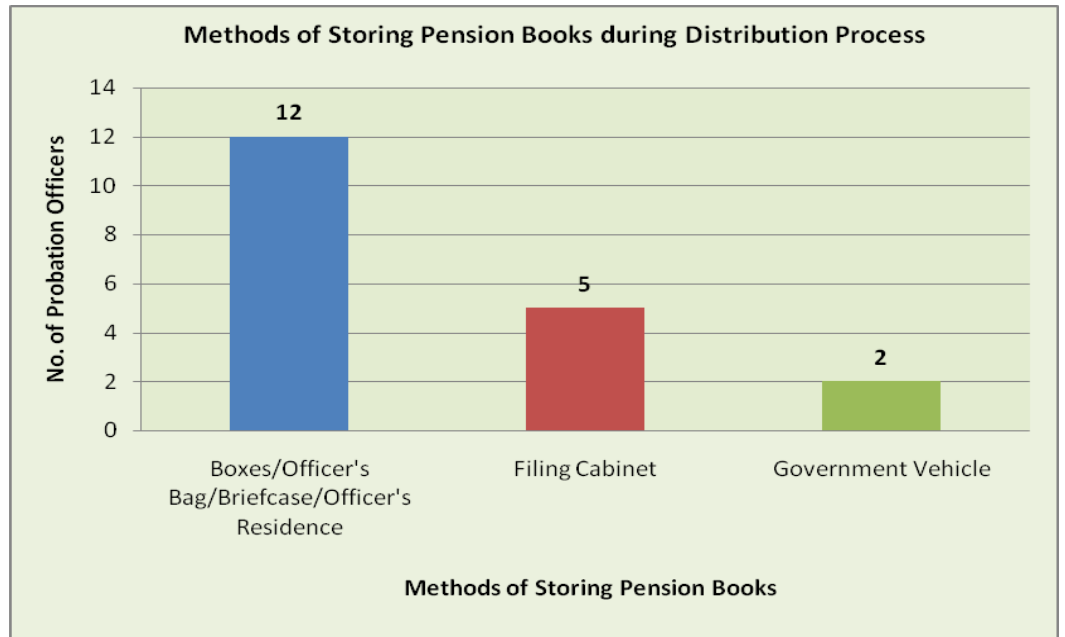


Fig. 7 Methods of Storing Pension Books during Distribution Process

- Recommendations:*
- i. *The Head of Budget Agency should ensure that all contracts entered into for the supply of pension books include contractual clauses that protect the interest of the Ministry.*
 - ii. *The Head of Budget Agency should take measures to obtain ownership of the software for the printing of Old Age Pension books.*
 - iii. *The Head of Budget Agency in collaboration with the Director of Social Services should review the storage and security measures in place for pension books during the distribution process, in an effort to reduce the risk of theft.*

- iv. *The Head of Budget Agency and the Director of Social Services should ensure that all unissued books kept by the Assistant Chief Probation Officer are brought to account in the stores records.*

- v. *The Head of Budget Agency in collaboration with the Director of Social Services should implement quality control systems for the production and receipt of pension books.*

4 Reconciliation of Pension Payments to Database

Objective 4: *To determine whether pension payments were accounted for and reconciled with the database.*

4.1 We expected the Ministry to have an approved budgetary allocation that is distinctly identifiable. We found that the Ministry's approved budget did not include a separate line item for the OAP Programme. Instead, the cost estimates were combined with Social Assistance Programme costs under line item 6343³, from which, releases were obtained and expenditure incurred for both programmes.

4.2 We expected the Ministry to ensure that pension coupons from the GPOC were properly accounted for. We found that there was a system in place for the verification of paid pension coupons. The GPOC prepared schedules of payment in quadruplicates to account for payment of OAP and agency fees. These schedules recorded the pensioner's national identification number, pension book number and month of coupon. Paid coupons were collected from the GPOC by the Ministry's Checking Clerks who reconciled the paid coupons with the schedules of payments. Coupons were then sorted into batches of 40 for which covering payment vouchers were prepared and entered into the Integrated Financial Management and Accounting System twice weekly. These vouchers are then sent to the Ministry of Finance (MOF) for reimbursement.

³ Estimates of Current and Capital Revenue Expenditure, 2008 and 2009

4.3 In order to detect errors in the database it is necessary for reconciliations to be done. We expected the Ministry to check the validity of coupons and reconcile same with the database. We found that there was no system in place for checking the validity of paid coupons. The onus was on the Post Offices to verify and identify fraudulent coupons. It was also observed that the Ministry did not maintain cost information in its database for pensioners, such as, serial number of pension book and the month of the coupon. As a result, reconciliations with the database were not performed. In the absence of reconciliation with the database and the accounts records, the Ministry was unable to establish the total amounts paid as pensions for any given period.

4.4 We expected the Ministry to validate and reconcile reimbursement for paid pension coupons made to the GPOC. Cheques for reimbursements were printed at the MOF, and deposited into the Ministry's Bank Account No. 3191 for reimbursement to the GPOC. As at 30 October 2009, this account was only reconciled to February 2009. Despite the preparation of the schedules of payment by the GPOC no reconciliation between this record and payment records of the Ministry was done. As a result, the Ministry could not determine the amounts owed to, or by the GPOC.

Recommendations:

- i. *The Head of Budget Agency in collaboration with the Ministry of Finance should institute measures to distinctly account for old age pension payments.*
- ii. *The Director of Social Services should ensure that the database is updated promptly with all payment information, to allow for the detection of error or fraud.*

- iii.** *The Head of Budget Agency should ensure that reconciliations for bank account No. 3191 as well as schedules of payment from the GPOC and the Ministry should be duly prepared and certified in a timely manner to enable the detection of error or fraud.*

Overall Conclusion

Our review indicated that the Ministry was in breach of the *Old Age Pension Act 1944*, by not applying the proper eligibility criteria for the payment of OAP to re-migrants. In addition, there is a risk of pension payments being made to ineligible or non-existent persons.

There were deficiencies over the production, distribution and storage of OAP books. Also, there was no evidence to support the accuracy, completeness and security of the database.

Further, pension payments were not reconciled to the database, which impaired the ability of the Ministry to account for pension costs. Therefore, the OAP system administered by the Ministry did not allow for the prevention and detection of manipulation or fraud.

About the Audit

The Audit Office undertook a “Review of the Old Age Pension Programme in Guyana” in order to evaluate the efficiency and effectiveness of its operations, with a view to have Management implement our recommendations to enhance the operations of the programme.

Scope and Approach

The Performance Audit covered the period 1 January 2008 to 30 September 2009 and focused on the following lines of enquiry:

- Payment of Old Age Pensions.
- Accuracy, Completeness and Security of the Old Age Pension database.
- Security and Control of Pension Books; and
- Reconciliation of Pension Payments to Database

We sought to examine whether rules and regulations were complied with and whether the systems in place for the production, safeguarding and distribution of pension books/coupons were effective. We also examined the efficiency of the Old Age Pension payment system and the level of reliability that could be placed on the Old Age Pension database.

The audit did not examine whether the amounts paid to pensioners met their needs. Observation of pension payments was undertaken in Regions Nos. 2, 3 and 4 and our sample of OAP application forms covered Regions No. 1, 3, 4, 8, 9 and 10 for which, documentation was available at the Ministry. We were unable to visit and witness payments at remote locations due to logistical difficulties and communication barriers that exist. The audit did not include an examination of other OAP benefits, such as, water waiver and medical assistance.

Audit Criteria and Sources

The audit criteria and sources used for the *Review of the Old Age Pension Programme in Guyana*, are as follows:

PAYMENT OF OLD AGE PENSIONS

CRITERIA	SOURCES
We expected applicants to meet the statutory requirements for OAP in accordance with the Act before their applications were approved.	OAP Act 1944.
We expected the Ministry to have an internal policy for the processing of applications for the OAP payments and to have feedback mechanisms in place to identify processing delays.	Ministry's policy.
We expected all authorized persons to be familiar with security features appearing on pension coupons before administering payment.	Ministry's policy.
We expected the staff at the Post Offices & Regional Development Councils to be able to identify recipients and/or mediating parties when making payments.	Ministry's policy.
The Ministry should have systems in place to monitor pension payments made to mediating parties, and to verify the receipt of pensions by pensioners living in remote areas.	Ministry's policy.

**ACCURACY, COMPLETENESS AND SECURITY
OF THE OAP DATABASE**

CRITERIA	SOURCES
We expected the database to be updated promptly, as information was made available for OAP.	Ministry's policy.
We expected the database to be sanitized promptly, to ensure that pension payments are made to existing pensioners.	Ministry's policy.
We expected reports generated from the database to be reviewed by senior officers and properly stored.	Ministry's policy.
We expected controls to be in place for the segregation of duties to ensure that those responsible for entering data should not have the access to create, amend or delete standing data.	Ministry's policy.
We expected the location of the network to be a restricted area, with computer logs maintained.	Ministry's policy.
We expected the database to have backup storage on and off-site.	Ministry's policy.

SECURITY AND CONTROL OF PENSION BOOKS

CRITERIA	SOURCES
We expected the Ministry to award printing contracts in accordance with the Procurement Act 2003 to suppliers /printers for the printing of OAP books.	Procurement Act 2003
We expected the Ministry to enter into detailed contracts with the supplier for the printing of pension books, and to include clauses to protect the interest of the Ministry, such as: (a) the duration of the contract; (b) remedies for breach of contract; (c) ownership and control of printing software; (d) minimum security standards required at the printing facility; and (e) responsibility for the disposal of spoiled coupons.	Procurement Act and Ministry's policy..
We expected the Ministry to design and have ownership of the printing software, measures in place for the security of the software, pension books and the disposal of spoiled coupons, supervise the printing process and transport pension books to the Ministry.	Procurement Act and Ministry's policy.
We expected the Ministry to verify pension books upon delivery and maintain the required stores records.	Stores Regulations 1993
We expected the Ministry to store and safeguard pension books from loss and damage.	Stores Regulations 1993
Pensioners' identity must be verified before being issued with a pension book.	Ministry's Policy
Pension books and stickers received from the Ministry for distribution to pensioners should be transported and stored securely by Probation Officers.	Ministry's Policy

RECONCILIATION OF PENSION PAYMENTS TO DATABASE

CRITERIA	SOURCES
We expected the Ministry to have an approved budgetary allocation that is distinctly identifiable.	Estimates of Current and Capital Expenditure for the years 2008, 2009 and 2010.
We expected the Ministry to ensure that pension coupons from the GPOC were properly accounted for.	Regulations to the Fiscal Management and Accountability Act 2003 and Stores Regulations 1993
We expected the Ministry to check the validity of pension coupons and reconcile same with the database.	Regulations to the Fiscal Management and Accountability Act 2003.
We expected the Ministry to validate and reconcile reimbursement for paid coupons made to the GPOC.	Regulations to the Fiscal Management and Accountability Act 2003.

Methodology

The following methodological approaches were undertaken by the Audit Office during the conduct of the Audit:

- ❖ We reviewed Acts, Regulations, Policies and Standards to ascertain whether the Ministry complied with the relevant legislation in administering the Old Age Pension Programme. Other documents, records and reports were also examined and observations were conducted to gather audit evidence.

- ❖ We conducted structured interviews with officials from the Ministry to gain a comprehensive understanding of the Old Age Pension Programme. Interviews were conducted with 19 Probation Officers from the Ministry who were selected through purposive sampling, to provide us with requisite information on the storage and security of pension books during the distribution process.

- ❖ Data collected was analyzed to arrive at audit conclusions.

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MINISTRY OF LABOUR, HUMAN SERVICES AND SOCIAL SECURITY

Lot 1 Water and Cornhill Streets
Stabroek, Georgetown, Guyana

July 7, 2010.

Auditor General
Office of the Auditor General
High Street
Kingston, Georgetown

Dear Auditor General,

The Ministry of Labour, Human Services and Social Security wishes to acknowledge receipt of the Draft Value For Money audit report and to submit the under-mentioned comments.

Chapter 1

With respect to the first recommendation, please be advised that draft recommendations to the Old Age Pension Act are currently at the Attorney General's Chambers for his consideration and appropriate action.

The second recommendation is noted. Efforts will be made to ensure that Old Age Pension applications are processed within the time frame in accordance with the articulated policy and established procedures.

The third recommendation is noted. However, the status of pensioners is not static. It would therefore be extremely challenging to establish and maintain a database of shut-ins. It should however be noted that during the distribution of Old Age Pension coupon booklets, the Ministry arranges for booklets belonging to shut-ins to be taken to their home.

The fourth and fifth recommendations are noted and are currently being implemented.

Permanent Secretary
Tel: 223-7585
Fax: 223-7585

Minister
Tel: 226-6115/226-6076/225-6545
Fax: 227-1308

Chapter 2

The Ministry finds the first and second recommendation acceptable and will consider strategies to have them implemented. There is, however, need to further clarify the third recommendation since only the Systems Analyst and Data Administrator can change the structure of the database. Data Processing Operators are not assigned regions but are assigned work by the Database Administrator. Notwithstanding the foregoing, the Ministry would greatly appreciate some direction with regard to how the segregation of duties could be implemented.

The final recommendation is accepted. However this would require the employment of additional staff. In this regard the Permanent Secretary, Public Service Ministry would be approached with a view to have the Data Processing Department adequately staffed in order to effect this recommendation.

Chapter 3

The first recommendation is noted and the Ministry would appreciate the guidance of the Audit Office in revising the contracts.

The second will no doubt improve the security and integrity of the coupon but it should be noted that there is no specific or customized design software for the Old Age Pension coupons. Consequently, the actual design can be replicated. To prevent this from happening the Ministry has included some specific features.

The third, fourth and fifth recommendations are accepted.

Chapter 4

The first recommendation is noted and will be discussed with the Budget Office, Ministry of Finance. With regard to the second recommendation, the Ministry wishes to seek further guidance and clarification on the way forward.

The Ministry wishes to express its appreciation to the Audit Office for the professional way in which the Value For Money audit was conducted and looks forward to further engagement and guidance in the implementation of the recommendation put forward to improve the effectiveness and efficiency of the administration of this safety net programme.

Finally I wish to express the Ministry's regret for not responding earlier. This is due primarily to the need to engage all stakeholders and senior officers that are involved in the administration of this programme.

Sincerely,



.....
Trevor Thomas
Permanent Secretary