



Cayman Islands

SPECIAL FORENSIC AUDIT REPORT OF THE AUDITOR GENERAL

**On the
National Housing and Community
Development Trust**

Cayman Islands Audit Office

17 June 2005

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AUDITOR GENERAL'S COMMENTS

On 24 May 2005 I was requested to attend a special Cabinet meeting. At that time, allegations were made relating to the National Housing and Community Development Trust (NHCDT). Subsequent to that meeting, under subsection 59(c) of *The Public Management and Finance Law (2003 Revision)* the Governor requested the Auditor General on 25th May 2005, "*to carry out an urgent special forensic audit of the National Housing and Community Development Trust (NHCDT) from the inception of the Affordable Housing Initiative.*" After reviewing the issues, I came to the conclusion that an examination was warranted and I decided to accept the engagement.

The mandate from the Governor requested that the audit be done in two parts. The first part was to review all the activities of the NHCDT from 1 September 2004 to 25 May 2005 and to report by 17th June 2005. This report is a result of that mandate.

The second part of the mandate requested a review of all activities of the Affordable Housing Initiative (AHI) from its inception to 25th May 2005. This report was requested by 31st August 2005 and will be the subject of a future report.

Much has been made of the term "*forensic audit*" and there appears to be a wide misunderstanding of what the term means. In auditing terms, it has very clear and distinct meanings.

There are 2 main components of a forensic audit that are different from normal value for money audits conducted by my Office. The first involves attempting to summarize the complicated financial activities of an organization into understandable components. Therefore, in this report, I have gone into significant detail to try to present the financial and operational activities of the NHCDT over the period in question. It is hoped that the financial analysis in Section 1 of this report will allow the reader to understand the major activities of the NHCDT.



The second component relates to the nature of evidence that is collected. In a normal value for money report, evidence is usually gathered through interviews and photocopies of relevant documents. In a forensic examination, the standards of evidence are substantially higher. All important interviews were conducted on tape under the review of a member of the Royal Cayman Islands Police Financial Crimes Unit. Also, evidence was gathered in such a way that it could be used later in a court of law. That meant that we had to seize the originals of all documents and provide photocopies to the NHCDDT for their files. These documents have been kept in such a way that the chain of evidence has been maintained. It also required that computer records be seized and kept.

On the 25th of May 2005 in conjunction with the Royal Cayman Islands Police, we seized documents and electronic information from the NHCDDT office, and the Ministry of Community Services' offices in the Government Administration Building and Cricket Square. We also conducted site visits on the 25th of May 2005 at the four locations of the NHCDDT to document work in progress by the Contractors hired to repair and rebuild the housing units destroyed as a result of Hurricane Ivan. We visited Fairbanks, Eastern Avenue, West Bay, and the Windsor Park site.

It should be noted that this investigation was assisted by members of the Royal Cayman Islands Police Financial Crimes Unit. However, I must emphasize that this was not a Police investigation. They assisted my Office at my request. The main reason that I requested their assistance was to ensure that the document gathering process was done correctly.

Summary of Findings

Financial Activities of the NHCDDT

During the period of 1 September 2004 to 1 May 2005, the NHCDDT had a total cash outflow of \$3.25 million. We examined the disbursements in detail. In our examination of these disbursements we did observe several internal control weaknesses with regards to the authorization of cheques, which increases the risk of possible misappropriation of funds.



We did not observe any transactions that we considered irregular based on the nature of the NHCDT's operations and specific projects currently being undertaken.

However, we did observe cheques totalling CI\$510,000 that were countersigned by members of the board who were not signatories on the account. All of these cheques were cleared by the bank.

Hurricane Ivan Claim

I reviewed the insurance coverage that NHCDT had for the 132 homes completed by September 2004 and the coverage for material on site. In my opinion, the NHCDT had adequate insurance for the homes that were damaged or destroyed. It received a financial settlement of \$2.1 million in January 2005, which paid for the reconstruction of damaged units and compensated NHCDT for the homes that were destroyed.

I am unable to make any substantive comments on the material losses as this is in litigation.

Awarding of Construction Contracts

During the period of 1 September 2004 to 1 May 2005 the NHCDT entered into contracts with two construction companies - Staunch Limited and Vetromeccaniche Invest Lda (Vetro) to repair and rebuild houses which were damaged or destroyed during the passing of Hurricane Ivan. A contract was also entered into with Staunch Limited to construct 20 temporary houses (CI\$217,560) and a laundry and recreational facility (CI\$25,200).

My office expressed concern during Phase 1 of the AHI that there was no competitive bidding on contracts. I must again express concern with the absence of competitive bidding processes and the overall manner in which contracts are awarded by the



NHCDT. These concerns and the potential ramifications were extensively outlined in our previous report on the AHI, however no improvement has been noted.

For these new contracts, we have given consideration to the circumstances present following Hurricane Ivan and the pressing need to provide housing, which in our opinion was reasonable cause to allow Vetro to commence repair works on the 79 houses with minor damage.

However such consideration does not extend to the manner in which the contracts with Staunch Limited were awarded. It is of significant concern that the NHCDT would engage the services of a company from whom they had no proof of prior construction experience in the Cayman Islands or in any other country. In addition, there was no detailed evaluation performed on the quotations submitted by Staunch Limited prior to the contracts being awarded.

In my opinion the unilateral decision to award the contracts to Staunch Limited by the former Minister, who was also the chairman of the NHCDT at that point in time, was inappropriate and not consistent with the manner that custodians of public funds should discharge their duty.

We have seen no evidence to justify why Staunch Limited rather than Vetro was awarded these contracts to repair houses with major damage and to rebuild houses that were completely destroyed.

Based on our reconciliation of invoices to the contracts we have observed one invoice paid to Staunch Limited for CI\$19,038 to be an overpayment. This overpayment should be recovered from Staunch Limited.

Overall, we are satisfied that work on the Vetro contract and the Staunch Limited contract to rebuild the damage units has been or is currently being executed and billed for in a reasonable manner, except for the one payment noted above.



In regards to the contract with Staunch Limited for the construction of the 20 temporary homes we have identified several anomalies relating to the issuance of the contract and the manner in which payments were made, which cause me great concern. In particular, Staunch Limited has been paid C\$178,268 or 79% of the total contract. Payments under this contract were made at the insistence of the former Minister over the objections of senior staff. The Director of Lands & Survey has estimated that the value of works to date in his opinion would only be approximately \$10,000 or 5% of the contract value. However, according to the Site Manager all supplies and materials have been purchased to erect these 20 temporary homes. Nevertheless, it is clear to me that Staunch Limited has been paid substantially in excess of what should have been paid given the level of work completed. I find it unacceptable that the NHCDT has paid 79% of the total contract sum for the 20 temporary housing units to Staunch Limited before the necessary planning process has been completed and for work not done. In addition to breaching the Cayman Islands Planning Codes, the NHCDT has created the risk of potential losses if the contractor is unable to complete the project. **In my opinion this is a misuse of public funds as payments were made for goods and/or services not provided.**

We also found that the former Minister and Chairman of the NHCDT authorised and issued a mobilisation payment to Staunch Limited on the 18th May 2005 for the construction of the laundry and recreational facility, rather than exercising prudence and deferring it until the new administration was installed. As a result, Staunch Limited has received payment of C\$7,560 (US\$9,000) for work that as at the date of this report has not commenced.

In my opinion these acts of management override by the former Minister of Community Services has resulted in the misuse of public funds. Also, the awarding of four construction contracts were absent of a fair and equitable process. Finally, the attempt to override the evaluation process for the Eastern Avenue re-development could have potentially “locked” the Government into a multi-million dollar contract prematurely, if immediate preventative steps had not been taken.



Sales and Mortgages of Homes

I have made preliminary evaluations of the sale of homes and the current mortgage situation. The magnitude of the task and the short time frame means that I can only offer a preliminary assessment. However, there does not appear to be a proper system used to ensure that the homes were given to the most deserving people. There are also indications of political interference that needs to be investigated further. In summary, I have serious concerns that the awarding of homes was not fair and I intend to investigate this area further and report in August 2005.

There is already evidence that some homeowners are delinquent on their mortgages and that the problem is growing. This needs to be addressed quickly by the NHCDDT.

Finally, a number of the homes are currently rented out. The status and circumstances of these rental units are of concern and need to be addressed in the August report.

Immigration Matters

I have, with the assistance of the Immigration Department, discovered that some of the current employees of Staunch Limited are registered as government employees. In fact, our review of 15 current employees of Staunch Limited indicated that 9 of them were registered as government employees. The other 6 were on the Islands as visitors only.

The 6 visitors have no right to work on the Island. The Chief Immigration Officer has also advised me that, in his opinion, registering 9 workers as government employees when they were not in fact employees of the government means that both the workers and the employers have committed offences under the Immigration Law.

We have turned this issue over to the Immigration Department for additional investigation to determine whether any charges should be brought against Staunch Limited and anyone that may have provided false information to the Immigration Department.



Staunch Limited

As a result of my review of transactions between NHCDT and Staunch Limited, I have requested the Royal Cayman Islands Police Service Financial Crime Unit to investigate this matter further.

Acknowledgements

I wish to acknowledge and thank all those who assisted and co-operated with my Office during the course of our work, including management and staff of the NHCDT and the Ministry of Community Services. I would also like to thank the Governor and Cabinet in showing confidence in my Office by requesting us to carry out this special forensic audit. I would especially like to thank Mr. Mike Needham Detective Superintendent of the Financial Crime Unit and his staff for their assistance. Finally, I would like to record a special note of appreciation to my audit team for the sacrifices they made to accomplish this report in the three and a half week deadline. This meant numerous hours of tedious photocopying, a review of mounds of documents and the preparation of a report in a very short period of time and required them to put in many hours of overtime. I believe that this report is a credit to them all.

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George Town, Grand Cayman
Cayman Islands*

17 June 2005



Cayman Islands

FINANCIAL ANALYSIS

Overview

1.01 In May 2004, The National Housing and Community Development Trust (The NHCDT) opened two operating bank accounts at Scotiabank and Trust (Cayman) Limited; a CI dollar chequing account (ac# 70005-98), and a USD dollar chequing account (ac# 70005-99). A third operating CI dollar chequing account (ac#70006-37), to be used by the Community Development section of the NHCDT, was opened at the same bank in June 2004.

1.02 Following a resolution by the Board of Directors of the NHCDT on the 28th June 2004, a bridge financing loan was secured from Scotiabank & Trust (Cayman) Limited in the amount of US\$11,142,927 to be used to repay amounts previously advanced by the Government to cover the cost of constructing 200 houses for Phase one of the Affordable Housing Initiative.

Bridge Loan

1.03 The bridge loan was a short term measure used to make payments for the Affordable Housing Initiative before the end of the Government's financial year of 30th June 2004. A bridge loan was necessary as a proposed bond issue of US\$14.5 million that was being arranged through Scotia Capital to finance the NHCDT could not be finalised quickly enough. Of the US\$11.14 million provided through the bridge loan, US\$10.5 million (CI\$8.82 million) was used to repay the amounts previously advanced to the NHCDT by Government and US\$358,000 (CI\$300,000) was transferred to the NHCDT's main operating CI dollar chequing account to cover operating costs.

Bond Issuance

1.04 In October 2004, the NHCDT secured the bond issuance from Scotia Capital in the amount of US\$14.5 million. From this amount, the bridge loan of US\$11,142,927



and related interest that was incurred (US\$50,013) were repaid. Transaction fees³ totalling US\$213,000 were also deducted from the bonds resulting in net proceeds of US\$3,094,060 being deposited into the NHCDT US\$ chequing account in November 2004.

Financial Position of the NHCDT as at 1st September 2004

1.05 During the period 7th May 2004 (date of the NHCDT first bank accounts being opened) thru to 31 August 2004, the NHCDT had cash inflows into its CI dollar accounts totalling CI\$1.16 million (*see details Table 1*) and cash outflows of CI\$907,121 towards operating costs. This activity resulted in a net positive cash position in the CI dollar accounts at 1st September 2004 of CI\$253,880.

Table 1: Cash Inflow as at 1st September 2004

Description	CI\$ Chequing Account (Main)	CI\$ Chequing Account (Comm Dev)	Total
Equity Injection	300,000	0	300,000
Loan Proceeds	300,000	0	300,000
Other Deposit	31,000	6,183	37,183
Grants	240,868	275,000	515,868
Reimbursements	10,588	0	10,588
	882,456	281,183	1,163,639

1.06 As at 1st September 2004, The NHCDT also had a balance of circa US\$280,000 remaining from the bridge loan.

³ Transaction fees – Arrangement fees (US\$145k) and Legal fees (US\$68k)



Financial Activities of the NHCDT from 1st September 2004 to 1st May 2005

Analysis of the CI Dollar Chequing Accounts

1.07 During the period 1st September 2004 thru to 1st May 2005 the NHCDT had cash inflows into its CI dollar chequing accounts of CI\$4.06 million (*see details Table 2*) and operating cash outflows of CI\$2.25 million (*see table 4*). In addition to operating outflows, the NHCDT made a transfer of CI\$1.0 million from its CI dollar chequing account into an interest earning deposit account in April 2005.

CASH INFLOW

Table 2: Cash Inflow from 1st September 2004 to 1st May 2005

Description	CI\$ Chequing Account (Main)	CI\$ Chequing Account (Comm Dev)	Total
Equity Injection	450,000	0	450,000
Transfers	600,000	0	600,000
Other Deposit	0	33,050	33,050
Mortgages	427,256	0	427,256
Grants	125,000	275,000	400,000
Insurance claim	2,151,362	0	2,151,362
	3,753,618	308,050	4,061,668

Equity Injection

1.08 This represents funds advanced to the NHCDT by Government to cover cost incurred for the Affordable Housing project pending the finalisation of the bond issuance.



Transfers

1.09 Upon receipt of the bond issuance in October 2004, funds were transferred into the CI dollar chequing account to cover costs incurred to repair houses damaged during hurricane Ivan and to cover general operating expenses of the NHCDT.

Mortgages

1.10 As at 1st May 2005, the NHCDT had sold 77 houses and rented 14. This resulted in a cash inflow of CI\$427k from down payments, monthly mortgage and rental payments.

Grants

1.11 This represents amounts transferred to the NHCDT from the Ministry of Community Services as a subsidy to cover operating expenditures.

Insurance Claim

1.12 Prior to Hurricane Ivan, the NHCDT had taken ownership of 132 of the completed houses from the first phase of the Affordable Housing Initiative (AHI). A preliminary assessment conducted after the hurricane indicated that 34 of the houses had been totally destroyed, 17 had sustained major damage and the remaining 81 had minor damage (*see table 3*). The NHCDT received an insurance settlement in three instalments totalling CI\$2.1 million for the loss incurred to the housing stock.

Table 3: Summary of Damage to Housing Stock

Location	Totally destroyed	Heavily Damaged	In condition to be repaired	Total
West Bay	5	8	56	69
Windsor Park	6	5	19	30
Eastern Avenue	23	4	6	33
	34	17	81	132



CASH OUTFLOW

Table 4: Cash Outflow from 1st September 2004 to 1st May 2005

Description	CI\$ Chequing Account (Main)	CI\$ Chequing Account (Comm Dev)	Total
Construction Contracts	1,068,431	0	1,068,431
Repairs & Other Construction	568,516	0	568,516
Salary and Wages	196,024	162,469	358,494
Utilities	18,791	0	18,791
Insurance	31,350	0	31,350
Other Operating Cost	181,101	19,678	200,779
Transfer	1,000,000	0	1,000,000
	3,064,213	182,148	3,246,361

Construction Contracts

1.13 The NHCDD entered into two contracts with Staunch Limited and one with Vetromeccaniche Invest Lda (Vetro) to repair and rebuild houses which were damaged or destroyed during the passing of Hurricane Ivan. The first contract with Staunch Limited for the rehabilitation of 26 houses was made on 17th December 2004 for a contract sum of CI\$275,520 (US\$328,000). The second Staunch Limited contract for the rebuilding of 7 houses was made on the 4th March 2005 for a contract sum of CI\$178,458 (US\$212,450). The Contract with Vetro for the rehabilitation of 79 houses was made on the 20th December 2004 for a contract sum of CI\$360,355 (US\$428,922).

1.14 In addition to these three contracts to repair and rebuild houses for the AHI, the NHCDD also entered into two other contracts with Staunch Limited. The first on 1st



March 2005 was to Supply and Erect 20 Temporary Housing Units at Fairbanks for a contract sum of CI\$217,560 (US\$259,000), and the second on 2nd May 2005 was to Supply and Erect a Laundry and Recreation Facility block at Fairbanks for a contract sum of CI\$25,200 (US\$30,000). This cash outflow represents payments made on these contracts as at 1st May 2005.

These contracts are discussed in more detail in Section 4 of this report.

Repairs & Other Construction

1.15 In addition to the primary construction work being carried out by Staunch Limited and Vetro, repairs and other construction was also being conducted as part of the Affordable Housing Initiative. The most significant of these being sewerage work by Waste Water Purification - CI\$105,582 and road and pavement work by Island Paving - CI\$83,911. The NHCDT also paid CI\$109,877 towards the dismantling and disposing of destroyed units and the general repairing and cleanup of the houses.

Salaries and Wages

1.16 This outflow relates to salaries paid to the NHCDT's Finance Manager, Community Development Manager, Site manager and Project Manager, as well as the NHCDT's community development officers and administrative staff. Wages were also paid to person employed for various ancillary functions as well as repair work for the Affordable Housing Initiative.

Other Operating Expenses

1.17 Included in this category of cash outflows are payments for the rental of the NHCDT's office space, legal fees, security services, computer software and other general operational cost that were not considered sufficiently material to merit further analysis.

Analysis of the US Dollar Chequing Account

1.18 Prior to 1st September 2004, the NHCDT did not have any activity in its US dollar chequing account. On 28th October 2004, a wire transfer of US\$14,315,814 was received for the bond issuance to finance the first phase of Affordable Housing



Initiative. On the same day US\$11,192,940 was transferred to satisfy the demand loan payment that had been received as a bridge loan pending the finalisation of the bond issuance, leaving a balance of US\$3,122,874.

1.19 As discussed previously, amounts totalling US\$722,195 (CI\$600,000) were transferred into the NHCDT main CI dollar chequing accounts.

1.20 On 28th April 2005, The NHCDT paid interest due on the bond issuance of US\$380,012 leaving a balance in the US dollar chequing account as at 1st May 2005 of US\$2,020,667 million.

Findings

1.21 From our analysis of the financial activities of the NHCDT, we did not observe any transactions that we considered irregular based on the nature of the NHCDT's operations and specific projects currently being undertaken.

However we did observe internal control weaknesses regarding the authorising of cheques.

Authorisation of cheques

1.22 In its banking resolution of Directors enacted in May 2004, the Chairman and Vice Chairman were identified as "A" signatories, and the Finance Manager and the Community Development Manager were identified as "B" signatories on the NHCDT's account.

1.23 The resolution stated that for amount up to CI\$5,000 any two "A" or "B" signatories were required. For amounts exceeding CI\$5,000 any "A" signatory countersigning with any "B" signatory, or alternatively both "A" signatories were required.

1.24 From our review of disbursements by the NHCDT, we observed cheques totalling CI\$510,000 that were countersigned by members of the board who were not signatories on the account. All of these cheques were cleared by the bank.



Recommendations

1.25 It is recommended that if it is the NHCDT's intention to have all of the Directors as signatories on the account, that this is reflected in the banking resolution of directors.

1.26 Greater monitoring of cheque disbursements is required to ensure that payments are properly authorised in order to reduce the risk of the misappropriation of funds.



HURRICANE IVAN INSURANCE CLAIM

Insurance Coverage

2.01 Insurance coverage was effected in July 2004 with Derek E. Bogle and Associates Insurance Ltd. As at that date, the loss exposure of the NHCDT was the value of the 132 completed homes and the materials on site for the remaining 68 houses.

Table 5: Value of Homes and Materials

Phase of Completion	Number	Value (CI\$)
Completed Units	132	5,715,361
Incomplete units (materials on site)	68	1,059,605
Total	200	\$6,774,966

2.02 The insurance coverage secured by the NHCDT covered the completed units at CI\$50,000 per unit, with a deductible of 2%. The material stored at the Fairbanks site was uninsured at the time of the hurricane. There was substantial loss of materials during the hurricane. The estimated loss was \$750,000. The NHCDT's legal counsel is currently seeking a resolution on this matter; therefore it will not be discussed further in this report.

Insurance Claim

2.03 Vetromeccaniche Invest Lda ("Vetro"), the construction company that was contracted to build the affordable houses, conducted an assessment of the destruction caused by Hurricane Ivan and provided the NHCDT with quotations to repair the damaged units and to rebuild the ones destroyed.



2.04 The initial quotes submitted to the NHCDT by Vetro estimated a total cost of CI\$3,205,458 for the repairing and rebuilding of the damaged or destroyed units. After subsequent revisions, this estimate was reduced to CI\$2,581,172 (*see table 6*):

Table 6: Quotation from damage assessment by Site

Location	Number of Houses	Total (CI\$)
West Bay	69	1,017,216
Windsor Park	30	512,304
Eastern Avenue	33	1,051,652
Total	132	\$2,581,172

2.05 Subsequent examination of the Eastern Avenue site resulted in it being classified as “totalled” and having to be entirely rebuilt.

2.06 The insurance claim was eventually agreed by loss adjusters and settled at CI\$2,151,362 in January 2005.

2.07 The NHCDT entered into contracts with Vetro and Staunch Limited to execute the repairing and rebuilding of 112 houses damaged by Hurricane Ivan for a total contract sum of CI\$814,598 (US\$970,000). This cost plus the estimated cost of CI\$1million⁴ that would have been incurred to replace the 20 other unit at Eastern Avenue gives a total cost to restore all 132 houses of CI\$1.8 million.

Conclusion

2.08 It is our opinion that the insurance claim received was reasonable and adequate to cover the loss and/or damage to the houses of the Affordable Housing Initiative as a result of Hurricane Ivan.

⁴ 20 units @ CI\$50,000 (the insured amount)

AWARDING OF CONSTRUCTION CONTRACTS

Overview

3.01 Following their assessment of the Affordable Housing site, Vetromeccaniche Invest Lda (“Vetro”) submitted a letter to the NHCDT on 29th September 2004 outlining the level of damage suffered by each of the three sites at which units had been completed

Table 7: Initial Damage Assessment

Level of Damage	West Bay	Windsor Park	Eastern Avenue	Total
Repairable	56	19	6	81
Heavily Damage	8	5	4	17
Totally destroyed	5	6	23	34
Total	69	30	33	132

3.02 Following discussions with regards to the possibility of redeveloping the Eastern Avenue site to higher densities, the NHCDT decided that the Eastern Avenue site would be sidelined in the repair process, and be used for the reclamation of materials and components usable for the repairs and rebuilding of units at the other two sites.

3.03 On the 29th September 2004 the NHCDT instructed Vetro to commence the repairing of those units classified as repairable as a matter of expediency on the basis of weekly payments in arrears against labour timesheets plus an advance payment for necessary replacement tools lost during the hurricane. Such payments would be on account pending the finalisation and acceptance of a full repair/rebuild quotation from Vetro.



3.04 Subsequent to repair work commencing, and the decision to exclude the Eastern Avenue site from the repair process, the number of units to be worked on and the related damage levels were revised.

Table 8: Revised Damage Assessment

Level of Damage	West Bay	Windsor Park	Total
Repairable	58	19	77
Heavily Damaged	8	5	13
Houses to be Rebuilt	3	6	9
Total	69	30	99

Submission of Quotations – Vetro

3.05 Following Instructions from the NHCDT, Vetro submitted two quotations on the 2nd and 9th of November 2004 for the minor repairs to 77 units and the major repairs/rebuilding of 22 units respectively.

Table 9: Analysis of Vetro Quotations

Quotation	Total Cost (CI\$)	Cost per Unit (CI\$)
Minor Repairs to 77 units	557,247	7,237
Major Repairs to 13 units	205,800	15,831
Rebuilding of 9 units	264,700	29,411
Total	\$1,027,747	

3.06 Both quotations predicted a final completion date of no later than the end of February 2005.

3.07 On the 23rd and 26th of November 2004, the Consultant Project Manager for the NHCDT prepared and signed letters of acceptance for the quotation to repair 77 units that was submitted by Vetro in the sum of CI\$557,247 (US\$603,389).



Subsequent to this, Vetro submitted another revised quotation on 6th December 2004 to repair 75 houses with minor damage and rebuild 4 units that had suffered heavy damage. The total of this quotation was CI\$606,337 (US\$721,542).

3.08 After a meeting held between Vetro and the NHCDT on 10th December 2004, Vetro submitted yet another quotation on the 13th December 2004. This quotation stated that following the agreements made in the meeting, Vetro had reduced the cost for the final works to finish the 79 houses that were currently being worked on (as per the 6th December quotation), to repair the remaining units with heavy damage (11 units) and to rebuild the totally destroyed houses (9 units) as had been requested by the NHCDT.

Table 10: Final Quotation from Vetro

Quotation	Cost (US\$)	Cost per unit (US\$)	Cost per unit (CI\$)
Complete work on 79 units ⁵	\$110,000	NA	NA
Major Repairs to 11 units	\$155,222	\$14,111	\$11,858
Rebuilding of 9 units	\$274,999	\$30,555	\$25,676
Total	\$540,221		

3.09 As at the date of this quotation Vetro had already been paid CI\$267,894 (US\$318,922) for work ongoing on the 79 units, therefore the total cost to complete the 79 units was CI\$360,355 (US\$428,922). This was a reduction of CI\$245,900 (US\$292,620) or 40% from the amount previously quoted on the 6th December 2004.

3.10 On 20th December 2004, a contract was agreed between the NHCDT and Vetro to rehabilitate 79 houses for CI\$360,355 (US\$428,922), with amounts already paid being applied against the total contract sum.

3.11 No contracts were made with Vetro for the repairs to the remaining 11 units or for the rebuilding of the 9 units that were totally destroyed.



⁵ Cost of US\$110k represent only the amount to complete work therefore cost per unit not applicable

3.12 Management of the NHCDT stated that at the meeting on 10th December 2004, the former Minister and Chairman of the NHCDT, presented another construction firm, Staunch Limited, and indicated that the company would be involved in the restoration of the Affordable Housing units, and should be given work not being executed by Vetro at that time.

Staunch Limited

Background

3.13 Staunch Limited was registered in the Cayman Islands on the 23rd September 2002 with a sole Director holding 100 shares. The sole director subsequent transferred all of his shares to Reid Services Limited, a management company, on the 19th February 2004. On the 18th May 2004 Mr. Bruce Putterill, the former Deputy Chairman of the NHCDT's Board of Directors and Mr. Dag Egerberg were appointed as directors of Staunch Limited.

3.14 All of the shares held by Reid Services Limited were then transferred to Mr. Renard Moxam and Mr. Egeberg on the 1st November 2004. On the same day Mr. Bruce Putterill resigned as a director of Staunch Limited, and Mr. Renard Moxam and Mr. Olav Monteith were appointed as Directors.

3.15 On the 17th May 2005, Mr. Dag Egeberg resigned as a Director of Staunch Limited.

Staunch Limited Quotations

3.16 On the 13th December 2004 Staunch Limited submitted a quotation for the repair of 105 damaged houses and the rebuilding of 7 houses.

3.17 The quotation stated that following a site visit on the 10th December 2004, it was concluded that there were 6 units with minor damage, 20 units with heavy damage and 7 units that would have to be rebuilt. The quotation also provided the



related cost to repair and rebuild these units as well as the cost to complete work on the 79 units being worked on by Vetro.

Table 11: Staunch Limited First Quotation

Quotation	Cost (US\$)	Cost per unit (US\$)	Cost per unit (CI\$)
Complete work on 79 units	\$106,650	NA ⁶	NA
Minor Repairs to 6 units	\$48,000	\$8,000	\$6,722
Major Repairs to 20 units	\$280,000	\$14,000	\$11,765
Rebuilding of 7 units	\$266,000	\$38,000	\$31,933
Total	\$700,650		

3.18 Four days following the submission of their quotation, Staunch Limited signed a contract with the NHCDT to repair 26 units for a contract sum of CI\$275,520 (US\$328,000), to be completed no later than 17th March 2005.

3.19 Staunch Limited submitted two other quotations on the 19th January 2005 for the rebuilding of the 7 destroyed units. One quotation based on using as the construction method NOVOPAL SYSTEM and the other using sandwich panels consistent with the original method used to build the houses. The prices quoted for each method was US\$265,986 and US\$212,450 respectively.

Table 12: Staunch Limited Contract to Rebuild 7 Units

Quotation	Total Cost (US\$)	Cost per Unit (US\$)	Cost per Unit (CI\$)
NOVOPAL	\$265,986	\$37,998	\$31,931
Sandwich Panel	\$212,450	\$30,350	\$25,504



⁶ Cost of US\$106k represent only the amount to complete work therefore cost per unit not applicable

3.20 The NHCDT signed a contract with Staunch Limited on the 27th January 2005 for the rebuilding of 7 houses using the Sandwich Panel method for the contract sum of C\$178,529 (US\$ 212,450). The contract stated that the work was to be completed not later than 15th April 2005.

Comparison of quotations from Vetro and Staunch Limited

3.21 At the time that Staunch Limited submitted its first bid Vetro had already executed a substantial portion of the repair works on the 79 units with minor damage. Therefore for the purpose of this comparison attention will be paid only to those units for which no work had been completed at the time of Staunch Limited first submission.

3.22 Both companies submitted quotations for the rebuilding of units as well as the repairing of units that suffered major damage. Because the companies prepared their quotations based on different assessments and with varying number of units, for the comparison to relevant only the cost per unit rather than the total cost was analysed.

Table 13: Comparison of Staunch Limited and Vetro

Company	Cost to Repair per unit (US\$)	Cost to Rebuild per Unit (US\$)
Vetro	\$14,111	\$30,555
Staunch Limited	\$14,000	\$30,350
Variance (US\$)	\$111	\$205

3.23 In addition to the fact that the variance between the two companies is negligible, there are a number of salient factors that must also be considered in this analysis.

Competitive Bidding

3.24 There was no competitive bidding process used in the awarding of the three contracts for the repair and rebuilding of the houses. We have given consideration to



the pressing demand for housing following Hurricane Ivan, and the resulting need to circumvent some processes in order to expedite the repairing and rebuilding of the houses.

3.25 However we would have expected that Vetro having been engaged to originally erect the units would have been the company used to execute all of the rehabilitation works. In the event that Vetro did not express an interest to do so then other companies could have been sought through a competitive process. Vetro clearly indicated that they were willing to do the rehabilitation work, and as noted in the comparison, the difference in the cost being charged between Vetro and Staunch Limited was immaterial.

Equity of quotation submission

3.26 It was noted with concern that Staunch Limited made its first submission of a quotation for the repairing and rebuilding of units to the NHCDT on the 13th December 2004, more than a month after Vetro had submitted its first on the 2nd November 2004. Staunch Limited then submitted a second quotation for the rebuilding of the 7 units on the 19th January 2005, again more than a month after Vetro had submitted its final quotation. The first contract with Staunch Limited was signed only four days after its original bid.

3.27 We highlight the fact that in its 13th December 2004 submission Staunch Limited stated the cost to rebuild the units as US\$38,000 per unit subject to the use of material and components stored at the Fairbanks site. This suggests that the construction method to be used would be the same as the original one used for the units constructed by Vetro. In its second quotation to rebuild the units, Staunch Limited stated a revised cost of US\$30,350 using the same construction method as that being used by Vetro. This quote was US\$150 less than the amount submitted by Vetro a month earlier. We did not find any evidence explaining the reduction of the Staunch Limited quotation.



3.28 It is our opinion that the NHCDT, by allowing Staunch Limited to submit their quotation after considerable time had elapsed following Vetro's submission, created a risk that Staunch Limited may have been privy to the details of Vetro's quote, thereby removing the element of equity and fairness in considering the two quotes.

3.29 Although the NHCDT is not regulated by the procedures of the Central Tender Committee it should have exercised good stewardship and executed the contracts in a manner that is consistent with best practices which gives an appearance of transparency and fairness.

Evaluation of Companies

3.30 From our review of evidence gathered and discussions with management of the NHCDT, we have concluded that no assessment of the technical competent or financial stability of Staunch Limited was conducted prior to awarding them contracts to repair and rebuild the houses damaged in the hurricane.

3.31 The NHCDT did however have an existing relationship with Vetro as they were the contractor who originally erected the 132 houses prior to Hurricane Ivan. In our opinion, this should have made them a more reasonable choice.

3.32 The Consultant Project Manager for the NHCDT performed a detailed evaluation of the quotations submitted by Vetro and recommended to the NHCDT that Vetro should be used to conduct the repair and rebuilding work. There was no evidence of an evaluation of Staunch Limited quotations being conducted by the Consultant Project Manager or any of the managers of the NHCDT. Nor was there any evidence of a comparative analysis of the two companies' quotations being conducted prior to the awarding of contracts.

3.33 Management of the NHCDT stated that no evaluation of Staunch Limited was conducted by them. Management further stated that the decision to engage Staunch Limited rather than Vetro to repair the 26 units with major damage and rebuild the 7 units that were totally destroyed was based solely on a directive from the former



Minister of Community Services. We have reviewed the minutes of the NHCDDT's Board of Director's meetings and have seen no indication of this decision by the former Minister being ratified.

Conclusion

3.34 My office expressed concern during Phase 1 of the AHI that there was no competitive bidding. We must again express concern with the absence of competitive bidding processes and the overall manner in which contracts are awarded by the NHCDDT. These concerns and the potential ramifications were extensively outlined in our previous report on the Affordable Housing Initiative, however no improvement has been noted.

3.35 For these new contracts, we have given consideration to the circumstances that were present following Hurricane Ivan and the pressing need to provide housing, which in our opinion was reasonable cause allow Vetro to commence repair works on the 79 houses with minor damage.

3.36 However such consideration does not extend to the manner in which the contracts with Staunch Limited were awarded. It is of significant concern that the NHCDDT would engage the services of a company from whom they had no proof of prior construction experience in the Cayman Islands or in any other country. In addition, the NHCDDT did not perform a detailed evaluation of the quotations submitted by Staunch Limited prior to the contracts being awarded.

3.37 In my opinion, the unilateral decision to award the contracts to Staunch Limited by the former Minister, who was also the chairman of the NHCDDT at that point of time, was inappropriate and not consistent with the manner that custodians of public funds should discharge their duty.



3.38 I have seen no evidence to justify why Staunch Limited rather than Vetro was awarded these contracts to repair houses with major damage and to rebuild houses that were completely destroyed.

3.39 Mr. Dag Egeberg has been the principal representative for Staunch Limited, therefore I express concern regarding his resignation as a director of Staunch Limited, and the impact this may have on the completion of the outstanding projects.

Other Contracts

3.40 In addition to the two contracts to repair and rebuild houses for the Affordable Housing Initiative, Staunch Limited was also given two other contracts. One was to construct 20 temporary houses, while the other was to construct a laundry room and recreational facilities at the Fairbanks site for workers who would be engaged in the re-construction of houses to be under taken by the NHCDT. There was no competitive bidding for either of these contracts.

20 Temporary Housing Units

3.41 On the 28th February 2005 Staunch Limited submitted a quotation to the NHCDT for the proposed work to supply, erect and commission 20 temporary housing units at the Fairbanks site for a total amount of CI\$217,560 (US\$259,000).

3.42 The NHCDT accepted the quotation submitted by Staunch Limited and awarded a contract for the quoted amount on 1st March 2005, stipulating that the work should commence on the day of the contract and be completed no later than 30th April 2005. It should be noted that the one day between the quotation and the awarding of the contract allowed no time to do any reasonable analysis of the quotation.



Laundry and Recreational Facilities

3.43 A quotation for the construction of a Laundry room and recreational facilities was received from Staunch Limited on 1st May 2005 in the amount of US\$30,000 (CI\$25,200). The NHCDT accepted this quotation and awarded a contract to Staunch Limited for the quoted amount on 2nd May 2005. As above, the contract was awarded one day after the quotation was received. This would not allow for any reasonable analysis of the quotation.



STATUS OF CONTRACTS

Vetro contract to repair 79 houses

4.01 As at 1st May 200, the NHCDT has made payments to Vetro for work completed on their contract in the amount of CI\$337,420 (US\$401,530). This represents a percentage of completion of 93% based on the total contract sum of CI\$360,355 (US\$428,922).

4.02 The contract did not state a completion date, therefore we cannot comment on the timeliness of the works. However the NHCDT's Site Manager has stated that at the time of this report, this contract was completed and the final payment is being held pending final approval of electrical work.

Staunch contract to repair 26 Houses

4.03 The NHCDT has made payments of CI\$294,558 (US\$354,890) towards this contract. This resulted in an over payment of CI\$19,038 (US\$22,655) more than the contract sum of CI\$275,520 (US\$328,000).

4.04 This overpayment resulted from the NHCDT making a payment towards an invoice submitted by Staunch Limited on the 16th December 2004 for repair works carried out on the Eastern Avenue site. This invoice was submitted prior to the signing of the contract on the 17th December 2004 to repair the 26 damaged units and should have been applied against the agreed contract sum.

4.05 However, subsequent to the signing of the contract, Staunch Limited submitted and was paid for additional invoices totalling the agreed contract sum CI\$275,520. The failure of the NHCDT to reconcile invoices paid to the related contract sum allowed this overpayment to go undetected.

4.06 The NHCDT's Site Manager has stated that at the time of this report this contract was completed.



Staunch contract to rebuild 7 Houses

4.07 As at 1st May 2005, payments totalling CI\$141,737 (US\$119,107) was paid towards this contract. This represented a percentage of completion of 79% of the contract sum of CI\$178,458 (US\$212,450). The NHCDT's Site Manager has stated that this project is approximately 70% complete and work is currently on going.

Staunch Contract to build 20 temporary houses

4.08 Staunch Limited was paid CI\$178,268 (US\$147,962) or 79% of the total contract value CI\$217,560 (US\$259,000) between the 3rd March 2005 and the 27th April 2005. However, from our observations and discussions with Management of the NHCDT, a substantially lower percentage of work had actually been completed to date.

4.09 We have reviewed this contract, the related invoices and supporting documents, and identified several anomalies relating to the issuance of the contract and manner in which payments were made. These findings cause us great concern as noted in the subsequent paragraphs.

Planning Approval for Temporary Houses

4.10 On the 5th April 2005, **one month after** the contract to erect the temporary units was awarded to Staunch Limited, the NHCDT forwarded an application to the Director of Planning seeking permission to erect the units.

4.11 The Central Planning Authority responded to the NHCDT application on 15th April 2005 stating that planning permission was granted for twelve months only, subject to a building permit being obtained from the Chief Building Control Officer, and work should not commence prior to the issuance of a building permit.

4.12 In a letter sent to the NHCDT from the Chief Building Control Officer on the 27th April 2005, it was stated that the construction details for the proposed temporary houses had been reviewed by the Building Control Unit ("BCU") and were not in



compliance with the Cayman Islands Building Code and/or construction document submittal requirements. The letter further stated that these requirements were to be met prior to the issuance of a building permit and the start of construction.

4.13 It is our understanding that at the date of this report, no permission had yet been granted that would allow construction to commence. However, there has been some preliminary construction as noted in paragraph 4.26.

Payments

4.14 By the time that this letter from BCU had been sent to the NHCDT, Staunch Limited had already received a mobilisation payment of CI\$65,268 (US\$77,700) on the 7th March 2005, and had also submitted and received payments on three invoices totalling CI\$105,000 (US\$125,000). (See table 14)

Table 14: Staunch Limited Invoices for Temporary Houses Contract

Invoice Date	Amount (CI\$)	Amount US\$
11 th April 2005	\$71,400	\$85,000
11 th April 2005	\$16,800	\$20,000
27 th April 2005	\$16,800	\$20,000
Total	\$105,000	\$125,000

Review of invoices

4.15 From our review of invoices submitted to the NHCDT for payment by Staunch Limited under this contract, it was noted that there was no evidence of approval by the NHCDT's Site Manager on the two invoices submitted on the 11th April 2005. However there was evidence of his signature on the invoice submitted on the 27th April 2005.

4.16 The fact that these two invoices of 11th April were paid without the Site Manager's approval was raised with the Finance Manager of the NHCDT who agreed



that prior to payments being made for the invoices submitted, the Site Manager was required to review them and ensure that the works billed for was satisfactory completed as stipulated in the contract terms.

4.17 The Finance Manager stated that he original refused to make the payments due to the absence of the Site Managers approval, but was subsequently contacted by the former Minister of Community Services who directed him to pay the amounts as per the invoices.

4.18 The non-approval of the first two invoices and the subsequent approval of the last one were discussed with the Site Manager, who stated that he did not approve to first two invoices submitted on the 11th April 2005 as no work had been completed at the time of their submission. The Site Manager also stated that he had refused to approve the 27th April 2005 invoices for the same reasons but was contacted by the former Minister of Community Services and directed to approve them.

4.19 I find this situation is extremely troubling. It is clear that there has been little substantial work on this site (*see para 4.26*). Therefore, the justification and original actions of both the Site Manager and the Finance Manager appear appropriate in the given situation. The former Minister, on three separate occasions, ignored the sound advice of his senior staff and ordered payments made. As a result I believe that the Government has paid Staunch Limited over CI\$100,000 for work that has not been done and has placed substantial sums of government funds at risk.

Staunch contract to Build Laundry and Recreational Facilities

4.20 Following the NHCDDT entering a contract with Staunch Limited on the 2nd May 2005, an invoice was submitted on the 18th May 2005 requesting payment of CI\$7,560 (US\$9,000), 30% of the total contract value as mobilisation. As at the date of this report, no work has been done on this contract.

4.21 Payment was made on the 18th May 2005, five days after the Permanent Secretary for the Ministry of Community Services had advised all Heads of Departments that based on the instructions from the Governor, no new contracts or



agreements for works or services were to be entered into in light of the fact that general elections had recently concluded and there would be a new incoming government.

4.22 Although the contract had been signed prior to the directive from the Permanent Secretary, we would have expected that mobilisation payments on contracts not initiated at the time of the election would have been deferred until the new Minister was instated.

4.23 We considered this action unacceptable in light of the fact that the new government was to be installed on the 18th May 2005, and there was no justifiable reason why it was necessary to make the payment on the same day, rather than have it deferred.

4.24 Subsequent to the instalment of the new government, the Finance Manager was instructed by the NHCDT's new Chairman to place a stop payment on the cheque. However, an error in the stop payment request forwarded by the NHCDT to the bank resulted in the cheque being cleared.

Valuation of Work on the 20 Temporary Homes

4.25 On the 15th of June 2005 a representative from the Lands and Survey Valuation Department inspected the site of the 20 temporary homes in Fairbanks at the request of the Auditor General.

4.26 Based on this inspection, The Director of Lands and Survey reported:

“Work had begun on three temporary housing double units, each approximately 30ft by 20ft, single storey. Construction specification is basic, comprising prefabricated self-supporting 60mm sandwich panel roof. Of the two units, two appear complete externally; however upon

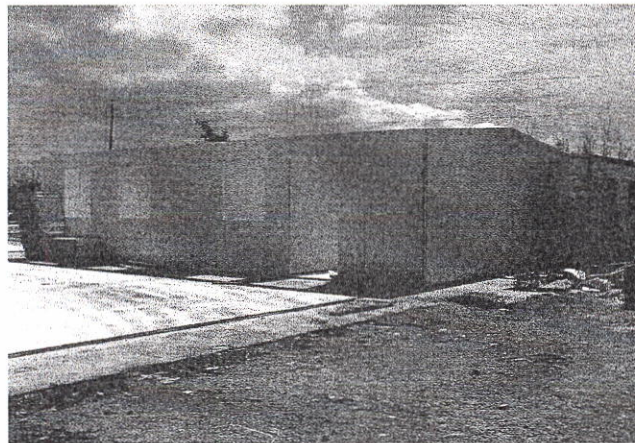


inspection neither has any internal subdivision, finishes, furnishings or kitchen.

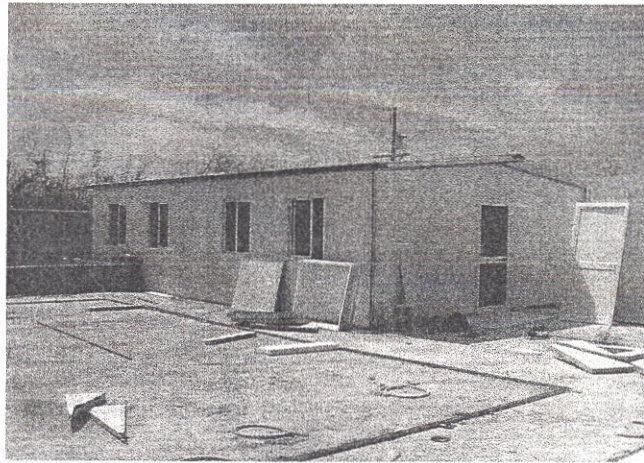
There appears to be provision for shared bathroom facilities for each double unit, although this is not accordance with the floor plans. Workmanship appears shoddy/poor.

*The third unit is in the early stages of construction, with walls but no doors or roof. None of the units would appear to have electricity or water connections. It is difficult to assess the value of the 3 units as none is yet complete, however in my opinion the value of works to date is approximately **CIS10,000**.*

The remainder of the compound is being used for the external storage of various construction materials. However, there is no shelter or protection from the elements evident, and it would appear some of the materials are now weather damaged.



Picture of Unit with no roof, doors or windows



Unit substantially completed externally

4.27 According to the Site Manager all supplies and materials have been purchased to erect these 20 temporary homes.

Conclusion

4.28 We are satisfied that work on the Vetro contract and the Staunch Limited contract to rebuild the damage units has been or is currently being executed and billed for in a reasonable manner, except as noted below.

4.29 It is our opinion that the absence of reconciliation of invoices to contracts resulted in an overpayment to Staunch Limited of CI\$19,038 for the contract to repair houses damaged in the hurricane.

4.30 We find it unacceptable that the NHCDT has paid 79% of the total contract sum for the temporary housing unit to Staunch Limited before the necessary planning process has been completed and for work that was not done. In addition to breaching the Cayman Islands Planning Codes, the NHCDT has created the risk of potential losses if the contractor is unable to complete the project.

4.31 The report of Lands and Survey department confirms that the value of works at the time of this report was CI\$10,000 or 5% of the contract value. It is therefore incomprehensible why the former Minister of Community Services of



the NHCDD directed the NHCDD's Managers to approve the related invoices and authorise cheques, and in his capacity as the chairman of the NHCDD, co-signed the cheques for these payments.

4.32 It is very concerning that the former Chairman of the NHCDD authorised and issued mobilisation payment to Stauch Limited on the 18th May 2005, rather than exercising prudence and deferring it until the new administration was installed. As a result, Stauch Limited has received payment of C\$7,560 (US\$9,000) for work that as at the date of this report has not commenced.



SALES AND MORTGAGES OF HOUSES

Background

5.01 The National Housing Trust Mission Statement *"is to construct and provide affordable homes in planned communities, offer easier financing opportunities, and provide a management system that adds security, value and ownership. that imparts a sense of pride in hard working Caymanians that earn less than twenty four thousand dollars per annum (CI\$24,000)".*⁷

5.02 The selection criteria for the allocation of houses was based on the above Mission Statement, primarily that applicants should be Caymanian or have Caymanian status, and should earn less than twenty four thousand dollars per annum (CI\$24,000).

Sale of Housing Units

5.03 As at the date of this report, 77 houses have been sold in Windsor Park and West Bay. These sales occurred between 1st October 2004 and 31st December 2004.

5.04 All of the houses are mortgaged by the National Housing Trust, with initial mortgage payments due one month after occupancy, and on a monthly basis thereafter. The mortgages are amortized over 20 years at a fixed interest rate of 8.5% per annum. (see details in Table 15)

⁷ Affordable Housing Trust Business Plan, 1.2 Mission Statement, page 5



Table 15: Housing details

	Two bedroom	Two bedroom plus den
Selling price	\$56,900	\$69,900
Down payment	\$1,000	\$1,500
Mortgage payment	\$485	\$594
Strata fees	\$94	\$105

5.05 In the event that a homeowner wishes to sell their home, they can only sell it back to the Trust at original cost, not the market value. If resold, the homeowner would retain only the equity that they have in the home. To date, no homes have been resold.⁸

5.06 It should be noted that twelve homes at Eastern Avenue and one home in West Bay are being rented at a cost of \$650/month for a 2 bedroom and \$800/month for a 2 bedroom with den.

Findings

Selection Criteria

5.07 The mission statement provided basic selection criteria of two factors, namely income and citizenship. While it provided a ceiling income, it did not specify a minimum income that a potential homeowner would need to earn in order to qualify. It also did not take into account social factors such as the number and age of dependant children an applicant might have.⁶

5.08 Although the mission statement indicated basic selection criteria, discussion with management of the National Housing Trust revealed that there was no concrete criteria that was adhered to in selecting who would receive a home. However, it was



⁸ Based on discussion with Roger Bodden, NHT manager, June 8, 2005

stated that applicants were assessed on an individual basis on factors such as their ability to pay, job stability and their social background.

5.09 There were over 350 applicants of which management was only able to assess 55 of them prior to Hurricane Ivan. However, after the hurricane, due to the pressing need to find homes for people, along with alleged interference from political figures, applicants were receiving homes without being assessed.⁹ As a result of this, there were various cases where unqualified persons received homes.¹⁰

5.10 Out of the population of 77 successful applicants, a sample of 40 was selected and reviewed. It was noted that the managers of the NHCDT did not conduct a eligibility assessment for fourteen of these successful applicants. In addition, 21 applicants (53% of the sample) fell outside the selection criteria as they earned more than CI\$24,000 per year (CI\$2,000 per month). (See Table 16 for details).

Table 16: Income of homeowners outside the selection criteria

Income range per month (CI\$)	Number of applicants
\$2,001 - \$2,500	6
\$2,501 to \$3,000	9
Over \$3,000	6
Total	21

5.11 Our sample also revealed four cases where the applicants were not recommended for a mortgage by the Manager of the NHCDT, yet they were successful in obtaining a home and therefore a mortgage. It should be noted that as at June 9th, 2005, two of these cases were in arrears totalling CI\$3,525, one over 60 days, and the other over 90 days.

5.12 Further analysis of these four cases revealed that there were two cases where the applicant's disposable income was less than the required mortgage payment. These two applicants received CI\$400 and CI\$800 respectively in government

⁹ Based on discussion with Roger Bodden, NHT manager, June 8, 2005

¹⁰ Based on discussion with Catherine Tyson, CDT manager, June 15, 2005



assistance as their sole income, rendering it virtually impossible for them to meet their mortgage commitments without outside assistance.

5.13 In my opinion more work needs to be done in this area than my staff was able to do in the time allotted. For example, we have been able to review the files of some selected individuals, however we have not been able to do a detailed analysis. Nor have we been able to review files of persons who applied but did not receive a house.

5.14 My office will be conducting a complete review of the selection process and will report the findings in our subsequent report due by the end of August 2005.

Mortgage Agreement

5.15 After Hurricane Ivan, due to a pressing need to allow people to move in to habitable houses and time constraints to achieve this goal, an interim terms of reference was used as the legal document between the homeowners and the NHCDT as the mortgage agreement and Strata By-Laws had yet to be finalized.

5.16 The interim terms of reference stated the type of house, the sale amount, the interest rate, down payment, repayment terms and other general conditions. It notes that the Strata By-Laws are applicable and will be forthcoming. However, it does not address such issues as transfer of title, lump sum payments of principal, payments in arrears, penalties for late payments, damages and renovation to the property or terms of resale.

5.17 As of 10th June 2005, the final mortgage agreement and Strata By-laws are still pending and not yet finalized. It is expected that homeowners will sign the final mortgage agreement when it becomes available. At this time, the title of ownership for each house remains with the NHCDT, as no transfers have been made to date.¹¹



¹¹ Based on discussion with Roger Bodden, NHT manager

5.18 Currently the NHCDT is experiencing a variety of issues due to the fact that homeowners do not have any written guidelines that they must follow in order to live in the Affordable Housing Community. For example, one homeowner wants to build a well in his backyard, and another wishes to build an addition on to her house. The presence of a final mortgage agreement and Strata By-Laws would help the homeowners to have a common understanding of the National Housing Trust's vision and expectations.

Financial

Down payments

5.19 Homeowners were required to make a down payment prior to occupancy. All of the required down payments (CI\$130,880)¹² have been made and deposited in the bank.

5.20 The National Housing Trust received CI\$32,800 in donations to assist persons with their down payment. However further review revealed that management decided to use CI\$3,658 of this donation to make monthly mortgage and strata payments for two homeowners, who were unable to meet their mortgage obligation. It should be noted that one of these homeowners was not recommended by management and there was no assessment done on the other homeowner. In addition, based on the present financial status of these two homeowners, they may never be able to meet their future mortgage obligation and thus they may become a liability to the NHCDT.

Mortgage payments

5.21 Up to the end of April 2005, it was expected that the National Housing Trust would have collected CI\$237,217 in mortgage payments. However, only CI\$229,246 was collected and deposited in the bank. The difference of CI\$7,971 represents overpayments of CI\$5,647 and arrears of CI\$13,618.

¹² Note that one applicant paid \$31,000 instead of the required \$1,500; in addition, one applicant paid \$1,000 but does not yet have a home, as he is waiting for one in Windsor Park to become available.

5.22 Further analysis was done on homeowners in arrears as at 30th April 2005 and 9th June 2005. (Tables 17 and 18 respectively)

Table 17: Homeowners in arrears as at 30th April 2005

Number of homeowners	Between 30 and 60 days (CI\$)	Between 60 and 90 days (CI\$)	Above 90 days
17	\$9,596		
3		\$4,022	

5.23 As seen in Table 17, there were 20 homeowners in arrears as at 30th April 2005, representing 26% of the total homeowners, and the total amount in arrears was CI\$13,618.¹³

Table 18: Homeowners in arrears as at 9th June 2005

Number of homeowners	Between 30 and 60 days (CI\$)	Between 60 and 90 days (CI\$)	Above 90 days (CI\$)
18	\$14,217		
5		\$6,993	
4			\$8,912

5.24 By 9th June, 2005, the number of homeowners in arrears increased by 9% with 27 homeowners in arrears, owing a total amount of CI\$30,122.¹⁴

5.25 This was an increase in arrears of CI\$16,504 within the 6 weeks period, 30th April 30th to 9th June 2005. Based on this limited review, it is clear that the NHCDDT needs to put additional measures in place to collect outstanding arrears before the situation deteriorates further.

5.26 Lack of collection of mortgage payments will have a negative impact on the NHCDDT's ability to repay its outstanding bond obligation. In the long run, the



¹³ Based on calculations done by CIAO

¹⁴ NHT ageing report dated June 9, 2005

NHCDT could experience serious financial difficulties if this trend that has developed continues.

5.27 Ultimately, this could become a strain to the Cayman Islands Government who would potentially have to take over the Affordable Housing Initiative obligations, including any liabilities.

Rentals

5.28 Fourteen houses have been rented out, of which thirteen are located at Eastern Avenue and one is in West Bay. On the instruction of the previous Chairman of the NHCDT, four of the houses were rented to Staunch Limited, a construction company contracted by the NHCDT to carry out repair and rebuilding works, and two to Capital Trucking, a company owned by the former chairman of the NHCDT.

5.29 The remaining 8 houses were rented to individuals. However, three persons moved in as squatters for several months. One has since left, without paying any rent. The NHCDT wrote off CI\$5,600 in rental income for the remaining two individuals, who have since signed contracts and started to pay rent.

5.30 This whole issue of renting these units causes concern. For the most part these homes were meant for purchase by low income Caymanians. It seems unreasonable that the NHCDT would continue renting to two individuals have not paid back rent when there remains a large backlog of people who desperately want a home. It was alleged that some rentals were made at the request of the former Minister. I have not had sufficient time to substantiate these claims, but this matter will be reviewed further and reported in my August report.

5.31 The end result is that only four of the fourteen renters were actually selected by the management of the NHCDT based on age and family circumstances.

5.32 A total of CI\$40,800 was collected and deposited for the period November 2004 to 30th April 2005. However, five renters still owed CI\$5,975 to the NHCDT.



Recommendations

Selection Criteria

5.33 The NHCDDT needs to better define its selection criteria. Consideration should be given to the applicant's disposable income, the number of dependant children, and whether or not the applicant has steady employment.

5.34 There should be a minimum acceptable disposable income as well as a maximum salary limit.

5.35 Applicants should be prioritized and the most needy served first.

5.36 The managerial assessment process should act as an internal control mechanism to select only qualified applicants. Political interference should not be allowed to continue as it defeats the mandate of the NHCDDT and overrides the selection procedures.

5.37 The Board of Trustees for the NHCDDT needs to have a more active role in the approval of applicants as a final internal control.

Mortgage agreement and Strata By-laws

5.38 The NHCDDT should make every effort to finalize the mortgage agreement and the Strata By-laws as soon as possible as the interim agreement currently in use is inadequate.

5.39 The mortgage agreement needs to be well defined in order to address issues such as transfer of title, lump sum payments of principal, payments in arrears, penalties for late payments, renovation and damages to the property, and terms of resale.



5.40 The National Housing Trust should ensure that all homeowners sign the mortgage agreement in a timely manner. Once the homeowners have signed, title should be transferred.

Default of payment policy to be established

5.41 The NHCDT should recognize that within the rental and mortgage industry, there are possibilities for defaulted payments. As such, they should formulate an internal policy to deal with bad debts.

5.42 A special effort should be made to collect all outstanding mortgage and rental payments in arrears and to ensure that future payments are made in a timely manner. It should be noted that the NHCDT has acquired the services of a Collections Officer who started work the week of June 6th.¹⁵ We would expect that in the future, the number of delinquents and the amount in arrears would decrease.

Conclusion

5.43 It is my opinion that the mortgage operations of the NHCDT are not being well managed, as evidenced by the following:

- Although the Selection Criteria as stated in the Mission Statement was simple and not well-defined, there was evidence of non-compliance to it. This, combined with political interference, allowed unqualified persons to obtain homes.
- Rental and mortgage payments are in arrears and the trend is worsening.
- There is no internal policy dealing with bad debts.

¹⁵ Based on discussion with Roger Bodden, NHT manager, June 10, 2005

- Sufficient time has passed whereby the NHCDDT could have finalized the mortgage agreement and Strata By-laws. Yet to date, they are still outstanding.
- The National Housing Trust is meant to operate independent of government. Yet the Chairman of the Board was the Minister of Community Services, Youth, and Sports and Gender Affairs. This in itself is a conflict of interest as action may be taken to enhance the government's position instead of carrying out the mandate of the NHCDDT.



IMMIGRATION MATTERS

6.01 During our review of the NHCDT, certain matters pertaining to Immigration status for Staunch Limited employees came to our attention. We discussed these concerns with senior Immigration officials who provided additional information relating to individual circumstances. The following is a summary of the observations noted in this regard.

6.02 When Vetromeccaniche Invest Lda (“Vetro”) was awarded the Affordable Housing Initiative to build 200 homes in 2003, it wished to bring in Cuban labourers to do the work. However, it did not obtain work permits for these employees. Rather, the Cabinet exempted them from the requirements for work permits and informed Immigration of this situation. The Immigration Department then allowed these employees of Vetro to enter the country and have their passports stamped. The employees were registered in the Immigration computer as work permit exempt. This was not noted in my Office’s first review of the AHI Initiative as I had not been made aware of these procedures.

6.03 I find this situation disturbing. Government has always been exempt from the requirements of obtaining work permits. However, this has been for bone fide employees of the Government. I do not believe that it was intended that any employee of a company who receives a government contract would also receive a government exemption from obtaining a work permit. In addition, awarding a contract to a company from overseas and then exempting them from the work permit process seems to be unfair to other bidders and local contractors who have to abide by Immigration rules.

6.04 I would strongly urge the Government to review this situation and provide more strict guidance as to when a government employee exemption can be obtained.

6.05 As disturbing as the Vetro situation is, the situation with Staunch Limited is much worse. As previously reported, Staunch Limited was awarded the contract for



rebuilding some of the AHI homes when there was a disagreement between the Ministry of Community Services and Vetro. I have been informed by one of the owners of Staunch Limited, Mr. Dag Egeberg, that workers from Vetro were used by Staunch to do their work in the early stages of the project. Later, other workers were brought in by Staunch to do work for the Housing Trust

6.06 However, the Chief Immigration Officer informs me that he has not received notice of any similar exemption to the one issued by the Cabinet for Vetro for Staunch Limited.

6.07 The current employees of Staunch Limited are registered as government employees. In fact, our review of 15 current employees of Staunch Limited indicated that 9 of them were registered as government employees. The other 6 were on the Islands as visitors only.

6.08 The 6 visitors have no right to work on the Island. The Chief Immigration Officer has also advised me that, in his opinion, if the 9 workers who are registered as government employees are not in fact employees of the government, then both the workers and the employers have committed offences under the Immigration Law. He requested that I determine if the employees in question were in fact employees of the government.

6.09 I have done so. My officers have searched the payroll records of the Ministry as well as the computerized employment records for the 42 names given to me by Immigration (15 employees of Staunch and 27 other individuals who are also recorded in the Immigration records as government employees). I reported to the Chief Immigration Officer on July 13, 2005 that I was unable to find **any** of the named individuals on the Government records. Therefore, I have to conclude that these people have never been paid by the Cayman Islands Government and therefore are not employees of the Government.



6.10 This matter has now been turned over to the Immigration Department for additional investigation. The Chief Immigration Officer and I have agreed that there are additional questions that need to be addressed such as the involvement of members of the Ministry in this process. This additional review, and any charges resulting from this investigation, will be handled by the Immigration Department.



MANAGEMENT OVERRIDE

7.01 Throughout this report, I have documented a number of instances of management override by the former chairman of the Trust's Board of Directors; who was also the Minister of Community Services at the time. As a means of emphasis, I have outlined these instances again along with additional cases not previously mentioned.

Awarding of contracts to Staunch Limited

7.02 In the absence of a competitive bidding process I would have expected that any decision to award a contract be presented to the Board of Directors for ratification, rather than be executed by a unilateral decision being made by the former Minister and Chairman, as was the case in awarding the four contracts to Staunch Limited.

Prepayments on Contracts

7.03 I noted that on four occasions the former Chairman directed staff to make payments and approve invoices for work that was not executed. This management override has resulted in Staunch Limited being prepaid CI\$105,000 for the contract to erect 20 temporary homes. However, only 5% of the work on this project has been done as estimated by Lands and Survey. The total amount paid on this contract is 79% of the contract.

Premature awarding of the Eastern Avenue contract

7.04 In a letter dated 10th May 2005 from the former Minister of Community Services to the Finance Manager of the NHCDT, the former Minister stated that he had decided that the Staunch Limited bid for the Housing Project at Eastern Avenue was the more cost effective. He further directed the Finance Manager to prepare a contract for the Housing Project in Eastern Avenue to be signed by Staunch Limited.



7.05 Our review indicates that the letter was actually written on 12 May and was back dated to 10 May. A matter of additional concern is the attempt by the former Minister to unilaterally award a multi-million dollar contract at a time when the management of the NHCDT was still conducting a systematic assessment of all bids submitted.

7.06 Although Staunch Limited was considered as one of two preferred bidder in this assessment process, it was indicated that it was on a preliminary basis only, and more detailed information would still be required from both bidders before a final decision could be reached.

Conclusion

7.07 It is my opinion that these acts of management override by the former Minister of Community Services, has resulted in the undue disbursement of public funds. Also, the awarding of four construction contracts were absent of a fair and equitable process. Finally, the attempt to award a contract to Staunch Limited could have potentially “locked” the Government into a multi-million dollar contract prematurely, if immediate preventative steps had not been taken.



STAUNCH LIMITED

8.01 As part of this review, I have reviewed the activities of Staunch Limited. I have numerous areas of concern and have turned over my files to the Royal Cayman Islands Police Service Financial Crime Unit for additional investigation.



