

**SPECIAL AUDIT REPORT  
THE INSTITUTE OF SPORTS**

**Auditor General of Jamaica  
Auditor General's Department  
8 Waterloo Road, Kingston 10  
Jamaica, W.I.**

**November 2011**

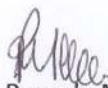
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## Auditor General's Overview

I commissioned a special audit of the Institute of Sports Limited (INSPORTS), arising from a request made by the Ministry of Youth, Sports and Culture to examine certain transactions of the Entity. This report details findings of that audit. In general, the audit revealed severe managerial weaknesses over the operations of INSPORTS both at the strategic and operational level. For example, the former Board of Directors presided over an entity that has not presented audited financial statements since 1992, has never prepared an annual report and does not have a strategic plan. This situation is exacerbated by the absence of clearly defined roles and responsibilities for INSPORTS. The audit identified that there was a duplication of responsibilities assigned to INSPORTS and Independence Park Limited. Consequently, I could not conclude that INSPORTS had a structured approach to encourage, develop and promote sports in Jamaica. Further, INSPORTS appeared not to have maximised the full financial benefit of a sponsorship deal.

The importance of sports to Jamaica cannot be over emphasised. In that regard, the existence of an entity to guide the development of sports in our country is critical. Therefore, it is imperative that the Ministry works collaboratively with INSPORTS to ensure that the corporate governance deficiencies highlighted in this report are addressed; whilst at the same time, INSPORTS should develop mission and vision statements that are in congruence with the country's potential for participation in various areas of sports. These statements should guide its strategic direction. I have since been advised that a new Board has been installed. In that regard, I implore the new Board to consider seriously the findings of this audit and implement the recommendations proffered.



Pamela Monroe Ellis, FCCA, FCA, CISA  
Auditor General

## Executive Summary

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The Institute of Sports Limited (INSPORTS), which replaced the National Sports Limited, was established on April 1, 1978. INSPORTS was responsible for the development and promotion of all forms of sports in Jamaica and the management of the sporting and recreation facilities at the National Stadium and the National Arena. However, in October 2001 the management of all sporting and recreational facilities at Independence Park, the National Stadium and the National Arena was assumed by the Independence Park Limited.

The audit sought to ascertain whether, the activities of INSPORTS were being carried out in accordance with the relevant laws that govern its operations, and that the internal controls and accounting systems were adequate and operating efficiently and effectively.

### Key Findings

1. **The Board failed to take decisive action to ensure the development and implementation of a strategic plan for INSPORTS.** It did not establish a suitable framework to ensure that the entity is managed with probity, integrity and a system to ensure accountability to the public for the organisation's performance. Further, no operational plan was developed to ensure that INSPORTS' operations were undertaken in a structured manner.
2. **A proper assessment of INSPORTS' financial state of affairs could not be conducted as the last audited financial statement was for the financial year 1991- 1992.** Additionally, Annual Reports were not prepared by INSPORTS since its inception in 1978 as required by the Public Bodies Management and Accountability Act.
3. **Documents presented did not clearly define the roles and responsibilities of INSPORTS.** Further, the management and maintenance functions of Independence Park Complex were transferred to Independence Park Limited since October, 2001. However, the functions of INSPORTS were not redefined.
4. **INSPORTS had not conducted the requisite annual performance reviews of its employees except in 2007, albeit, in that year only 14 of the 69, (20%) employees were appraised.** Further, the Administrative Director unilaterally reclassified 13 of the 14 appraised staff members' positions to higher grades resulting in unauthorized payments of \$24.6M for the period June 2007 to June 2011.

5. **INSPORTS continued to pay salary and travelling allowance, totalling \$11.73M as at July 2011, to two officers who had not reported to work for periods up to seven years.**
6. **We found that INSPORTS has paid \$448,000 for overdraft interest over the last five years.** There was no evidence that the Ministry of Finance and the Public Service's approval was obtained to operate an overdraft facility.
7. **We were unable to determine whether INSPORTS' sponsored sporting activities achieved the objectives intended as the relevant documents were not provided to undertake such assessment.**
8. **INSPORTS, based on the recommendation from the Ministry of Finance and the Public Service, did not utilise the competitive process to engage a marketing company. INSPORTS agreed to pay the marketing company 20% of its sponsorship intake, which amounts to \$12M over a three year period.**

### **Recommendations**

1. In keeping with good governance practice, the Board should develop and ensure the implementation of the appropriate strategies of INSPORTS. It should also demand the timely preparation of corporate and operational plans to ensure that all members of the Institute are working toward common objectives, and that INSPORTS' financial and human resources are allocated as efficiently and effectively as possible. This should be filtered into individual objectives for each member of staff to form the basis on which their performance will be measured.
2. The Board, in collaboration with the portfolio Ministry, should clearly define the roles and responsibilities of INSPORTS. This should take into consideration the required staffing structure that will enable the entity to carry out its mandate in an effective and efficient manner. Careful consideration must be made of the roles that other entities play in the promotion and development of sports in Jamaica to ensure that the efforts are coordinated to prevent duplication.
3. INSPORTS should ensure strict adherence to Section 3 of the Public Bodies Management and Accountability Act (2001) and submit, without undue delay, to the portfolio Minister, all outstanding annual reports and audited financial statements for tabling in the Houses of Parliament.

4. INSPORTS and the portfolio Ministry should agree on the staff structure, which will ensure that the entity fulfils its mandate and thereafter seek the requisite approval from the Ministry of Finance and the Public Service. In addition, the Institute should seek the directive of the Ministry of Finance and the Public Service to have all unauthorised reclassification of posts and emoluments regularised forthwith.
5. The management of INSPORTS should seek the guidance of the Offices of the Services Commissions/Ministry of Labour and Social Security with the view of regularising the payments being made to ailing members of staff who are unable to perform their duties.
6. INSPORTS' Board should ask the Ministry of Finance and the Public Service to clarify its recommendation as it relates to the definition of public funds; since, the recommendation given is in conflict with section 114 of the Constitution and the meaning of revenue as defined by the Financial Administration and Audit Act, 2002(FAAA).
7. The Ministry of Youth, Sports and Culture and INSPORTS' Board of Directors should ascertain the market rate for commission payable in relation to sponsorship arrangements. This information should be used to determine whether a loss has accrued to the Government because of non-compliance with the procurement guidelines. We will be monitoring this situation as it relates to the application of section 20 of the FAAA (surcharge proceedings) and sections 39 and 40 of the Contractor-General Act- The Public Sector Procurement Regulations, 2008.

### Background

- 1.1 The Institute of Sports Limited (INSPORTS), which replaced the National Sports Limited, was established on April 1, 1978. INSPORTS was responsible for the development and promotion of all forms of sports in Jamaica and the management of the sporting and recreational facilities at the National Stadium and the National Arena. However, in October 2001 the management of all sporting and recreational facilities at Independence Park, National Stadium and the National Arena was assumed by Independence Park Limited.
- 1.2 INSPORTS' mandate and mission statement is:
- “to encourage, develop, promote, undertake, and assist organisationally, and wherever possible financially, all forms of sports in Jamaica, with emphasis on participation by groups, individuals and communities at the village level, in the sport of his/her choice”.*
- 1.3 INSPORTS is governed by a Board of Directors that provides policy directives and the operations are managed by an Administrative Director. The Board reports to the Minister of Youth, Sports and Culture.

### Funding

- 1.4 INSPORTS is funded in general by subvention from the parent Ministry and also receives income from the following sources:
- Sponsorship from Corporate Jamaica.
  - Constituency Development Fund
  - Social Development Fund
  - Simulcast Grants
  - Gate receipts from sporting events

**Figure 1** Details the Total Revenue and Expenditure for Financial Years 2006-2007 to 2010-2011

Year	Subvention (\$)	Other Income (\$)	Total Income (\$)	Expenditure (\$)	Surplus/(Deficit) (\$)
<b>2010 – 2011</b>	153,004,688	71,040,634	224,045,322	233,812,207	(9,766,885)
<b>2009 – 2010</b>	161,084,700	195,733,994	356,818,694	267,984,055	88,834,639
<b>2008 – 2009</b>	209,778,079	99,641,443	309,419,522	297,436,206	11,983,316
<b>2007 – 2008</b>	163,979,997	88,438,098	252,418,095	253,503,862	(1,085,767)
<b>2006 – 2007</b>	158,220,928	58,287,897	216,508,825	226,063,978	(9,555,153)
<b>Total</b>	<b>846,068,392</b>	<b>513,142,066</b>	<b>1,359,210,458</b>	<b>1,278,800,308</b>	<b>80,410,150</b>

Source: Auditor General’s Department review of INSPORTS unaudited financial Data

### **Audit Objectives**

- 1.5 The audit sought to ascertain whether, the activities of Institute of Sports were being carried out in accordance with the relevant laws that govern its operations, and that the internal controls and accounting systems were adequate and operating efficiently and effectively.

### **Scope and Methodology**

- 1.6 The audit focused on reviewing and analysing relevant financial and non financial information pertaining to the management and administration of INSPORTS for the period April 2006 to July 2011. Judgemental sampling techniques were applied to all areas reviewed.



### **The Board did not Enforce Good Corporate Governance Practices**

- 2.1 We found that INSPORTS did not establish objectives or develop suitable mechanisms to promote accountability and facilitate effective evaluation of its impact on the development of Sports in Jamaica. Since inception, INSPORTS did not prepare corporate plans and outlined performance targets that would enable the achievements of its mandate. This also contravenes Section (7) of the Public Bodies Management and Accountability Act, which stipulates that every board should deliver to the responsible minister, a draft corporate plan no later than the 1<sup>st</sup> day of January in each year.
- 2.2 In addition, INSPORTS failed to prepare annual operational plans. We found that only a calendar of sporting events was prepared for the period January to December 2010. Documents were not presented to indicate whether all the events were realized and evaluated to assess the impact of the events.
- 2.3 In addition, except for the Year 2010-2011, INSPORTS did not maintain information on its budget for prior years to facilitate trend analysis and inform future planning decisions.

### **INSPORTS Failed to Present Audited Financial Statements for 19 Years**

- 2.4 Section 3 of the Public Bodies Management and Accountability Act (2001) stipulates that each public body should submit to the responsible Minister the annual report and audited financial statements within four months of the end of the financial year for tabling in the House of Representatives and the Senate. However, INSPORTS last audited financial statement was for financial year 1991 - 1992. This prevented a proper assessment of INSPORTS financial state of affairs.
- 2.5 We noted that INSPORTS sought the advice of the Ministry of Finance and the Public Service as to how to address the loss of financial records, for the period 1993 to 2003 due to Hurricane Ivan. The Ministry of Finance advised INSPORTS, by letter dated June 26 2007, *“to prepare a Statement of Affairs, given incomplete financial records, as at the period the records were destroyed. Additionally, the Institute may proceed to finalize the audit of its financial statements for the subsequent periods”*. INSPORTS has not prepared the Statement of Affairs. However, draft financial statements were prepared for years 2005-2006 to 2010-2011. Further, the required Annual Reports were not prepared and submitted to the relevant Minister for tabling in the Houses of Parliament since its inception.

## INSPORTS Roles and Responsibilities not Clearly Defined

- 2.6 We observed that documents presented did not clearly define the roles and responsibilities of INSPORTS. Although the management and maintenance functions of Independence Park Complex were transferred to Independence Park Limited since October 2001, the roles of INSPORTS were not redefined. For example, documents obtained from the portfolio Ministry, outlining the responsibilities of INSPORTS, contained functions relating to the maintenance of sporting facilities, which were categorised as ‘essential’. (Figure 2)

**Figure 2** Overlapping of INSPORTS Functions with Independence Park Limited

Functions of INSPORTS	Functions of Independence Park Limited
To maintain and where necessary repairing the national stadium complex, and other sports complexes owned, leased and operated by the Institute of Sports	To maintain the facilities (National Stadium, Stadium East, National Arena, National Indoor Sports Centre, Aquatic Centre and Outdoor Netball and Basketball Courts) at the Independence Park Complex consistent with international standards and to generate sufficient revenue for their proper management and upkeep
To ensure the security of buildings, facilities, and equipment at the National Stadium complex, and other buildings and facilities owned, leased or rented by the Institute of Sports	

- 2.7 The lack of clear guidelines on the roles and responsibilities of INSPORTS was also noted in the minutes of Board meeting held as far back as April 2008, wherein the Chairman expressed concern as to the lack of clearly defined roles and responsibilities of the entity.

*“It is appalling that the Institute has no document speaking to its evolution, role and responsibilities. He needs to have the issue of INSPORTS role clarified with supporting documentation with a sign off by the Ministry at the next meeting by way of a position paper.”*

Source: INSPORTS-Minutes of the Board Meeting Held April 2008

- 2.8 Further, INSPORTS was unable to provide documents indicating the approved number of posts and grades. However, the information which was obtained from the Ministry of Finance and the Public Service suggests that INSPORTS has engaged 21 staff in excess of the establishment without approval. ([Appendix 1](#))

2.9 In spite of the foregoing deficiencies, the Board failed to take decisive action to ensure the development and implementation of a strategic direction for INSPORTS. In addition, it did not establish a suitable framework to ensure that INSPORTS is managed with probity, integrity and a system to ensure accountability to the public for its performance.

### **INSPORTS Incurred Unauthorized Payment of \$24.6M for 13 Unapproved Posts**

2.10 INSPORTS Recruitment and Promotion Policies and Procedures Manual required that annual performance reviews be conducted for all employees. We found that INSPORTS had not conducted the requisite annual performance review of its employees since 2007, albeit, in that year, only 14 of the 69 (20%) employees were appraised. Further, we observed that the Administrative Director unilaterally reclassified 13 of the 14 appraised staff members' positions to higher grades.

2.11 The decision of the Administrative Director to reclassify the positions resulted in unauthorized payments of salary and travelling allowance, to 12 officers, totalling \$24.6M for the period June 2007 to June 2011. ([Appendix 2](#)) We reviewed the personal files of the officers assigned to the reclassified positions and found documents indicating the qualifications of the officers as follows:

**Figure 3** Qualifications of Officers Evaluated and Promoted to Higher Grades

Name	Approved Grade	Grade Promoted To	Qualification
Administrator	GMG/AM 2	SEG 2 & SEG 3	ACCA Technician (CAT) completed 2006
Executive Secretary	OPS/SS4	SEG 1	Only statement from CAST that the officer will be awarded Laboratory Technician Certificate. Jamaica Commercial Institute – completed course in Shorthand Speed (80 words per minute).
Senior Accountant	FMG/AT 3	FMG/PA 2 & FMG/PA 3	None seen on file
Accounting Clerk	FMG/AC 1	FMG/AT 3	CXC Mathematics Grade 3
Secretary	OPS/SS 2	SEG 1	None seen on file
Accounting Technician	FMG/AT 2	FMG/AT 3	Certificate in Accounting from Stony Hill H.E.A.R.T. Academy
Accounting Clerk	FMG/ AT 1	FMG/AT 2	Ten-week Intensive course in Introduction to Microsoft PowerPoint. Clerical Receptionist Certificate (McIntyre Training Centre) 1998. English A: General three and Office Procedure: General two
Sports Officer	EIGS/AS 6	SEG 2	Certification of Participation (Sports Marketing)
Sports Officer	EIGS/AS 4	SEG 2	None seen on file

## Improper Payments

- 2.12 INSPORTS continued to pay the salary and travelling allowance, totalling \$11.73M as at July 2011, to two officers who had not reported to work for periods up to seven years. The Administrative Director informed that one of the officers had not reported to work since his tenure, July 2004 to present, and the other, since November 2008.
- 2.13 Further, the Administrator advised that one officer was mentally challenged, while, the other was confined to a wheelchair as a result of injury sustained whilst on the job. Therefore, the decision was taken to continue making payments to them. We noted that the cheques payable to these officers were collected by third parties purportedly on the officers' behalf.
- 2.14 We also found that a relative of a former staff was being paid \$55,000 on a monthly basis since April 2008. Amounts totalling \$2.2M had been disbursed to the individual up to July 2011. Information obtained from INSPORTS revealed that approval was received from the portfolio Minister in February 2008 for the payment to be continued until Ministry of Finance and the Public Service agreed on an ex-gratia payment for the services rendered by the former officer.

### INSPORTS Paid \$448,000 for Overdraft Interest Over the Last Five Years

- 2.15 We found that the three bank accounts operated by INSPORTS were overdrawn several times during the past five years 2006-2007 to 2010-2011 and incurred interest charges totalling \$448,072 (Figure 4). There was no evidence that the Ministry of Finance and the Public Service approval was obtained to use the overdraft facility.

Figure 4 Interest Accrued on Bank Overdraft

Year	Interest
2010-2011	335,467
2009-2010	31,214
2008-2009	60,687
2007-2008	14,260
2006-2007	6,444
<b>Total</b>	<b>448,072</b>

Source: INSPORTS' bank statements

### **INSPORTS Will Only Receive Eighty Per Cent of Proceeds From Major Sponsorship Deal**

- 3.1 INSPORTS received sponsorship funds for the staging of various sporting competitions, purchasing sports gears, holding sports clinic and other promotional activities. We found that amounts totalling approximately \$43M were received from sponsors over the last five years, 2006/2007 to 2010/2011.
- 3.2 Further, we observed that, INSPORTS directly solicited sponsorship for sporting activities, except in one instance where a marketing company approached INSPORTS and made an offer to solicit sponsorship, on its behalf, for a primary school football competition. The marketing company secured a three- year sponsorship arrangement, from a telecommunication company, valued at \$60M. In this regard, INSPORTS agreed to pay the company a commission of 20% of all payments received from the sponsor; this would represent a commission of \$12M over the three-year period. To date, INSPORTS has received \$15M from the sponsor and has paid the marketing company \$3M.
- 3.3 INSPORTS did not use the competitive tendering process to engage the services of the marketing company. However, we noted that the Board of Directors sought the advice of the Ministry of Finance as to whether to proceed with the marketing company that made the offer or use the tender process to select a company. The Ministry of Finance advised INSPORTS that the competitive tender process was not necessary. The MOF indicated by way of letter dated January 13, 2010 that “since INSPORTS is not utilising public funds to finance this activity it would not fall into the category- Public Sector Procurement- and as such the general procedures outlined in the Handbook of Public Sector Procurement Procedures would not apply”. However, it is our view that the amount received by INSPORTS from the sponsors would become public funds<sup>12</sup>, despite it being sponsored funds; as such, it would be subject to government legislation and guidelines.
- 3.4 Further, INSPORTS paid the marketing company directly by a cheque drawn on its account. In that regard, the selection of the marketing company should have been subjected to the competitive tendering process. INSPORTS failure to utilise the competitive process may have

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<sup>1</sup> Revenue means all tolls, taxes, imposts, rates, duties, fees, penalties, forfeitures, rents and dues, proceeds of sale and all other receipts of the Government from whatever sources arising, over which Parliament has the power of appropriation, including the proceeds of all loans raised.

<sup>2</sup> There shall be in and for Jamaica a Consolidated Fund, into which, subject to the provisions of any law for the time being in force in Jamaica, shall be paid all revenues of Jamaica.

denied it the opportunity to reduce the commission payable to the marketing company; thereby, being able to invest more of the sponsorship funds in the development of sports.

**Lack of Documents Prevented Assessment of Sponsored Sporting Activities**

- 3.5 We attempted to determine whether there were clearly defined objectives for the staging of the sporting activities, and if they were achieved and whether the funds were used for the intended purpose. However, we were unable to carry out such assessment as INSPORTS failed to provide the relevant documents, despite our requests.

## Appendices

### Appendix 1 Approved Position Compared with Current Engagement

Category	Number of Approved Positions	Number of Positions Currently Engaged	Variance
Administrative Director	1	1	0
Administrator	1	1	0
Senior Accountant	1	1	0
Accounting Clerks	3	3	0
Cashier	1	1	0
Secretary/Telephone Operator	1	1	0
National Sports Coordinator	1	1	0
Asst. National Sports Coordinator	0	1	1
Sports Officer	34	43	9
Assistant Sports Officer	1	2	1
Secretary	2	3	1
Area Manager	1	0	(1)
Stadium Manager	1	0	(1)
*Telephone Operator	0	1	1
International Sports (Relations)Officer	0	1	1
Senior Executive Assistant	0	1	1
Asst Administrative Director	0	1	1
Chairman Secretary	0	1	1
Media Relations Officer	0	1	1
Office Attendant	0	5	5
<b>Total</b>	<b>48</b>	<b>69</b>	<b>21</b>

**Appendix 2 Salary Paid to Staff Promoted to Un-approved Posts**

<b>Approved Posts</b>	<b>Un-approved Posts</b>	<b>Unauthorized Payment (June 2007-June 2011)</b>
FMG/AT 2	FMG/AT 3	1,170,960.65
FMG/AT 1	FMG/AT 3	2,463,975.08
GMG/AM 2	SEG 2 SEG 3	2,660,361.82
FMG/AT 3	FMG/PA 2 FMG/PA 3	2,539,671.39
FMG/AT1	FMG/AT 2	781,745.65
EIGS/AS 4	EIGS/AS 6	1,115,757.12
EIGS/AS 4	SEG 2	2,612,835.29
EIGS/AS 6	SEG 2	1,684,132.67
EIGS/AS 6	SEG 2	2,559,472.69
OPS/SS 3	OPS/SS 5	2423971.07
OPS/SS 4	SEG 1	2289655.76
OPS/SS 2	SEG 1	2317767.34
<b>TOTAL</b>		<b>24,620,306.53</b>