



CAYMAN ISLANDS

2012/2013 Session of the

LEGISLATIVE ASSEMBLY

REPORT

of the

STANDING

PUBLIC ACCOUNTS COMMITTEE

on the Performance Audit Report

of the Office of the Auditor General on the

Management of Overseas Medical Services

Laid on the Table of Legislative Assembly on this 21 day of November 2012

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**REPORT OF THE STANDING
PUBLIC ACCOUNTS COMMITTEE
ON THE PERFORMANCE AUDIT REPORT
OF THE OFFICE OF THE AUDITOR GENERAL ON
MANAGEMENT OF OVERSEAS MEDICAL SERVICES**

SUMMARY REPORT

1. REFERENCE

The Standing Public Accounts Committee of the Cayman Islands Legislative Assembly, established under Standing Order 77, met to consider the Performance Audit Report of the Office of the Auditor General on the Management of Overseas Medical Services as prepared and submitted by the Auditor General.

2. PAPER CONSIDERED

In accordance with the provision of Standing Order 77(1), the Committee considered the following paper referred to it by the House:

- Performance Audit Report of the Office of the Auditor General on the Management of Overseas Medical Services

3. CHAIRMAN AND MEMBERS OF THE COMMITTEE

The following Members of the Legislative Assembly are the present Members of the Standing Public Accounts Committee – who dealt with this Report of the Auditor General

Mr Moses I Kirkconnell, JP, MLA - Chairman

Hon Cline A Glidden, Jr., MLA

Hon D Kurt Tibbetts, OBE, JP, MLA

Mr. Ellio A Solomon, MLA

Mr. Dwayne S Seymour, MLA

4. MEETINGS OF THE COMMITTEE

The Committee reviewed the Minutes of four (4) meetings held by the Committee, to consider this Report:

- (i) Wednesday 13th June 2012
- (ii) Wednesday 11th July 2012
- (iii) Tuesday 18th September 2012
- (iv) Tuesday 23rd October 2012

5. ATTENDANCE OF MEMBERS

The attendance of Members at meetings is recorded in the Minutes of Proceedings which are attached to and form part of the Report.

6. PERSONS IN ATTENDANCE

In accordance with Standing Order 77(8), the following persons were in attendance at the meeting:

Mr. Alistair Swarbrick, Auditor General – Audit Office
Mr Rubin Martin, Performance Audit Manager - Audit Office
Mrs Sonia McLaughlin, Chief Officer – Ministry of Finance
Mrs Debra Welcome, Accountant General – Treasury Department
Mrs Gloria Myles, Deputy Accountant General – Treasury Department

7. WITNESSES CALLED BEFORE THE COMMITTEE

In accordance with the provisions of Standing Order 77(4), the Committee may invite any public officer or member of staff of a non-Government organisation to give information or explanation to assist the Committee in the performance of its duties. The following person appeared before the Committee to give evidence:

Mr Scott Cummings – Chairman of the Board / CINICO
Mr Seamus Tivnan – Deputy Chairman of the Board / CINICO
Mr Frank Gallippi – Chief Financial Officer / CINICO
Mr Lonny Tibbetts – Chief Executive Officer / CINICO
Mrs Jennifer Ahearn – Chief Officer / Ministry of HEYS&C

Mr Carrol Cooper – Chief Financial Officer / Ministry of HEYS&C

8. PRACTICE AND PROCEDURE OF THE COMMITTEE (S.O 77 (6))

The Committee agreed that in accordance with the provisions of Standing Order 77 (6) that its meetings, at which witnesses are invited to provide information, should be held in an open forum. This decision was taken to promote openness and accountability in Government.

9. INTRODUCTION & PAC COMMENTS

9.01 The Auditor General's Office conducted an audit of the Cayman Islands Insurance Company Ltd for the period of May 2009 through April 2011 to determine if the Cayman Islands Government was providing overseas health management services in a cost effective manner. It was determined that the services was not effectively managed, leading to the likelihood that the Government wasted public resources in providing the services. It was also determined that the services were not controlled and administered in a manner that would provide meaningful information on how well the services were being provided. A number of issues were identified which created an environment of increased risks in the delivery of cost effective overseas medical services. The Auditor General's Report made a number of recommendations to which the Management of CINICO agreed.

9.02 Upon hearing the witnesses called the Public Accounts Committee is satisfied that the recommendations in the Auditor General's Report around the management framework and the role and responsibilities of the Board of Directors are being implemented. This is in addition to changes which the current CEO and Board had commenced prior to the Auditor General's Report.

9.03 The Committee is confident that under the present management there will continue to be improvements to the operation of CINICO which will place the Company in a better position to deliver overseas health management services in a cost effective manner.

ACKNOWLEDGEMENT

The Committee is most appreciative of the efforts of the Auditor General and his staff in presenting a very fair, detailed and informative Report on the Management of Overseas Medical Services and for the support, assistance and constructive advice given throughout its deliberations.

The Committee also thanks the staff of the Legislative Assembly for the assistance provided.

REPORT OF THE COMMITTEE TO THE HOUSE

The Committee agrees that this Report be the Report of the Standing Public Accounts Committee to the House on the Performance Audit Report of the Office of the Auditor General on the Management of Overseas Medical Services

Mr Moses I Kirkconnell, JP, MLA - Chairman

Hon Cline A Glidden, Jr, MLA, Member

Hon D Kurt Tibbetts, OBE, JP, MLA, Member

Mr. Ellio A Solomon, MLA, Member

Mr. Dwayne S Seymour, MLA, Member



THE STANDING PUBLIC ACCOUNTS COMMITTEE MINUTES OF PROCEEDINGS

Meeting
Wednesday 13th June 2012
11:00 am

Minutes of proceedings of the Standing Public Accounts Committee's meeting held Wednesday 13th June 2012 at 11:00 am in the Small Conference Room of the Legislative Assembly Building, Grand Cayman.

Present:

Mr Moses I Kirkconnell, JP, MLA – Chairman
Hon Cline A Glidden, Jr. MLA – Member
Mr D Kurt Tibbetts, OBE, JP, MLA – Member
Mr Ellio A Solomon, MLA – Member
Mr Dwayne S Seymour, MLA – Member
Mrs Zena Merren-Chin – Clerk

Persons in Attendance:

Mr Garnet Harrison – Deputy Auditor General
Mr Rubin Martin – Performance Audit Manager
(joined the meeting at 11:55am)

1. Meeting to Order

There being a quorum present (Standing Order 77(2) refers); the Chairman called the Meeting to order at 11:00 am and thanked the Members present for attending.

The Chairman again voiced his concern regarding the outstanding PAC Reports and advised the Committee that draft reports had been prepared by the Clerk on five of the Auditor General's Reports.

2. PAC Reports for Approval:

- a. PAC Report on the Special Report of the Auditor General on the Loans and Expenditures of Funds at Boatswain Beach

The Committee reviewed and approved the draft Report.

- b. PAC Report on the Special Report of the Auditor General on the Review of Expenditure for Operations Tempura and Cealt

The Committee reviewed the Report and agreed to review the verbatim transcript of the meeting with the Commissioner of Police and the Deputy Governor before approving the draft Report.

- c. PAC Report on the Special Report of the Auditor General on Internal Audit's Report of Fuel Card Usage and Management

The Committee reviewed and approved the draft Report.

- d. PAC Report on the Special Report of the Auditor General on the Review of the Legal Aid Programme

The Committee reviewed the draft Report and amended section 9.

- e. PAC Report on the Special Report of the Auditor General on the State of Financial Accountability Reporting (Update)

The Committee reviewed the draft Report and amended section 9.

The Committee agreed on a Motion by Mr Tibbetts that the PAC Reports that were approved would be the Reports of the Standing Public Accounts Committee to the House and would be laid on the Table at the next meeting of the House.

3. Auditor General's Reports for consideration:

- a. Auditor General's Report on Fuel Card Usage and Management Follow-up
- b. Auditor General's Report on Management of Overseas Medical Services – May 2012
- c. Auditor General's Report on Road Paving Expenditure in Cayman Brac

The Committee agreed that the Reports would be considered in the next meeting.

4. Approval of the Auditor General's Office Invoices

The Committee reviewed and approved the following Auditor General's invoices on a motion by Mr Dwayne Seymour.

- Invoice No. 205808 dated 3rd April, 2012 in the amount of CI\$39,755.44
- Invoice No. 205827 dated 7th May, 2012 in the amount of CI\$47,900.75
- Invoice No. 205851 dated 5th June, 2012 in the amount of CI\$54,820.87

5. Confirmation of Minutes

The minutes of 22nd March 2012 will be reviewed at the next meeting.

6. Other Business

The Chairman asked that the Auditor General provide an update at the next meeting on the issue of Mr Peter Young's position with the UDP, which was raised in the meeting of 21st October 2011.

7. Next Meeting

The Committee agreed for the next meeting to be on 19th June 2012 at 10:00am

8. Adjournment

There being no further business, Hon Cline Glidden moved for the adjournment of the meeting at 1:20 pm.



THE STANDING PUBLIC ACCOUNTS COMMITTEE MINUTES OF PROCEEDINGS

Meeting
Wednesday 11th July 2012
10:30 am

Minutes of proceedings of the Standing Public Accounts Committee's meeting held Wednesday 11th July 2012 at 10:30 am in the Small Conference Room of the Legislative Assembly Building, Grand Cayman.

Present:

Mr Moses I Kirkconnell, JP, MLA – Chairman
Hon Cline A Glidden, Jr. MLA – Member
Hon D Kurt Tibbetts, OBE, JP, MLA – Member
Mr Ellio A Solomon, MLA – Member
Mrs Zena Merren-Chin – Clerk

Absent:

Mr Dwayne S Seymour, MLA – Member

Persons in Attendance:

Mr Alistair Swarbrick – Auditor General
Mr Garnet Harrison – Deputy Auditor General
(joined the meeting at 11:05am)

1. Meeting to Order

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 10:40 am and thanked the Members present for attending.

2. Confirmation of Minutes

- a. 7th December 2011 – Minutes were reviewed by the Committee and approved on a motion moved by Hon Cline Glidden.
- b. 22nd March 2012 – Minutes were reviewed by the Committee and amended. The minutes as amended was approved on a motion moved by Hon Kurt Tibbetts.
- c. 13th June 2012 – Minutes were reviewed by the Committee and approved on a motion moved by Hon Cline Glidden

3. Matters arising from the Minutes

- a. The Chairman referred to the 22 March 2012 minutes and advised the Committee that due to the Government's budget cuts the Auditor General's Office budget had

been reduced from the amount that the Committee had approved in the 22 March 2012 meeting.

- b. The Chairman referred to the 13 June 2012 minutes and asked the Auditor General for an update on the matter relating to Mr Peter Young. The Auditor General advised that there had been a number of correspondence letters between the Auditor General's Office and Mr Young's attorney Mr Anthony Akiwumi. There has been no response from the attorney to the Auditor-General's last letter in January 2012.

4. **Auditor General's Reports for consideration**

a. **Auditor General's Report on the Review of Expenditure for Operations Tempura and Cealt**

A Member asked the Auditor General to comment on the investigation that is being carried out by the Police Department as a result of Operations Tempura and Cealt. It was noted that the Governor reportedly has information relating to the investigation that has not been released to the public.

The Committee agreed that In order for the Committee to make proper recommendations it should have all relevant information including any report from the Governor. The Committee's report will reflect the fact that the Members would have wished to review the Governor Report.

b. **Auditor General's Report on Fuel Card Usage and Management Follow-up**

The Committee agreed to call the following persons as witnesses to provide information on the AG's Report:

- Deloris Gordon – Director / Internal Audit Unit
- Alan Jones – Chief Officer / DAWL&A
- John Carey – Director / DVES
- Franz Manderson – Deputy Governor
- Roydell Carter – Director / DEH

c. **Auditor General's Report on Management of Overseas Medical Services – May 2012**

The Committee agreed to call the following persons as witnesses to provide information on the AG's Report

- Scott Cummings – Board Chairman / CINICO
- Seamus Tivan – Board Deputy Chairman / CINICO
- Sheridan Brooks - former Board Chairman / CINICO
- Lonny Tibbetts – CEO / CINICO
- Frank Gallippi – CFO / CINICO
- Carol Appleyard – former CEO / CINICO
- Jennifer Ahearn – Chief Officer / HEYS&C

d. Auditor General's Report on Road Paving Expenditure in Cayman Brac

The Committee agreed that the following persons would be called as witnesses to provide the Committee with information on the AG's Report.

- Alan Jones – Chief Officer / DAWL&A
- Ernie Scott – District Commissioner
- Brian Tomlinson – former Director / NRA
- Nadisha Walters – CFO / DAWL&A
- Colford Scott – Chairman / NRA

e. Auditor General's Report on the Management of Major Capital Projects

The Committee agreed to deal with the Report at the next meeting

f. Auditor General's Report on the Management of Government Procurement

The Committee agreed to deal with the Report at the next meeting

g. Special Report of the Auditor General on the Affordable Housing Initiative

The Committee agreed that Dr Frank McField would be invited to attend before the Committee at the meeting scheduled for the hearing of witnesses.

5. Approval of the Auditor General's Office Invoices

The Committee reviewed and approved the following Auditor General's invoices on a motion by Hon Kurt Tibbetts.

- Invoice No. 205863 dated 4th July, 2012 in the amount of CI\$37,907.73

6. Other Business

Update on Government audited accounts

The Auditor General informed the Committee that there have been delays in getting statements for 2010-2011 year as more documentary evidence was needed. There are some major problems with DAWL&A.

The Committee agreed that a letter be sent to the CFOs and COs of the Ministries indicating that the PAC is concerned and they will be called before the Committee to answer questions regarding the audits.

7. Next Meeting

The Committee agreed to schedule meetings during which witnesses would be called for the first week of August 2012.

8. Adjournment

There being no further business, Hon Kurt Tibbetts moved for the adjournment of the meeting at 1:05 pm.



Legislative Assembly Of the Cayman Islands

STANDING PUBLIC ACCOUNTS COMMITTEE

MINUTES

Of Meeting held with Witnesses
Tuesday 18th September 2012
10:30am

Minutes and verbatim transcript of meeting of the Standing Public Accounts Committee held in the Chamber of the Legislative Assembly Building on Tuesday 18th September 2012 at 10:40am.

Present:

Mr. Moses I Kirkconnell, JP, MLA – Chairman
Hon Cline A Glidden, Jr, MLA - Member
Hon D Kurt Tibbetts, OBE, JP, MLA - Member
Mr. Ellio A Solomon, MLA - Member
Mr. Dwayne S Seymour, MLA - Member

In Attendance:

Mr. Alastair Swarbrick – Auditor General
Mr. Martin Rubin – Manager Audit Office
Mrs. Sonia McLaughlin – Chief Officer / Ministry of Finance
Mrs. Debra Welcome – Treasury Department
Mrs Gloria Myles – Treasury Department

1. Reference

In accordance with Standing Order 77(4) witnesses were invited to appear before the Committee to discuss various issues set out in the following Auditor General's Reports:

- (a) *Public Interest Report of the Auditor General on the Road Paving Expenditure in Cayman Brac*

(b) *Performance Audit Report of the Office of the Auditor General on the Overseas Medical Services.*

2. Meeting to Order

There being a quorum present (Standing Orders 77(2) refers), the Chairman called the meeting to order at 10:40 am. The Chairman advised that the PAC had resolved that in accordance with S.O. 72(5) and S.O. 77(6), the meeting would be heard in public.

3. Welcome

The Chairman gave a brief welcome to the Members and staff of the Auditor General's Office, Treasury and Ministry of Finance.

The Auditor General gave a brief statement regarding the two performance audit reports on the Management of Government Procurement.

4. Auditor General's Update

The Chairman asked the Auditor General to advise the Committee on the audited financials of the Government. The Auditor General indicated that a report on the matter would be completed by the next meeting.

The Chairman asked the Auditor General to provide to the PAC by tomorrow afternoon the 19th September 2012 a list of witnesses that could be called.

5. Reports of the Auditor General - *Public Interest Report of the Auditor General on the Road Paving Expenditure in Cayman Brac*

The Chairman welcomed the witnesses and invited them along with the Auditor General to make opening statements on the Report. The Chairman then invited questions from the PAC Members.

The following persons appeared in their named capacity as witnesses before the Committee:

- Mr Alan Jones, Chief Officer – Ministry of DAWL&A
- Mr Ernie Scott, District Commissioner
- Mr Mark Tibbetts, Deputy District Commissioner
- Mr Jonathan Jackson, Manager - RPCU
- Mr Brian Tomlinson, former Director - National Road Authority

6. Reports of the Auditor General - *Performance Audit Report of the Office of the Auditor General on the Overseas Medical Services.*

The Chairman welcomed the witnesses and invited them along with the Auditor General to make opening statements on the Report. The Chairman then invited questions from the PAC Members.

The following persons appeared in their named capacity as witnesses before the Committee:

- Dr Scott Cummings, Chairman of the Board of Directors – CINICO
- Mr Seamus Tivnan, Deputy Chairman of the Board of Directors – CINICO
- Mr Frank Gallippi, Chief Financial Officer – CINICO
- Mr Lonny Tibbetts, Chief Executive Officer - CINICO
- Ms Jennifer Ahearn, Chief Officer- Ministry of HEYS&C
- Mr Carrol Cooper, CFO - Ministry of HEYS&C

7. Adjournment

There being no other business the meeting was adjourned by the Chairman at 4:30 pm until 10:00 am on 19th September 2012 when the Committee would hear witnesses on the Auditor General's Report on the Fuel Card Usage and Management and from Dr Frank McField in relation to the Auditor General's Report on the National Housing and Community Development Trust.

**EDITED
VERBATIM TRANSCRIPT OF PROCEEDINGS**

**STANDING PUBLIC ACCOUNTS COMMITTEE
TUESDAY
18 SEPTEMBER 2012
10.40 AM
*First sitting***

AUDITOR GENERAL'S PUBLIC INTEREST REPORTS

- **ROAD PAVING EXPENDITURE IN CAYMAN BRAC APRIL 2012**
- **MANAGEMENT OF OVERSEAS MEDICAL SERVICES**

Verbatim transcript of Standing Public Accounts Committee's proceedings held Tuesday, 18 September 2012, commencing at 10.40 am in the Chamber of the Legislative Assembly Building, Grand Cayman.

The Chairman, Mr. Moses I. Kirkconnell: I would like to call this meeting of the Public Accounts Committee to order at 10.40 am.

Let the record reflect that a quorum is present, and I would like to take this opportunity to thank the Committee members. I would like to thank the Auditor General and his team for being here, and I would like to thank Finance and Treasury for being here. Good morning again.

Let the record also reflect that the Committee resolved earlier, in accordance with Standing Order 77(6), to hold these hearings in public.

**AUDITED FINANCIAL STATEMENTS
FOR 2010/11 AND FORWARD**

The Chairman: Before we call our first witnesses today, I would like to ask a question of the Auditor General which is in regard to the audited financial statements for 2010/11 and forward. The Committee has discussed this, and it is minuted in our last meeting, that we believe the major concern that we as a Committee have, is to work diligently to make sure that the accounts of this country are audited, that the asset base is known to every person.

The Auditor General has made some reports on this in the past and we have offered our assistance and instructions to the Auditor General on what we feel he should do to go forward. We are in a position, and we are offering support, that if the recommendation from the Auditor General's office is to call witnesses from the different ministries and authorities, we are quite prepared to do that. So, at this time, I would ask the Auditor General if he would give the Committee an update as to where we are. And before he closes the update, I will give him time to consider whether witnesses should be called and how quickly they should be called for updates from the different ministries.

Mr. Auditor General.

Mr. Alastair Swarbrick, Auditor General: Thank you, Mr. Chairman.

My office also wholeheartedly agrees that it is important to diligently bring forward the financial statements of the Cayman Islands Government. Before going on further into my comments, I think it is worthwhile mentioning that we have a draft report nearly finished. It has had comments from the Ministry of Finance and we hope to issue that in the next week on the progress in terms of the 2010/11 financial statements and the backlog financial statements relating to the years 2009/10, and previous to that.

Specifically in relation to 2010/11, considering the position we were in when I arrived, we have made significant progress in bringing forward the financial statements. As at today's date we have signed off on 10 of the 12 ministries for this year (2010/11), another one is finalised, waiting for formal sign off, and there is one outlier in terms of the audit work to be done and that is the Ministry of Finance, Tourism and Development, which is now being broken down into three separate financial statements and which we are progressing on.

With respect to the statutory authorities and government companies, forgive me if I can't remember the exact number, I think it is 18 out of 25 that are formally signed off. Another three or four are finalised and waiting for completion, just final signature. And there are a few outliers but they are, in reality, the very small agencies. One in particular, for example, is the Sister Islands Affordable Housing Corporation and National Drug Council, being two of the smaller ones.

So, in relation to where we were in previous years, significant progress has been made in catching up. With respect to the entire public sector financial statements, which consolidate the whole of government and account for all of the executive transactions,

we should be in a position to sign off within the next month on 2010/11. The opinion . . . well, there is a question whether I can actually reach an opinion still, but it will be a challenging one at best. But we are looking to finalise that in the next month and get that signed off with Finance.

I suppose I could throw out some numbers in terms of the progress that has been made since I arrived. You know, when I arrived two years ago there was something like 90 financial statements that were in a backlog position. We have now caught that up to a position where there are only about 20 in totality. We have issued 140 opinions in the last two years, when we should have issued approximately 78. So, I think there has been significant work and progress and that has been in partnership between myself and the finance community across government. So, significant progress has been made.

In terms of the quality of the financial statements for 2010/11, we are seeing a lot less disclaimers or adverse opinions, and the nature of the qualifications in a lot of the cases are fairly small in nature and not so significant. So there is improvement in the quality.

There are still significant issues, and from my perspective the biggest will be around the entire public sector financial statements, and, in particular, one ministry which we are still having significant issues around, which is District Administration, Works, Lands and Agriculture.

Going back to the prior years, 2009/10 and before, nearly all of the financial statements are signed off for those years. There are still a few outliers and it tends to be the smaller statutory authorities and government companies which have been an issue there. But significant progress has been made in resolving those issues and getting an actual opinion audited of the financial statements audited and signed off.

With respect to bringing forward witnesses, I think it would be appropriate. I would hazard to say that we have some detailed reports that we are trying to get finished as well to provide even more information to the Committee regarding the position of each individual ministry, statutory authority and government [owned] company. I hope to have those out in the next two months. So, I think it is definitely worthwhile calling ministries, statutory authorities to come in to account to the Public Accounts Committee. I would, in my view, probably give it two months so there can be more detailed information on which to ask the relevant ones, for significant information and questions and get the information you require. Although you may wish to do something in the shorter term to deal with some of the outliers and some of the smaller ministries, portfolios or statutory authorities that are still having some issues around their production of financial statements and getting them audited.

I hope that answered your question sufficiently, Mr. Chairman.

The Chairman: Thank you very much Mr. Auditor General. That was quite informative.

We should finish this session with witnesses tomorrow afternoon. I would ask you that by tomorrow afternoon if you would give us a list of witnesses and your recommendation of timing as to when they should be called and let the Committee consider that and look at how that fits into the schedule, again with recommendations from you. So thank you very much for that.

Mr. Alastair Swarbrick: No problem sir.

The Chairman: I would like to move now to the witnesses and questions for the Public Interest Report, Office of the Auditor General, on Road Paving Expenditure in Cayman Brac April 2012.

¹ROAD PAVING EXPENDITURE IN CAYMAN BRAC APRIL 2012

The Chairman: Good morning gentlemen, and welcome. Thank you all. I know that two of you travelled from a very pleasant place called Cayman Brac this morning. So we thank you for making the trip. We hope not to keep you here too long.

Mr. Jones, you are the head of that team, so I will ask you to identify yourself and your position for the record, and then let each one of the members that are with you identify themselves and their position, and then after that if you would like to make an opening statement, or if any one of the team would like to make an opening statement they are more than welcome to.

Mr. Alan Jones, Chief Officer, Ministry of District Administration, Works Lands & Agriculture: Thank you, Mr. Chairman. Good morning everybody.

My name is Mr. Alan Jones. I am the Chief Officer, Ministry of District Administration, Works Lands and Agriculture. With me today is the District Commissioner, Mr. Ernie Scott; the Deputy District Commissioner, Mr. Mark Tibbetts, and the Acting Deputy Chief Officer, Mr. Jonathan Jackson.

No real opening comments other than to say that we welcome being part of what is an important process. Obviously transparency is important in government. We had a good meeting, I think, with the Office of the Auditor General during the preparation of the report and we would just like to put on record an acknowledgement for the work that he and his office do and commit to working in partnership with him and his office in the future.

The Chairman: Thank you very much.

¹ Also see page 30

I would invite the Auditor General now for opening comments.

Mr. Alastair Swarbrick: Thank you, Mr. Chairman.

Mr. Chairman, Members of the Public Accounts Committee, ladies and gentlemen, thank you for the opportunity to provide some initial comments on my report on Road Paving Expenditure in Cayman Brac. We prepared this report in order to provide the Legislative Assembly with information regarding a matter which we considered to be of public interest, and which we consider should be highlighted through a separate report due to its nature.

Concerns about the subject matter of this report were brought to the attention of my office, and following some preliminary inquiries we considered that this was an area that merited further audit work and reporting to the Legislative Assembly. To be clear, the work was conducted in accordance with auditing standards.

The report highlights concerns identified regarding the spending of approximately \$500,000 as at September 2011 on the paving of private parking lots in Cayman Brac after Government funds approved for a programme designed to improve public roads. In my opinion, the road-paving programme went beyond its authority by supplying materials and labour for the improvement of privately owned parking lots without recovering the cost from the owners and that the Ministry did not have the statutory authority to spend these monies from the public purse.

The report also outlines a number of other concerns about the road paving programme in Cayman Brac, including the lack of clear business cases for the paving project and the purchase of a hot mix asphalt plant used to construct the roads and parking lots, as well as a potential conflict of interest associated with the hiring of the National Roads Authority Board chairman as the project manager.

Finally, whilst the scope of this report was designed to review and report on certain specific concerns of public interest, its findings may draw attention to other issues which my office would consider for inclusion in our programme of planned performance audits or which the Government should consider again.

Mr. Ruben and I look forward to assisting the Public Accounts Committee over the course of this hearing by providing additional information and clarification where necessary. Thank you.

The Chairman: Thank you, Mr. Auditor General.

The floor is now open for questions from the Committee.

Mr. Glidden.

Hon. Cline A. Glidden, Jr., Committee Member: Thank you, Mr. Chairman.

I know we have had some discussion back and forth on this situation. I wonder if Mr. Jones would be able to give us a bit of an overview or understanding of when we talk about . . . I mean is there agreement that what was done in Cayman Brac was actually unlawful, or illegal as far as the activity? Because I think there was some concern from the Committee's standpoint as to whether it was actually illegal, and, if so, what made it illegal? That being that if there was an appropriation given for the amount to be spent, where did what was actually legal change to being illegal, and actually what should have been done in hindsight?

The Chairman: Mr. Jones.

Mr. Alan Jones: Mr. Chairman, I should just perhaps add one thing that I perhaps should have added in my initial comments. The reason we have such a large team here today is that obviously, well not obviously . . . I took over as chief officer on 1 February, so a lot of this matter pre-dates my tenure. That's not to say I have not endeavoured to get myself up to speed, but I felt it necessary to bring the rest of my team here to fill in any of the holes as we go along.

All I would say is that the project itself was originally initiated to repair and replace a road network in Cayman Brac that was 25-plus years old and was in dire need of attention. I think the work that has been done in relation to those roads and the improvements that it has brought to Cayman Brac and the economy generally has been very worthwhile and those works will continue to deal with the balance of the roads needing attention in Cayman Brac and also those in Little Cayman.

We do not feel that, and we have said in our response to the Auditor General that we do not identify anything in the Roads Law or in the NRA Law that prevents the work that was undertaken, being undertaken. Thank you.

The Chairman: Mr. Tibbetts.

Mr. D. Kurt Tibbetts, Committee Member: Thank you, Mr. Chairman.

Just a follow up: Perhaps the chief officer could give us a run through with regard to the process, procedure and such the like when it comes to appropriations. The funds that were used to deal with the paving in the Brac—specifically what we are discussing now—were they funds that were appropriated for that purpose? If they were not, how was it dealt with in regard to using those funds? Did they come from somewhere else? What process was used to re-allocate the funds?

I think the question of legality may surround this area and perhaps the chief officer can explain to us exactly what process is in place which allows this to happen if the funds were not specifically appropri-

ated in the Annual Plan & Estimates for the purpose which they were used for.

Mr. Alan Jones: Mr. Chairman, we are talking here of the EA36 and EA55. Those numbers have stayed the same since the 2010/11 Budget through to the current Budget. EA55 deals with Cayman Brac and Little Cayman Roads and the asphalt programme, and also the continuation of the chip and spray programme in Little Cayman. EA55 road vote was considered the appropriate vote to use when undertaking roadworks in Cayman Brac.

Mr. D. Kurt Tibbetts: So, Mr. Chairman, am I with latitude to also deal over that side with the Auditor General also?

The Chairman: Yes, Mr. Tibbetts.

Mr. D. Kurt Tibbetts: So, therefore, it seems to me that the question then with regard to what the Auditor General's opinion is, must come down to not just paving but the paving of private parking lots or parking areas. I just want to make sure so what we don't have to talk about can be put aside.

So, as far as I understand it then, there was an appropriation for the funds that were expended for roads in Cayman Brac. But where we are splitting in our opinion seems to be whether roads in Cayman Brac included private parking lots. And the Auditor General is of the opinion that it does not. Therefore that is where the Auditor General's Office parts company with the Ministry's opinion. Is that the case? Or is it more than that?

Mr. Alastair Swarbrick: That is the crux of the matter.

Mr. D. Kurt Tibbetts: Okay.

But, Mr. Chairman, I don't know . . . well I shouldn't say I don't know . . . I think in our other meetings the discussion came up and we spoke about while there may not be any specific law, in practice private subdivisions, for instance, have been done here in Grand Cayman in the past. And there is a process by which whenever roads are built you can write (it would have been Public Works in the old days, but it would be NRA now) to the NRA asking for the NRA to take over these roads. And in many instances in the past before the Planning laws and regulations were adhered to properly, many, many subdivisions were done in . . . I mean years ago. We can use known examples, Prospect; we can use Tropical Gardens, we can use Red Bay. I am just using those general areas. Those were private subdivisions done.

I don't know what records anyone has, but I am pretty certain in my mind that when Government began to pave those roads with cries from the citi-

zens, I don't think those roads were gazetted as public roads at that time.

Now, a parking lot may not be considered a road that is being used by the public. So, my offering here is not to try to say the rights and the wrongs because if we need to get something right and there is something that we have to make a decision about to make sure that everybody does it right so that we don't have this argument in the future, that is fine. But the point that I make, Mr. Chairman, and would ask the Auditor General's comments on, would be, how do you compare what I just said with the examples that I used and . . . I mean, it's something that is done—I want to say has continued to be done. We have less trouble with that now-a-days because of the way the Central Planning Authority operates now. If you are going to develop a subdivision, for instance, you can't get block and parcel numbers for that subdivision in order to transfer the lots unless the roads are up to a certain standard which is acceptable to the National Roads Authority. But in days gone by, this would have been done regularly and it was only when the roads got so bad and then Government started to do them.

So, that being the case of what I would call typical in the past, what do we do to ensure . . . because I don't think we want to come back next year (regardless of who the bodies are in place) to have this discussion to waste a report having to be done and an investigation has to be done, over a matter like this, if there is a method by which it can be corrected in regard to what is to be correct.

I am not asking you to tell me what I want to hear; I am asking you, in your opinion: What is the best way to handle it, Mr. Auditor General, so that we don't have a problem like this occurring in the future?

Mr. Alastair Swarbrick: I think addressing the National Roads Law and issues around that . . . that provides for the paving of public roads; it doesn't allow the paving of private roads. That is in the statutes as well at this present time. So that is an important point. I can't talk to the history and timing of various things, because the Roads Law was 2005 and I have no idea when lots of these roads were paved.

How do we resolve these issues?

[Inaudible interjection]

Mr. Alastair Swarbrick: Hmm?

Maybe the question is . . . you've opened up a broader subject about paving of private roads (full stop), and the question about whether that is a significant issue that needs to be addressed. And it is potentially something that should be considered, reviewed, whether by my office, depending on the resources we have, or whether the Government needs to consider what its position is in terms of that and reviewing the subject matter because in reality if public funds are being used for private purposes, which

are not allowed under law, then it needs to be resolved and taken forward.

I think from my perspective, if that is the case, I don't want to be coming back here, and if the Government proactively is looking at how to resolve that issue and addressing it and taking it forward, that's a proactive stance and the way forward from my perspective.

The Chairman: Mr. Glidden.

Hon. Cline A. Glidden, Jr.: Mr. Chairman, I see we have a full complement of the press so hopefully we will be able to . . . because this report has generated a lot of public concern. Right? I think we are hearing that there is some level of agreement that what we have seen occurring in Cayman Brac, while it has taken a while to catch up, is not unique as far as the Cayman Islands. All right?

I think from Mr. Tibbetts' perspective, understanding that . . . I think in answer to that question hopefully the CPA, when doing approvals, is going to make sure that the stringent requirements for the roads are going to be done now, but we would appreciate that if roadworks were not done in Cayman Brac for the last 25 years, that the roads that were done 25 years ago were probably suffering from the same problems that we were having recently with the Cayman Islands where if you were not keeping those requirements as stringent, then they are going to deteriorate quicker and be expected in the same way that Government has done before in Cayman. I think Mr. Tibbetts did an excellent job of using some examples. We can go through some other examples that were used.

If the money was appropriated by the Legislative Assembly for work in Cayman Brac and as a part of that process there was some level of . . . and I fully accept the Auditor General's point that Government funds being used for private benefit, private use, is just . . . you know, whether it is done before, whether it's . . . you need to address it. We need to find a way to address that.

I just want to make sure that we are clear on what was done there. I think the Auditor General has made the point clear enough in his report. I am not sure if the press has picked up that there was no suggestion, for example, that any payment had been received in any way. So there was nothing inappropriate from saying, for example, that work had been done . . . and I have read the report, but I am just saying for the benefit of those who have not, that there was no suggestion to say there was any compensation or payment back for work that had been done by Government funds. All right?

I am just confirming that from . . . like I said, I see in your paragraph 14 on page 4, where it says, **"We confirmed with the Ministry that no financial contributions were sought or required from the**

beneficiaries . . ." So, like I said, it's clear from my understanding, for the benefit of those people listening or the press, that that wasn't a concern. It was the concern of funds appropriated for public purposes and being used for private purposes.

Mr. Alastair Swarbrick: Yes.

My basic concern was that public funds were being used for private benefit, private gain, there are probably some broader issues around how that was disbursed and the issues around that which did not get into the report. But that is my clear concern. And then equity and fairness in that process and is that . . . you know . . . I can't talk about history. And history should not be really relevant in terms of these sorts of issues. But even if it has happened in the past in other places, is it appropriate in modern day for that to happen?

I would recognise that the paving of the roads in Cayman Brac provided an opportunity for wider social benefits and other issues. But how that is taken forward and addressed is a question in terms of how that programme will be taken forward and a question about contributions in paying for that service. That should have been thought about in terms of that, or whether it was a different sort of programme that you had to run to have that.

I think those concerns need to be addressed and thought about. If you feel that this . . . if Government considers this to be an appropriate policy, from their perspective in providing benefits to their citizens, how it's run, . . . you know, that would be my question.

The Chairman: Mr. Solomon.

Mr. Ellio A. Solomon, Committee Member: Mr. Chairman, I asked this line of questions in camera, and I believe in the good spirit of transparency that it is only fair to ask these on the floor in the Chamber.

My question is: In picking up on where my colleague left off with respect to the Auditor General's report, I am questioning why at the end of the day when one reads the report, have we not heard mention of the fact that a lot of these sort of things had taken place before. I think it is important. One would expect that if we are going to get a report from the Auditor General that it is going to put things into context and in the proper perspective.

If we were to go along the line that there is an issue and that the issue needs to be addressed, I think in fairness and putting things into context so that one can address the problem holistically, then it should have been mentioned in the report. So I am wondering if the Auditor General can share with us where and why we are lacking in terms of the historical context that we have heard raised on the floor today in terms of what has occurred in the past.

Mr. Alastair Swarbrick: Firstly, we were reporting on a specific issue that was brought to our attention from various sources. And in terms of the specific issues that it raised from my perspective the historical context is not particularly relevant in terms of identifying the issues. You know, we undertake this audit and we had evidence regarding this. I have no evidence about paving of parking lots anywhere else or driveways, which I have heard anecdotally, but I have no firm evidence of that actually taking place.

This is a specific review to highlight a specific issue for the attention of the Committee to raise, to ask questions, like they are doing today, of the Ministry and to see if there is a certain way forward. I think that is an important part of my role in terms of highlighting specific issues.

And we will be bringing more specific issues forward around some that have been identified at that point of time. It may have happened previously; it may not, but it's important to take it forward and address at that point in time as we find it out.

Mr. Ellio A. Solomon: Mr. Chairman, let me say again publicly as I have said in camera that I find the answer of the Auditor General in my humble opinion unacceptable because I believe that to simply highlight a report today which anyone reading that particular report, being a student of history or otherwise, is going to draw the conclusion that this is the first time in the history of this country that this has occurred. And I believe that his Office has an obligation to this Committee and to the general public at large to be able to identify in this case if it is, as he states it is, that this has been a problem that has plagued government after government and that it needs to be addressed. And I think if you are able to highlight that it has been occurring for decades and that it is a problem, surely that has to have more significance than anything even inadvertently or otherwise lending the impression that this is the first time it has occurred in the history of this country.

So, with the greatest of respect, I don't think that that answer is acceptable, although I believe he may have something else to say now.

Mr. Alastair Swarbrick: I am just going to talk about auditing standards and the auditing profession. We audit the time that we are at auditing and we are living in, we don't audit history from that perspective, and that's where we are. We are trying to be as proactive and as effective as possible to provide accountability as at today's date, not an accountability of 10, 15, 20 years ago. That doesn't . . . we can't do that. So, we are auditing at a point in time and that's the reality to help try and take things forward at that point.

The Chairman: Thank you, Mr. Auditor General.

I would like to say at this point that the discussion is very good and the points are well taken. We

have an opportunity today as a Committee, as a Government, and as the Auditor General, to review where problems were found, whether they were found recently and we know there were the same problems 20 years ago, let us deal with correcting the problems, and take the opportunity that if there are recommendations that we as a Committee can come up with and come out with by getting the information from the group of people who are on the ground here who have done this work, let us try to gather this and use it to structure and to strengthen the process for the country itself.

I understand the point, but I don't want to deal with the past; I want to try to be very, very proactive with this and gain as much as we can out of this review here today.

Mr. Ellio A. Solomon: And, Mr. Chairman, I will move on. I will ask my question to the witnesses, which I am pretty sure, will comfort some of us. But let me just say in closing, particularly in light of the Auditor General saying that he intends to bring additional reports, if there is no one else who shares my concern I am going to echo it. I believe, contrary to what he is saying, it is not just a simple issue of auditing the present. I have seen the reports that have come forward from the Auditor General's Office in the past and many of them make mention, particularly where there is some historical context to mention. Okay? And so, if nothing else, I would encourage him, because I believe it is equally important what his Office does as opposed to what the other ministries within government do, and I would encourage him therefore that when he is writing the reports if there are areas like that that he can highlight it to show that this has been ongoing, et cetera, I believe it only lends support to the problem and I think that anyone to be dismissive of it is not doing this Committee or this country any justice.

And with that, I will then turn, perhaps, to the witnesses and ask them some particular questions. And starting with those questions would be . . . my understanding is, and for the benefit of doubt, is that the Island of Cayman Brac had been somewhat neglected for significant periods of time. I have heard 20, 25 or 30 years. So I was wondering, with the greatest of clarity, can we get an understanding as to when the last government paving exercise took place on the Sister Islands.

The Chairman: Mr. Jones.

Mr. Alan Jones: Mr. Chairman, 27 years apparently, according to the District Commissioner, other than sort of standard maintenance, potholes and that sort of thing. So, [it was] a good period of time. And I think all of us who have been over there before the programme started realised that the roads were in a serious state. The surface was breaking up and it certainly brought a lot of economic benefit to the Islands. The

Sister Islands, as we all know, have been suffering more than most, particularly over the last few years. And the economic activity that followed and trickled down from vital government investment in the infrastructure, like this roads programme, is obviously something that we do wish to encourage.

The Chairman: Thank you, Mr. Jones.
Mr. Seymour.

Mr. Dwayne S. Seymour, Committee Member: Thank you, Mr. Chairman.

I marveled at what the Chief Officer just said in terms of how Cayman Brac, our Sister Islands, have been neglected for the past 27-some years, and the great outcry from the Auditor General's Office in trying to deprive Cayman Brac from this beautification that has been bestowed upon them.

I really wonder in terms of the Auditor General's comments just now in terms of being proactive and timing of . . . what is the process in terms of prioritising reports of which reports bring . . . and I have brought this up a couple of times already. In terms of which reports deem the priority in terms of being brought forward.

We have a situation where we have a report on paving in Cayman Brac which is however many million dollars and we have a situation with Tom Jones, a \$100 million report that can't be brought out. I just want to find out how the priority is done.

Mr. Alastair Swarbrick: Just for clarity, I think it's important to say that I have made no comments about depriving of public roads in Cayman Brac, and I have no opinion about that at this time. It seems like a worthwhile project for me. My only question is around using public funds for the private benefit of paving private parking lots, not the road network itself. Just for clarity.

The Chairman: Thank you, Mr. Auditor General.

Mr. Alastair Swarbrick: Just in terms of how we go about selecting topics for audits, in terms of our planned performance audit programme, we undertake a risk analysis over a period of time, look at the key issues. We draw up a draft plan, draft programme which is sent around for consultation. It was sent to all Members and Chief Officers last August. We engage in conversation with all Chief Officers and other key parties to identify their key issues and risks. And from there we produce a programme of planned performance audits. This was not on that programme.

We also undertake . . . sorry, I should say that programme is available on our website, and it was sent to all Members so they can see that. For example, the report we are taking this afternoon on CINICO and the reports on fuel that we're taking tomorrow were all included as part of that.

In terms of this report, we undertake specific pieces of work on the issues that are raised to us which we believe are of concern, of public interest, whether potential breaches of legal authority or other matters, issue of risk around misuse of public funds, and we do them as and when they arise. That is the purpose and nature of these reports. And this is the case in terms of this.

We identify through a preliminary assessment of the issues and the risks before we undertake a report. If the preliminary assessment identifies that there is no issue to address we won't take it any further forward. But if there are, we will take it forward.

The Chairman: Thank you, Mr. Auditor General.
Mr. Tibbetts.

Mr. D. Kurt Tibbetts: Thank you, Mr. Chairman.

I think it is obvious from all that we are saying here that the difficulty pointed out by the Auditor General was the actual paving of parking lots in Cayman Brac, not the roadworks. So, if that is the issue, can the Chief Officer or the District Commissioner or his deputy, or Mr. Jackson, either one or all together, explain to us what process was used to determine where this was done, that is the paving of the parking lots? How did it . . . I mean, was this a part of the original plan? Did it just evolve? How did we get to that point?

Maybe that could explain some of what we're dealing with here, because obviously (just before the Chief Officer answers), when I brought up the examples of the public roads, that is something that just evolved. I mean, I know from history that that's how it happened. And it's obvious that the Auditor General's point is that there is nothing in law which gives authority for expenditure of government funds for these private parking lots. I think that is his point.

Now, if we need to do something about that, my whole point is then let's do what we have to do about it, whether it is something as a matter of a policy, whether it should be done, can be done or cannot be done. How did we get to that in this particular instance? Maybe there is a very rational explanation to it and I am just wondering whether the Chief Officer can just explain.

The Chairman: Mr. Jones.

Mr. Alan Jones: Yes, Mr. Chairman.

Just picking up a couple of points as we go along, there has been, as has been spoken of already, significant precedent over the years for this activity. One thing I would like to bring out is that there is a description that has sort of been bandied around, "private parking lots," "private roads." But within those descriptions lie a myriad of different circumstances and situations. A lot of the precedent in Grand Cayman, for example, has occurred in relation to private roads where the public have been using these roads

for such a long period of time that these are effectively (for lack of a better term) unscheduled public roads. Many of the cases that have been referred to, Cayman Brac actually fall into that category.

I would also like to point out from an engineering perspective (and maybe the DC can talk to this later if more detail is required), that when you are constructing a road (and we have seen this in Grand Cayman) and you put a new surface on, you often have quite a significant drop off. It causes problems with surface water runoff and it also creates a danger if you go off the surface and down. I think we've all experienced that. So many of the situations that I think have been referred to were actually involved in trying to remedy those problems and trying to, if you like, smooth out the surface into the adjacent areas. Obviously, that brings problems itself and sometimes the area that has to be treated to remedy that situation is quite large. We see situations of that in Grand Cayman and there have been significant precedent over the years.

In terms of a policy and whether the law needs to be changed, obviously that's a matter for Cabinet to decide. I wouldn't wish to get drawn into the situation as to whether or not it's an appropriate policy. I just implement policy; I don't make it.

The other thing I would say is that there are also situations, and this happened on several occasions during the last 18 months while the works have been going on where surface material has been left at the end of the day, either due to weather earlier in the day and not enough material was able to be laid correctly on a road, a scheduled public road, and as people will understand, it is far better to use that material rather than leave it to waste. On many occasions that material was laid out—to a lower standard than a road network, obviously, and some of that was on private land. But it was done with the permission of the owners in every occasion.

Also, picking up one other point brought up earlier in relation to the equality of the process, I think Mr. Solomon brought this point up; the infrastructure in Cayman Brac is there to benefit every Cayman Bracker and every resident. So this policy was adopted with no favour and, as was mentioned, no charging. It was done to benefit the whole population and no distinction was made as to who the applicants were.

Picking up on Mr. Tibbetts' specific point, many of these situations where asphalt was laid, it was done at the . . . made a decision on the ground at the time. Alternatively, persons could make applications to the Ministry and to highlight specific areas where they felt treatment was necessary and the Ministry would consider that application based on its merits and make a decision in due course.

I'm not sure if I answered your question, Mr. Tibbetts. I will be happy to follow up if you need anything further.

The Chairman: Mr. Jones, if you were able to give the Committee advice today . . . when we finish this morning with the other witnesses about the paving, we will then have the opportunity to write a report and submit it to Government with our findings from this. If you could give us some recommendations for this report to make this process work better in the future, what would that be?

Mr. Alan Jones: Caught me on the hot there, Mr. Chairman.

I think generally (picking up on the point about the precedent) . . . with all due respect, I think there has been significant precedent. It's clearly something that the people of the Cayman Islands over the years have recognised and supported and successive governments have supported. Maybe the government of the day and future governments need to focus on what the actual policy is so that it's clear for everybody on both sides, and also with other civil servants and the Auditor General as to what that policy is.

Our understanding is that in this particular case that an existing and precedential policy has just been continued in this particular case. Other than that, I think that everything else has been aired and the Committee can draw its own conclusion.

The Chairman: Thank you.
Mr. Glidden.

Hon. Cline A. Glidden, Jr.: Mr. Chairman, I have a question, but I just wanted to pick up on a comment that my colleague made and then the comments of the Auditor General. I know we have had this discussion in camera, but yet I feel it necessary to repeat. While I understand the remit of the Auditor General, the policy and the practice of dealing with a specific report, specific complaint now, I am just hoping that we are not missing the serious responsibility associated with that report or the number of reports that are made.

What ends up happening is what we have here. We have a public interest report. We have the press jumping all over that report because it was released, it comes out to say, *Listen, this has been done. There has been paving work done on private roads, private parking lots in Cayman Brac.* We can get into a discussion even as to what's public and what's private if we just use the assumption that if it's privately owned. But if I use something like, Mr. Chairman, Brac Power and Light and I say that's a parking lot where the general public goes every day to pay their bills, and there are holes in there, if we have an entity that is going to hold them responsible and make sure that they keep the parking lot paved, but if it's not, then what is going to end up happening is that the public of the Cayman Islands will be inconvenienced with using that.

So, again, public/private . . . if it has been done before, we know there is a precedent, an ongoing spend, and we have heard successively over the period of time, there has to be an appreciation that when a report comes out entitled a public interest report on the road paving expenditure of Cayman Brac, that's going to lead the public to believe that this is something new, something . . . you know, no precedent has been there before and that there are going to be significant questions raised as to the Government, the entity, at that period of time. All right?

Now, understanding that you are not able to go back and do a historical review, understanding that you are not able to go back and say, *Yes, I have evidence to show that this was done before*, where quickly we were able to get Mr. Tibbetts, who is not a member of the Government, we were able to get Mr. Jones, and I am sure if we speak to other people who have been around the system for a while, we would find that there is precedent for this. This is not something new. Like you said, we need to decide whether you want to change that policy . . . but when it comes out as being a special interest report that appears to be something unique, unusual, the first time that it has ever happened, all right; that generates a level of concern.

Now—

[Inaudible interjection]

Hon. Cline A. Glidden, Jr.: Sorry?

Now, when we dig down and we hear that, *Yes, this has been occurring but my job is not to accept it because it has been occurring, but to highlight and flag that it needs to be fixed*, you know, we can understand that. But there is significant, I guess, damage, or interest raised, based on the report specifically choosing one time, one isolated incident, one issue of something else that has been occurring for a period of time.

So, while not wanting or expecting you to be able to deal with how it's happened in the past, or why it has happened in the past, or why that's right, just asking again for consideration of the fact that it has. And when those reports are coming making mention, saying a longstanding problem, *I, as Auditor General, recognise this is a problem, I think the Government needs to address it, and they should have addressed it long ago, because we need to find a clear policy*. And, like you said, determine whether Government is going to agree with that, or disagree, or put penalties for it happening, whether we are going to stop it from happening, or continue to allow it to happen.

But Mr. Tibbetts' questions were: What is the process that was used? How was the selection made? How was it determined?

I was interested in finding out as well. How did that occur?

[Inaudible reply]

Hon. Cline A. Glidden, Jr.: So it was . . . I guess my questions are: Was there a request process? Did people actually write letters in to make a request? Or was a decision . . . you know, just wanted to get some clarity as to how that process . . . I think that was the question Mr. Tibbetts had asked earlier.

The Chairman: Thank you, Mr. Glidden.
Mr. Jones, would you like to . . .

Mr. Alan Jones: Just to clarify, I had actually responded to that point earlier in my previous answer, but just to reiterate, some decisions were taken on the spot, as Mr. Tibbetts mentioned, but there was also an application process where individuals could write in to the Ministry highlighting areas where they felt needed attention.

Mr. D. Kurt Tibbetts: It was the Ministry that decided?

Mr. Alan Jones: In those situations the Ministry decided whether or not there was a case and if it was something that the Ministry or Government wished to support.

[Inaudible interjection]

Mr. Alan Jones: That's right, sir. Yes.

[Inaudible interjection]

Mr. Ellio A. Solomon: Mr. Chairman, I just wanted to follow up on what Mr. Jones was saying. He talked about the Ministry deciding in that particular case what parking lot, et cetera. Is that the same . . . does the Ministry decide in that same fashion on the public roads? Which public roads have to be done. I imagine that there is scarcity so you can't do all the roads, so somebody has to make a decision.

Mr. Alan Jones: Yes, Mr. Chairman.

Mr. Solomon, you are talking about maintenance of public roads?

Yes, the Ministry would sit down and discuss the matter with the National Roads Authority and decide which roads needed priority.

Mr. Ellio A. Solomon: Yes. I just wanted to confirm it. I wanted to make sure and see if there was some, you know, major difference between the way one decision was made in terms of parking lots versus public roads.

Mr. Chairman, just a quick comment, and then if I could just move to some questions.

Mr. Chairman, I obviously take this opportunity to highlight that you in great wisdom asked Mr. Jones if he were given the opportunity to make some

recommendations what would he do. I couldn't help but overlook, and I can't overlook (let me correct myself), I can't overlook the fact that he actually refers to past events in terms of trying to make those decisions. And I just want to highlight it. That, again, is why I would encourage any Auditor General today or in the future to make sure that we can have a report that is going to be contextually comprehensive so that governments can make a policy decision.

As my colleague was just highlighting if you were to have the isolated incident, Mr. Chairman—and I continue to stress because this is important—any Government may find itself in a difficult challenge even in terms of making some policy changes to legislation because one could be giving the impression that they are simply making policy changes or amendments to a law simply to suit their own benefit or position. Whereas if it is within the historical context of things, that means that that administration could do it I think with a greater degree of blessing understanding that they are addressing an issue which is not unique to their circumstances but has, perhaps, been plaguing the country for many years and therefore that is why I continue to say I think it is perhaps remiss and negligent in terms of some of the ways I see the reports being written.

But I want to ask the witnesses in terms of the actual legislation that now exists, could you share with us, Mr. Jones (or any of your colleagues), what is the position in terms of parking lots generally? Is there some express position making certain things unlawful or illegal in terms of the paving of certain parking lots?

Mr. Alan Jones: Mr. Chairman, if you don't mind, Mr. Solomon, I would just like to highlight here that when we talk of parking lots, it's wrapping up a whole load of issues including these unscheduled public roads a lot of the time.

Sorry, I've forgotten the question.

Mr. Ellio A. Solomon: That happens sometimes.

Mr. Alan Jones: Apologies! My mind went blank.

Mr. Ellio A. Solomon: My question is basically, is there something in the law expressly prohibiting . . .

Mr. Alan Jones: Ah, right. That's right. Sorry, Mr. Chairman.

No, there is nothing in the NRA Law or the Roads Law to prohibit it, specifically to prohibit paving of private roads.

Mr. Ellio A. Solomon: So, Mr. Chairman, if I could ask then, if there is nothing expressly prohibiting it, would it be fair to draw the inference that again as we have understood, that perhaps administration after administration recognising that there was not an expressed prohibition of certain actions when they felt it

was in the public interest, even if it was these, for example, private roads that had been, in their opinion, nebulously perhaps, defined), but nevertheless used by members of the public, that they took a discretionary position and decided it was in the best interests not of just the private community but the public as a whole, to go ahead and pave those areas, and that that, therefore, as a result of the vagaries or nebulousness or lack of definition in the law made a discretionary call which has obviously, from what we understand today, been going on for decades.

Mr. Alan Jones: Mr. Chairman, the answer to Mr. Solomon is yes, that's exactly right and that's exactly what has been happening.

Again, I would stress that there are many, many of these, what we would call unscheduled public roads throughout the whole of the Cayman Islands and they are used extensively by the public. And when they get into such a deplorable condition that they are causing safety issues or economic detriment to the area, then obviously Government will make a decision that in the best interests of the Cayman Islands and the local community it makes sense to treat the roads.

Mr. Ellio A. Solomon: And, Mr. Chairman, through you, I wonder if Mr. Jones could comment, because I remember after being elected in 2009 having a discussion with one of the Members or the individual pretty much in charge of the NRA at the time, and I am not sure if Mr. Jones has been apprised of this, but the content of that discussion was basically where the Government was looking at the issue of many of these private roads. And it is an ongoing problem and where you can talk about it in law is that there is supposed to be someone who has responsibility for these roads, in fact, no one does. And the roads end up in deplorable condition. And one of the situations was for an assessment to be done. I can't remember how many millions it was, I am going to hazard to say I think they may have thrown out a number of somewhere between \$10 million and \$13 million. But some number was thrown out where if we were to be inclusive of all of these private roads which, again, have plagued the country for decades, that that is what the cost would be in terms of being able to take them under Government's umbrella and to be able to deal with the sort of upgrade and repair of that.

I am just wondering if Mr. Jones either by expressed commentary and conveyance from anyone else in his ministry or otherwise, if he is familiar with such a move. I definitely know it happened during our administration and it may have been something that was discussed during a previous administration as well. If he could comment on that as well.

Mr. Alan Jones: Mr. Chairman, yes, I am aware that that study or that paper was produced. I must confess

I have not seen the actual paper or recommendations myself. But yes, I understand that there were moves afoot to consider bringing into the schedule of public roads a lot of these unscheduled private roads.

And you are correct, the cost was very significant, which is one of the reasons why I believe the policy was not taken forward, particularly at this time. Obviously, we are not just looking at ongoing maintenance liabilities, but we obviously have to declare them under the Roads Law and then the chief surveyor in the Lands and Survey Department would have to undertake the requisite surveys which would take many years and then a great deal of expense.

So, it is an issue that we know is out there and successive governments, I believe, have identified and tried to deal with often in a piecemeal, ad hoc manner—and that is not a criticism, because obviously this is not a cheap matter—road maintenance.

Going back to the recommendations, Mr. Chairman, that you asked me for, that might be one actually that we might throw into the pot, that if we make a policy decision to bring in a lot of these private roads . . . I mean, I can think of many now. There is one along West Bay Road serving a major shopping development and it's a deplorable road. The reason it has not been maintained properly is because none of the people who benefit from it, and, in fact, have an easement over the private road, are doing anything to maintain it. That is a perfect example of where the public at large is influenced negatively by a private road not being maintained, particularly when it is heavily used by the public.

So, in conclusion, I would say going forward, that is perhaps something that we need to look at in a bit more detail.

The Chairman: Thank you, very much, Mr. Jones.

So, just . . . I appreciate you making another recommendation. You have defined policy for parking lots, and now you have to bring a road policy as far as how we bring in the private roads into the system?

Mr. Alan Jones: Yes sir.

The Chairman: Thank you.

Mr. Glidden.

Hon. Cline A. Glidden, Jr.: Mr. Chairman, I know we have some other questions that we want to go on to more specific about the conflict there, but just again so I can get my head around, because there is a bit of confusion in my mind as to . . . and I know in speaking to some of my colleagues, there is a confusion. So, we have a situation where there is no specific authority given to the Ministry, District Administration, the NRA to do the roads. So it is said that that is illegal. And then we have a situation where there is no restriction from them doing the roads so we have an appropriation and discretion is used.

My question is, would the lack of that restrictive aspect of the law stopping them from doing it, and the lack of a proviso allowing them to do it, is what has been done legal or illegal?

The Chairman: I am going to give the Auditor General the first crack at that, and then I will ask Mr. Jones to give us his opinion. And I will remind everybody in the Committee that neither of these [gentlemen] are attorneys.

Mr. Alastair Swarbrick: I was going to make exactly the same point myself! Any final decision on this would have to come from a legal perspective and tested.

I will use the term "statutory authority" in terms of this. One of the key controls of this Legislature is the approval of appropriations and expenditure. And that is a fundamental aspect of parliamentary control of any government to ensure that they use funds and incur the funds that they have received from the public in the manner which they should, and which have been voted on and debated in this Chamber. From my perspective the statutory authority as per the Appropriations Law did not enable this at this stage.

Secondly, from my perspective and my experience, to undertake any activity apart from requiring appropriation, in due course you would expect to have primary legislation that enables that activity to come forward, enabling legislation that demonstrates what you can actually do with public funds. That is my experience.

In terms of this, my view is that the opinion I have got in terms of the Roads Law, it does not enable the paving of private roads. It doesn't talk to parking lots, as I am not sure it ever envisaged the paving of parking lots. So that is a question that needs to be addressed.

I just want to answer a couple of other points. Mr. Glidden raised the issue about Cayman Light and Power, and the state of their parking lot. I can understand the question about the public using it, but, ultimately, is it the Government's responsibility to maintain a parking lot of a commercial enterprise which is making money? That is the question. And that's not for me to answer. That is a policy decision has to be made at the end of the day.

I can raise my ethical concerns about things like that. We talked about that in camera. I will not go into that today. But that's another issue. But at the end of the day, this has to be a decision of policy made by Government around that.

The Chairman: Mr. Jones.

Mr. Alan Jones: Mr. Chairman, two quick points: Maybe one of the points that has come out of this is that on occasion there is a lack of clarity in the way that some of the appropriations are described. For

example, we have "Cayman Brac and Little Cayman Roads" being the description. Obviously, that itself can open the door for interpretation, which is exactly what's happened here. The Ministry has, and we have in the past given this wide interpretation.

I would also like to say that what has been done (again, just to reiterate) is consistent with past policy.

The Chairman: Thank you.

Mr. Tibbetts.

Mr. D. Kurt Tibbetts: Thank you.

Mr. Chairman, I . . . well, maybe I am not the judge about this point being exhausted, but I think we have talked around this a long time. I think where we are now, everybody understands what has happened. I don't think we should wish to disregard the report that was made or the point that the Auditor General has made because while it may have come across and been bandied about in a manner which all of us may think was overdone, so to speak, and I think that is fair to say, but what we do not want to happen because we would wish to have clarity in the situation, is a situation where there is no clear policy because that is when . . . and I am not talking about this Government, the past Government or Government to come. No specific Government. But in the circumstances that we are now is when you have the possibility of abuse of any authority which you may think you have or may not think you have. And that is what we don't want to happen. And I believe that's the main point that the Auditor General's report is trying to make.

So, I think in summary what we really need is a very clear policy. It is obvious that in the past because Planning laws and regulations were not adhered to properly, is what ended up with this slew of public roads, which were actually private roads being used in a public fashion, and a lot of interconnecting roads, for instance, down by the Strand and Coconut Place and all of that. For all intents and purposes that is a public road but it is not gazetted as a public road.

You see, when we make the distinction now of parking lots, then you think you are going up two steps in the ladder, because that's not an actual road. So I am saying that we need to be very careful in all that we are trying to do with our justification so that we don't go beyond the point we should go and I think quickly, in summary, is that it is not something that has been unheard of. Perhaps the biggest issue was because there was so much of it at one time, and that was simply because it was an extended programme, and not just what would normally happen that you allocate X amount every year and they do what they can with that money. This was just an all-island programme.

And then, Mr. Chairman, with what Mr. Jones has said about decisions being made on the ground regarding excess material because of inclement

weather or whatever, and rather than just make it stay there and lump up, you use it in some instances. In other instances people make requests. So, when we look at the whole situation, I think that the lesson to be learned is that what we need to do is ensure that as a Committee we recommend that Government create a policy which is absolutely clear, and if there are any amendments which need to be made in the statutes, then let that happen also so that you don't have the risk of ethics coming into play whether this was done by what the old people call "curry favour" or "who you know", or anything of that nature. And I am not suggesting that was done, because as Mr. Jones has said, he gave almost every possible scenario of how it did happen. But in order for there not to be that question, then we need to make it very clear so that in the future we will know where we are going.

And that programme (just to make one quick comment), or that report that Mr. Jones spoke about and Mr. Solomon spoke about, that is not a new one—about making an assessment of these roads.

[Inaudible interjection]

Mr. D. Kurt Tibbetts: But that's what I am saying. That is not a new one. It is something that we probably need to be looking at and doing in stages, because I don't see the Government ever being able to afford taking it on as a one-time project and working at it over any one specific period of time.

The Chairman: Committee members, we are now running 30 minutes behind. If there are no other questions . . .

Mr. Seymour?

Mr. Dwayne S. Seymour: Yes, I see we're wrapping up. We probably should have wrapped up 30 minutes ago as you suggested. I want to elongate the situation.

As I wrap up this whole situation here, and I have been on the Committee now for a couple of years and I have seen the different types of reports that come out, reports of sitting ministers, versus reports of past ministers. And from what I have seen, in my view the reports are structured differently. To add to it, the press conferences in terms of the inference that something untoward has been done by the sitting minister that causes such a flurry in the press. These are the types of things that we are trying to avoid.

I think what we are trying to achieve is to get the proper policies and laws in place to ensure that we have proper guidelines so that we don't go outside those guidelines and cause the Auditor General to have to write a report on it.

We are very thankful for the work that this department does. It's very necessary. We respect the autonomy that they have to act on their own. But as I have always said, these reports go out, press confer-

ences happen, and when we come in here at questioning time it is a different atmosphere altogether. And most of the things that are written in the reports, when question time comes and witnesses are called it usually shows that the reports were written too aggressively, in my view.

The only other thing I would like to end with is that as we have seen here with this case, it is matters of policy and not the politician or the minister. And a little suggestion to the chief officer in terms of trying to write this recommendation is that if we are going to go on this track in terms of paving parking lots, et cetera, that we have a quota in terms of how many we do per annum, or however. So that's my comments. Thanks.

The Chairman: Thank you, Mr. Seymour.

Mr. Jones, thank you very much for coming this morning. I would like to thank your team there. Mr. Scott, Mr. Tibbetts, I hope you have a pleasant trip back home. Mr. Jackson, thank you very much for your time.

I am going to allow one quick question from Mr. Glidden.

Hon. Cline A. Glidden, Jr.: Mr. Chairman, I am not sure if you are satisfied, or if we just beat this so much, but in the Auditor General's report he also mentioned the issue about the project manager and some potential conflicts that were there, and we haven't addressed . . .

The Chairman: We are going to do that with the Chief Officer. The project manager is here as a witness.

[Inaudible interjection]

The Chairman: Ask the question.

Hon. Cline A. Glidden, Jr.: Mr. Chairman, the issue was a question as to the project manager and how was he hired, and was there any concern with the potential conflict?

The Chairman: I am not sure Mr. Jones was the Chief Officer at that time.

Mr. Alan Jones: No sir, I wasn't. But I am prepared to answer the question.

Mr. Chairman, yes, it is noted in the report. The Auditor General highlighted area of potential perceived conflict of interest. This was because Mr. Colford Scott who was hired as a project manager is Chairman of the NRA Board, and the NRA provided assistance to the Ministry in relation to undertaking the work in the Brac. I know that that matter was considered in great detail by my predecessor. Obviously, we are all very well aware that we need to do everything that we can to ensure that conflicts of interest do not exist. We can't always take away people's percep-

tion, but what we can do is ensure that we go through a rigorous process to ensure that the person that we have appointed and the situations and the parameters that he operates within do not allow any sort of conflict to arise.

The Ministry was confident at that time that that wasn't going to be the case. It has not turned out to be the case. Mr. Scott has done an exemplary job. All of us here probably know Mr. Scott. He is a man of the highest integrity, highest professionalism, who I have the utmost respect for. He has done a fabulous job on the ground, as have the team in Cayman Brac and the NRA workers.

So, yes, I am aware that the matter was considered, but it was considered not to be an issue and I think events have shown that that was a good decision.

The Chairman: Thank you very much.

I think the questions are finished. Again, I hope you enjoyed the morning with us.

Mr. Alan Jones: Okay, sir. Thank you very much on behalf of myself and the team. We appreciate the opportunity to air the matter. It is an important matter. We take on board the Committee's comments and we look forward to working to introduce some of the recommendations that the Committee no doubt will be putting forward.

The Chairman: Thank you.

Proceedings suspended

Proceedings resumed at 1.40 pm

MANAGEMENT OF OVERSEAS MEDICAL SERVICES

The Chairman: The Committee is called back to order at 1.40 pm.

We are going to move to the report of the Office of the Auditor General on Management of Overseas Medical Services. The witnesses that have been invited in are Dr. Scott Cummings, Chairman of the Board of Directors; Mr. Seamus Tivnan Deputy Chairman of the Board of Directors. Welcome gentlemen.

I would invite the Auditor General to make an opening statement. Once he has completed, I will invite you gentlemen to make some opening comments or statements.

Mr. Alastair Swarbrick: Mr. Chairman, Members of the Public Accounts Committee, ladies and gentlemen, thank you for the opportunity to provide some initial comments on my performance audit on the management of overseas medical services.

The Cayman Islands Government is currently spending approximately \$30 million a year on overseas medical care. The purpose of this audit was to provide an assessment of how well the Cayman Islands National Insurance Company Limited, CINICO, a government-owned company, was providing overseas health management services in a cost effective manner.

In conducting this audit, our work and findings have reported under three broad headings: Government practices at CINICO; Government direction and oversight; and Deliver of overseas health management services. And it covers transactions from May 2009 through to April 2011.

With respect to the overall objective of this audit, we concluded that overseas medical services were not managed effectively. Due to the lack of documentation available for us to review we were unable to quantify how much might have been overpaid for these services.

During the period covered by our audit work, we found the management of overseas medical services were not controlled and administered in a manner that would provide any meaningful information on how well the services were being provided. For example:

- There was no review or retender of the contract with the main case management company for over five years.
- A second case management company was engaged to deliver case management services in direct contravention of the exclusive rights held by the original case management company under its contract with CINICO, and without the approval of the board of directors.
- We found limited evidence of effective oversight by CINICO management on the original case management company to ensure that costs were being effectively managed and no evidence of any oversight by management on the second case management company.
- We identified a number of cases which were administered internally by senior management for which no evidence was available on how they were managed.

With respect to the wider issues around governance and the direction and oversight of CINICO, we identified a number of issues which created an environment of increased risks in the delivery of cost effective overseas medical services. For example:

- The absence of a strategic plan and risk assessment in CINICO resulted in there being no specific goals and performance measures for overseas health management services and no identification of risks.
- The appointment of directors to the board of CINICO for terms of one year which expire at the same time creates risks in understanding

the business, its strategy and associated risks, but more importantly creates significant risks enabling the board to provide effective oversight.

We have made a number of recommendations in response to our findings around the management framework at CINICO and the role and responsibilities of the board of directors. We believe that implementation of these recommendations will position CINICO to deliver overseas health management services in a cost effective manner.

Finally, I am pleased to see the positive response of the current management team and board through the recent actions taken and a willingness to take further action to address the concerns discussed in this report.

I look forward to assisting the Public Accounts Committee over the course of this hearing by providing additional information and clarification where necessary. Thank you.

The Chairman: Thank you, Mr. Auditor General. Dr. Cummings?

Dr. Scott Cummings, Chairman of the Board of Directors: Thank you, Mr. Chairman.

On behalf of the CINICO Board we certainly welcome the report of the Auditor General and the recommendations made. We worked closely with them. And while management's response speaks for itself at the end of the Auditor General's report, I would like to just make a few basic comments to ensure that things are clear.

Many of the recommendations that the Auditor General made in his report had actually already started prior to the publication of the report. The board had identified some of the same issues that the Auditor General did and we had already begun that process.

In particular, though, I would like to address the second case management company that's addressed in the report, and would like to point out that in November of 2010 the board of directors actually sent to the Auditor General a letter giving them notice of that issue. The second company was flagged by internal CINICO control procedures. It was brought to the attention of the board and the board instituted an investigation and took very specific actions that were outlined to the Auditor General in its letter of November 29, 2010, to the Auditor General. So, with respect to the second management company, at least, we believe that our internal processes were not only present but they worked exactly as they were supposed to. We found out about the second company, we investigated it, and we took immediate steps to address the situation.

In addition, while the tender that is addressed in the Auditor General's report was not complete for almost five years, it is now. And we do have a case management company in place.

So, the two biggest issues that we saw coming out of the report we believe have been addressed and will continue to be addressed. I would also note that we had already begun a strategic planning process prior to the issuance of this report. But we intend to use, and we thank the Auditor General for many of the recommendations about that strategic planning process. We intend to use many of his recommendations about how that process should be done. And we've already met with the facilitator. We hope to engage her later this month. We have also developed a timeline for the plan.

And finally, we are also working with Government, for example the Auditor General mentioned the tenure for board members used to be only one year. That was very recently changed to three-year terms. And we have actually already implemented with the current board a process for how this current board will slowly but surely be turned over to three-year terms. So we continue to work closely with Government on some of those recommendations.

I do want to make clear that we don't disagree with the Auditor General's report in its ultimate conclusions. We don't believe that there was the waste of money that has been suggested in the public or in the media. We believe that our own internal processes ensured that we got value for money. In fact, if you look at our premium compared to others, and if you look at the fact that the company actually made a profit during the two years that were being investigated, we believe that's pretty strong evidence that, in fact, we did get value for money. But we agree that we need to do a better job of documenting. We agree that we need to make sure that our processes which are in place are followed. And for that we thank the Auditor General.

The Chairman: Thank you.

I open up the floor to the Committee for questions.

Mr. Tibbetts.

Mr. D. Kurt Tibbetts: Mr. Chairman, good afternoon to Dr. Cummings and Mr. Tivnan.

I have heard what has been said regarding the recommendations of the Auditor General, but just so that we can get a little bit better feel for some of the goings on, for instance the contracts with the CMCs: Was there any specific reason why they were not reviewed and put out to tender on a regular basis? Was there a discovery that it was better not to, or can we get an answer as to what transpired?

Mr. Seamus Tivnan, Deputy Chairman of the Board of Directors: I was on the board from sometime summer of 2009. And at the time we were on a month to month with that CMC which is a company by the name of CMN [Canadian Medical Network], which we were aware was wrong because we had not been to

tender. We were working without a CEO and we, as the board, through our regular meetings would always discuss the RFP [Request for Proposal] tender process and we would request from the general manager the information needed to put the RFP put together. That took longer than it should normally take in any normal company. So, we were working on it. It was always on the agenda, but it took way too long.

Mr. D. Kurt Tibbetts: It just took longer.

Mr. Seamus Tivnan: Way too long.

Mr. D. Kurt Tibbetts: If I might continue, Mr. Chairman . . . which then leads me immediately to ask the question: Was there any specific reason . . . or what were the reasons why there was that gap when there was no CEO?

Mr. Seamus Tivnan: The Company, in my opinion as a director for nearly three years now, lacks resources, manpower resources. If you look at the size of the company there is, I think, currently 7 people; I think there should be 10 people from the organisational chart.

At the time, back in 2009, I've described it as dysfunctional in that the general manager was the person who thought was acting as CEO but was never given that title. And in regular board meetings we never received information that we needed. Now, I am not saying that that person was incompetent; I am saying that the day-to-day activities within the company didn't give the people time to do what was always requested by the board. Some of the recommendations are that there wasn't enough recording of director's minutes, let's say. Those minutes were taken by hand but they were never converted into a word processing document by the general manager at the time. So, I think one of the reasons is the lack of resources to get the job done.

As for the CEO, when I joined the board that was one of the items on an agenda or other business. And the board was told that sometime in the prior board that an offer had been made to a CEO candidate, but we couldn't find out from within human resources either within CINICO who that candidate was, whether the offer was still on the table, so there were several months of uncertainty as to whether or not there was someone out there that could be writing to us, or calling us, and accepting the role. I don't know the name of that person or actually what country they were from.

The CEO role, again, like the RFP, took a long time to get to the point where we actually advertised and started interviewing people. And that was toward the end of 2010.

Mr. D. Kurt Tibbetts: And again, following up on what Dr. Cummings initially stated in his opening remarks,

and he pointed out (if I remember what he said) that especially the two main recommendations coming from the Auditor General's report were being worked on as we speak, as I understand it.

Dr. Cummings, is there anything else? Or are there other things that you believe need to be implemented in order to ensure the company is operating in the fashion that it should and that there is proper oversight?

Dr. Scott Cummings: Just to be clear, there were actually a number of recommendations from the Auditor General's report that we are working to implement.

Mr. D. Kurt Tibbetts: I know.

Dr. Scott Cummings: I was highlighting the two main ones, and I don't want to lead anyone to believe that we are not also working on the other ones.

Mr. D. Kurt Tibbetts: That was not what I was trying to say, but I hear you. That's cool for clarifying that.

Dr. Scott Cummings: What we hope will occur through our strategic planning process is that a number of the recommendations that are from the Auditor General's office will be addressed. But, in addition, through that strategic planning process we may well identify other areas of concern and other areas of need.

One of the things, when the CEO and I met with a potential facilitator about two weeks ago, was that she identified to us sitting down all of our stakeholders and addressing with them each of their various concerns and then seeing if that doesn't open up for us even more avenues of inquiry. And I know the AG's office in its report mentioned something very similar to what she talked about.

So, at present we haven't identified anything new. But I don't want that to mean to say that we don't think there isn't anything out there. What we believe is that the strategic planning process is going to certainly assist us in identifying those things.

Now, in terms of what is going on right now at CINICO, the biggest issue (and Mr. Tivnan addressed it already) is a manpower issue. We have 13,000 or so insureds, but you have a company that at present has seven employees. There is not another insurance company in the world handling 13,000 insureds with seven employees. And so, one of the things that we as a board have been doing particularly over the last six months is working with the CEO on developing a new staffing plan making sure that we can bring in things. And I don't want to get the titles wrong, so I will leave it to the CEO to tell you the titles of the new people. But basically, case administrators to bring in people that can work in the CFO's office and then work also as insurance administrators to be looking

over these things, things like subrogation of benefits, for example.

As I said, the CEO can certainly address that in far more detail than I am right now. But that is one of the big concerns for the board right now, other than our always ongoing concern, which is the monetary position of CINICO.

Mr. D. Kurt Tibbetts: You mentioned (if I might continue, Mr. Chairman) that there was a profit over the two years which the Auditor General's report looked at. I first of all assume that that is an operational profit.

Dr. Scott Cummings: Correct.

Mr. D. Kurt Tibbetts: And I just want to know . . . I know in previous years there was a capital amount that had to be maintained. I think this was from a regulatory standpoint.

Dr. Scott Cummings: Yes, sir.

Mr. D. Kurt Tibbetts: I think it was \$3 million.

Mr. Seamus Tivnan: If you will allow me to answer that, it's \$3 million from the Class A local licence.

Mr. D. Kurt Tibbetts: How often has the Government had to recapitalise that amount?

Dr. Scott Cummings: Since I became chairman, I was appointed in August of 2010, and our first meeting was September, we have . . . I don't know if you would call it a recapitalisation, we received a supplemental budget to pay off some past due amounts—

Mr. D. Kurt Tibbetts: Let me rephrase that and say to bring it up to what it should be.

Dr. Scott Cummings: They have entered into an agreement with us to pay out NGS 55 for 2008/09 and we are still working on subsequent years, for the indigent care.

Mr. D. Kurt Tibbetts: Is that inclusive of this \$3 million? Or is that over and above?

Dr. Scott Cummings: The \$3 million is our minimum capital position through CIMA, so that's going to count what we take in for premium, what we take in for our ASOs, what government . . . in theory, the indigent care should not affect our cash position at all—

Mr. D. Kurt Tibbetts: But it does.

Dr. Scott Cummings: —because in theory. Yes. It does. In theory, the government should be paying all those bills as they go and we are simply the ASO.

Mr. D. Kurt Tibbetts: I understand. But I was just trying to get a very clear picture with regard to when you mentioned profit, meaning operational profit, whether that included maintaining this \$3 million worth of capital.

Mr. Seamus Tivnan: If I could add, I think for the years (without having the financial statements in front of me) 2009 and 2010 we had an annual operating profit that added to the retained earnings and the capital of the company. I think in prior years, whether it was 2006/07 or 2007/08, the government had to inject capital in order for CINICO to be above its \$3 million level, which is the minimum required by CIMA.

Currently, as of today, if the amounts that CINICO was owed by government for past supplemental budgets were not recovered and had to be written off within the books of CINICO, they would more than likely drop below that \$3 million minimum and then need additional capital.

Mr. D. Kurt Tibbetts: When last were the rates adjusted?

Dr. Scott Cummings: Are you talking about the premium rates, sir?

Mr. D. Kurt Tibbetts: Premium rates, yes.

Dr. Scott Cummings: We got a new premium for this past budget which was done through our actuary.

Mr. D. Kurt Tibbetts: How often is that done?

Dr. Scott Cummings: It's done annually, sir. The actuary each year comes up with a new premium that we then submit to government.

Mr. D. Kurt Tibbetts: And that premium is something that's agreed on between CINICO and the government in order . . . with the idea being to put CINICO in a position where CINICO can operate without operating at a loss given its client base.

Dr. Scott Cummings: Yes sir. The premium is set by the actuary, that the premium is what the premium needs to be. The actuary looks at the numbers and says you need this amount in order to make it.

Mr. D. Kurt Tibbetts: So the government has no choice in the matter.

Dr. Scott Cummings: No, the government does. The government can pay it or not.

Mr. D. Kurt Tibbetts: That's why I asked you the question about getting an agreement.

Dr. Scott Cummings: We submit a premium to government and we hope that—

Mr. D. Kurt Tibbetts: I won't press it any further because I understand how it works. And that's not really of major importance here.

Now, in your view . . . and this is for either one of you good gentlemen. At present the course that you're on, you speak to a facilitator, which I am assuming would be the facilitator for this strategic planning process.

Dr. Scott Cummings: Yes sir.

Mr. D. Kurt Tibbetts: And the methodology you mentioned to be employed . . . are you convinced at this point in time moving along in the direction in which you are heading, that we could look for (if I may use the word) stabilisation in short order of CINICO and its continuity in its operations once its properly staffed?

Dr. Scott Cummings: Sir, I can tell you that since I came on in 2010 we, particularly with the hiring of a CEO, we have seen a tremendous amount of more stability at CINICO then was present when I first came on. And Mr. Tivnan, having had an extra year where there wasn't a CEO could probably address it even more. But certainly we as a board feel that CINICO is much better positioned now than it was, say, two years ago. We would not have been in a position to do a strategic plan two years ago. We had far too many issues and things that needed to be resolved. We believe now we are in a place that we can create these staffing plans, create the strategic plan and achieve the sort of stability I think you're asking about, sir.

Mr. D. Kurt Tibbetts: So you think you are on the way?

Dr. Scott Cummings: Yes sir.

Mr. D. Kurt Tibbetts: Now, again, and I will be very layman-like in the way I ask the question, but I think that it is something that needs to be asked.

We are always hearing about not getting value for money, especially with overseas medical. And I think that I have at least a basic understanding of how it works.

What safeguards are in place now to ensure that value for money is something that is not only received, but that there is a sustainable way in which the company operates to ensure that we don't get any one entity getting a foothold? I know how that works in most things, you know, you get to the point where no questions are asked, and whatever the bill is, it is. And I think that's perhaps what . . . I can't swear, because I don't have the experience, but that is very likely what happened, as happens in most other things.

when you get to that point. And that's when you begin to question value for money.

So, what kind of safeguards are there in place that you won't have—I don't want to say reoccurrence because I can't verify what I said, but that you won't have this going on?

Dr. Scott Cummings: That's a good question, sir.

I would say that from a board's perspective we see probably at least two safeguards. Mr. Tibbetts, as the CEO, could probably address this in more detail.

Mr. D. Kurt Tibbetts: You're not talking to me, though?

Dr. Scott Cummings: No. I'm sorry. Mr. Lonny Tibbetts.

Mr. D. Kurt Tibbetts: Yes, I know.

Dr. Scott Cummings: My apologies.

From the board's perspective there are two safeguards we see. The first one is that we have scrubbing mechanisms through our third-party administrators and through our case management companies; MMSI [Merit Medical Systems Inc.], CMN [Canadian Medical Network] have, for example, scrubbing procedures.

We also work with . . . and, I'm sorry, "scrubbing" means that they get a bill, they look at the charges and then they compare it to what the rate should be. They look at if you were doing surgery on the left foot, why are you charging for working on the right toenail sort of thing. So through that you have a scrubbing procedure.

We also have with our reinsurance a scrubbing procedure and I believe Seamus the reinsurance scrubs even before we get the amount.

Mr. Seamus Tivnan: It kicks in at \$125,000, which is about a third, 28 per cent, of the amount of where they start to pay.

Dr. Scott Cummings: So, at a minimum we have our third party administrators, our case management companies that are doing that sort of scrubbing of the bills and making sure.

The second safeguard, though, is the use of networks. And those networks then negotiate discounts off of the standard health insurance fees. So, if we are using a network through, for example, CMN, we know that we are going to get a network discount over what the hospital would charge. In some instances, for example, I believe with St. Luke's (again, our CEO can confirm this), we are actually getting US Medicare rates, which are some of the lowest in the world because the US Government doesn't like paying anybody anything. So, where we can, we work with

our providers to get those network discounts and then through our third-party administrators and case management companies we work to scrub the bills at the back end.

Now, we would love to do that in-house. But, again, we go back to what Mr. Tivnan and I have said: With seven employees there is no way we can do that in-house. That is something that we have to rely on our external vendors.

Mr. D. Kurt Tibbetts: You have to source that out.

Dr. Scott Cummings: Yes sir.

Mr. D. Kurt Tibbetts: And just . . . I am getting to the end of it now. And there is also the question of do you ("you" meaning CINICO) all have fixed contracts with health service providers? Or is it that you seek prices for the various needs on a continuous basis, meaning . . . I have a heart condition (God forbid). Is it automatic where I go if I have to go overseas, if I am referred by the Chief Medical Officer here? Or is that determined on a case-by-case basis? And I know on many occasions you don't have the time, because it's a matter of life or death.

How does that actually work, is what I am asking?

Dr. Scott Cummings: That's a good question.

First, medical necessity obviously takes precedence over everything. And as an insurance company we always take the position that if the doctor says this needs to be done and it's reasonably medically necessary we would defer to the physician and to the Chief Medical Officer.

We do have networks through our third-party administrators, through our case management company and we have negotiated . . . St. Luke's, for example, comes to my mind. We have negotiated some networks on our own to try and work into. Mr. Tivnan might be able to better address, as well, some of the things we have done to make sure that it's not just on a case-by-case basis, but that there really is a process in place so that if someone comes in with a heart condition, for example, we know we can send them to Kansas City to St. Luke's, assuming that it is not an emergency and we have to get them to Miami the next day. But we can send them to Kansas City and get close to US Medicare rates and get top care as well.

Mr. Seamus Tivnan: And if I can quickly add to that, Mr. Cummings is correct; we did, or the new CO did start a network facility with St. Luke's. The case manager CMN where it's not an urgent, where it's not an airlift, where they have time to decide where someone will go, they will have some input as to where a patient would go, knowing the facility and knowing the discounts they get at that facility. But again, CINICO is relying on that third-party administrator to make the

right decision. CINICO's ultimate goal, which hopefully will come out in its strategic plan, is to have its own networks in different states and different countries so that it can decide and send its patients to the preferred provider.

The Chairman: Mr. Seymour.

Mr. Dwayne S. Seymour: Thank you, Mr. Chairman.

Dr. Cummings, thank you for your comprehensive outlay when you opened and I actually feel confident that you are on the right track.

Dr. Scott Cummings: Thank you sir.

Mr. Dwayne S. Seymour: And that this CINICO is at a better place, especially all given the confidence that after hiring the CEO that it's on a better footing.

I heard you mention the word "scrubs." I am just curious if the . . . when did you all put the scrubs . . . when did you start this scrubbing?

Dr. Scott Cummings: It certainly pre-dates my tenure. That is fairly common in the insurance industry. I am guessing it was going on before.

Mr. Seamus Tivnan: I don't have a specific date. We have two TPAs [Third Party Administrators], one is the claim case manager who sends the person, the other ones are the TPA that pays the bills and there is a certain amount of scrubbing from both of those entities perceived within the contracts.

With respect to the reinsurer, I believe that started sometime in early 2011 where the CFO and CEO got the reinsurer involved and they started scrubbing claims also.

Mr. Dwayne S. Seymour: Mr. Chairman, the only reason I asked was that I was curious if the Auditor General and his team had sought this information.

Mr. Martin Ruben, Audit Manager: We reviewed the processes used by the first and the second case management companies and certainly when we did our review of the management processes over those we were looking at how management in CINICO were ensuring that those scrubbing processes were actually being done in accordance with the contractual obligations that were in place. So that was our concern.

As the Chairman pointed out, those scrubs were being done at the time and during the course of the term that we were auditing; however, we were looking at management's responsibilities with respect to ensuring that those processes were being done in accordance with the contract.

The one scrubbing process that started afterwards at the beginning of 2011 was outside of our audit period so we didn't review that.

Mr. Dwayne S. Seymour: Thank you.

The Chairman: Dr. Cummings, in your opening statement I believe I understood you to say that you disagreed with the Auditor General in the way that you had received value for money.

Dr. Scott Cummings: I think . . . I don't want to say that I disagreed with the Auditor General. I guess I disagree with the public perception that had come from this report that somehow \$30 million was wasted. I believe that—

[Inaudible interjection]

Dr. Scott Cummings: Well, I'm not sure that's what he intended, to say that we wasted \$30 million. What happened is we spent \$30 million on overseas care during this period. We believe that because of the processes we talked about that we have gotten good value for money from that. We acknowledged that there was a second company that should not have been used and have taken steps to remove that second company and to address it. But, no, we feel the processes were in place. We feel we have strengthened them as, for example, adding in a new scrubbing in 2011 with the reinsurer, by bringing on a CEO who has also brought some stability to staff. We believe those processes have been strengthened.

But we are confident that in 2009 and 2010 we believe we got value for money on our overseas care.

The Chairman: Thank you.

Mr. Reuben, can you comment on that? You did the audit.

Mr. Martin Ruben: When we look at management's processes, what we're looking for is how they demonstrate evidence of getting that value for money.

While it's one thing to say that we have a contract in place that does certain things, *Look, it's asking the case management company to do certain things*, but we are also looking for evidence that the company itself is monitoring the kinds of (if you wish) value that it's getting overall and we would expect to see some sort of performance indicators or something that would demonstrate that, in fact, the cost of overseas medical care were reasonable and in alignment with certain expectations. Of course that's . . . , you know, we didn't see those kinds of indicators in place.

Mr. Alastair Swarbrick: Mr. Chair.

The Chairman: Mr. Auditor General.

Mr. Alastair Swarbrick: It's important to know that we couldn't find any evidence of oversight by management of those contracts I see that they were actually

carrying out those roles in terms of scrubbing the claims. So that was the issue from our perspective, one of the biggest issues; that we couldn't actually see any effective oversight by CINICO management to ensure that case management companies and the third-party administrator were actually doing their jobs as required in discussing the issues with management.

The Chairman: As I read this report—and this is open for comment from both sides of the aisle—there are three or four different places that there is no more information available because whoever the person was that was in charge of this is no longer working there and the information is just basically gone, according to this report. Is that correct?

Mr. Martin Ruben: That is correct. The most important area that we didn't find any evidence, if you wish, of management's activities, was in the area of cases that were managed by CINICO themselves. That was one area. I am just trying to think of . . . what other areas are you referring to, Mr. Chairman?

The Chairman: Thank you.

Dr. Cummings, I understand from your opening statement that you accept that and you have put structure in place now to deal with this.

Dr. Scott Cummings: Yes, sir. One of the biggest things we did was bring on a CEO to make sure that there could be oversight of the sort of things that were not being followed as closely as they should have been.

Now, I do want to make note, though, that the second case management company was identified prior to the new CEO coming in. So CINICO did have procedures in place; the problem was that they weren't being followed in certain instances. So, the problem was not the policy and procedure, the problem was making sure that employees followed it. And just to quote from one of the areas of improvement that we indicated to the Auditor General in November of 2010, we indicated that we were going to retrain management concerning proper processes for using vendors and that the new chief executive officer, who was hired about 30 days after this letter to the Auditor General, would also be tasked by the board with taking this direct oversight. So, we don't believe it was a policy failure. We believe instead that there were some issues because of the instability of the company at the time.

Maybe Mr. Tivnan can also address what happened in that year before.

Mr. Seamus Tivnan: Yes.

That second management company . . . I would say it's more of a verbal contract. It's through relationships in the industry and a lot of people, espe-

cially even more, years and years ago, would call an insurance relationship industry. You could have a contract of insurance and you may not see the policy until the end of the actual policy year. And I believe that's what occurred with this second company where the general manager started a relationship and there was no contract in place. And it was on that person's relationship respect in the industry that things like this happened. And it was wrong, it shouldn't happen in any company anywhere, but it happened.

The Chairman: Mr. Tibbetts.

Mr. D. Kurt Tibbetts: Thank you.

Mr. Chairman, to the Auditor General or Mr. Ruben, given what you have heard during the witnesses' statements today, do you find yourselves at any point in time compelled to ask any other questions, or do you feel satisfied that your concerns in your report are either being addressed or with full intentions of being addressed?

I can hear all two, just not one time.

Mr. Martin Ruben: During the course of the audit we interviewed the two witnesses as part of our audit and we asked them essentially all of the questions we would need to in order to establish what our report said. So, we don't have any further questions at this time really.

Mr. Alastair Swarbrick: I think a general comment is that from what we've seen we haven't done any further follow up on audit work at this stage. But their response in terms of our report was very positive and proactive from our perspective and the actions we are seeing coming through . . . there is a positive story to be told in terms of how they are taking things forward.

Obviously, this is just based on our discussions rather than any further audit work, so in due course we will follow up our report to see how things have developed and changed, and take that back to the Committee. But there is space in time for CINICO to actually take things forward and drive the change that they want to take forward.

The Chairman: I don't see any more questions.

Let me join the Auditor General in his statement that you sure have brought a positive message to us this afternoon and it looks like you are well on your way to working together and using some of the flags that have been sent for you from the Auditor General's Office.

Thank you for the time you have given to the Committee. Your input is extremely important to us. So thank you.

Dr. Scott Cummings: Thank you sir.

Mr. Seamus Tivnan: Thank you.

The Chairman: I would like to welcome the four new witnesses. The Auditor General has already made an opening statement for this, so I will invite each one of you to state your name and position. And as you do that you can make an opening statement at that time as well. We'll start with Mr. Tibbetts on the end and work back this way.

Mr. Lonny Tibbetts, Chief Executive Officer, CINICO: Good afternoon.

Lonny Tibbetts, CEO, CINICO. First of all, I would like to thank the Chairman and the Auditor General for the opportunity to be here. Having been recently appointed to the post of CEO it has been quite a task in the inheritance of the current situation at CINICO and essentially stabilising the organisation and somewhat pointing it, I think, in its intent and its direction. I can't take any credit for all of that, I think I have a fabulous team, or staff, the board, the ministry the chief officer, as well as my CFO play a very critical and pivotal role in where we are and where we are actually going.

I am very pleased with the report. We don't necessarily agree on everything, or the perception of it, but we thought from a management perspective it was needed for both the protection of us as management, as well as what we consider the governance protocol and parameter for us going forward, as well as a good opportunity to essentially straighten the ship, so to speak. Not necessarily righting it, but certainly straightening it.

Thank you.

Mr. Frank Gallippi, Chief Financial Officer, CINICO: Good afternoon. My name is Frank Gallippi. I am the CFO.

I would like to thank the Auditor General in working with also Martin's team and his staff on this report. We certainly do welcome the report and we think it is timely enough because CINICO was in the midst of change. We can use the report as a sort of road map to go to the next level and beyond that.

As far as the comments for value for money, I have to echo the comments from the chairperson. From a premium perspective we, on a high level basis, cover 100 per cent of all medical claims for the civil service and our premium rates are very competitive for that type of coverage. We have looked at a benchmark study recently prepared by an organisation by the name of Milliman. What that study has basically revealed [is that] in the US the average premium rate for a family is \$1,400. CINICO currently charges \$1,200 for the premium rate at 100 per cent coverage. And a majority of what we charge and why we need to charge that premium is for claims, to service the claims.

As far as our premium rates are concerned, a very little piece of that, only 10 per cent of the premi-

um dollar we collect is for administration expenses. And those include the TPAs that we hire to do this administration.

Secondly on that, we do admit that there was a lack of documentation as far as the oversight of the case management. A lot of that was being done by telephone calls by the former general managers. Nothing was really documented with a course of action. We have recently changed that.

Finally, the last thing I would like to say is that the report is, again, welcomed because it brings to light that at CINICO we are very short staffed. We have seven staff to look at 14,000 members in about \$50-plus-million in claims, when you include the local piece of it. Those are my comments. Thank you very much.

Ms. Jennifer Ahearn, Chief Officer, Ministry of Health, Environment, Youth, Sports and Culture: Good afternoon. My name is Jennifer Ahearn. I am the Chief Officer in the Ministry of Health, Environment, Youth, Sports and Culture, and CINICO is one of the SAGCs under our Ministry's responsibility.

I would just like to also echo the comments regarding that we welcome this report from the Auditor General's Office. Of course, overseas healthcare costs are a significant expenditure for the Ministry in terms of what we fund CINICO as well as the expenditure that we make for the overseas care for indigent seafarers and veterans through our NGS-55 in our budget. So it is an issue that the Ministry is acutely aware of the need to watch very closely, and something that we are always looking for ways to try and find better solutions, better ways to manage it, and so on. So, we definitely do welcome the Auditor General's report.

From the CINICO perspective, I think the report was very gratifying in that it reinforced a lot of decisions the board had made in terms of things that needed to be done and some of the way forward. So, it really reinforced and gave the board additional confidence that they had made some good progress, or were making good progress along the right track.

I also just want to echo some of the comments that have been made in terms of thanking the chair, the deputy chair and board members, the CEO and all of the team at CINICO for the stability that they have brought to the company in their tenure. From the time I joined the Ministry in May 2009, I think the deputy chair referred to it as dysfunctional. I just want to really thank the board and the team at CINICO for all of their efforts in bringing things to a much more stable situation that I think by enacting some of the recommendations, the Auditor General's report and keeping moving along the path that they started down, we will see some real stability and sustainability in the company going forward.

Thank you.

Mr. Carrol A. Cooper, Chief Financial Officer for the Ministry of Health: Good afternoon, I am Carroll Cooper, Chief Financial Officer for the Ministry of Health.

I too would like to echo the sentiment of my other colleagues and the chief officer, that we welcome this report. As she just mentioned, overseas healthcare is one of those areas that we have found very challenging and certainly we do have a keen eye on that area and, of course, we will be looking at this report even more closely to look at ways to manage this cost much better as we go forward.

Thank you.

The Chairman: Well, it can only go downhill from here, so maybe we can just adjourn and say, "thanks"!

I will open the floor for questions from the Committee.

Mr. D. Kurt Tibbetts: Mr. Chairman, I almost think you are right. But I believe that perhaps this is an opportune time to ask the chief officer in the Ministry to perhaps give us some idea from the Ministry's standpoint. And I won't go back any further than when she took over as chief officer. But how do you see the Ministry functioning with regard to lending support to all the things that are seemingly underway presently? And how do you see it going forward?

Ms. Jennifer Ahearn: Mr. Chairman, in terms of the Ministry's role in supporting CINICO . . . and do you mean specifically with the company or in terms of managing the overseas healthcare costs? Which would you like me to speak to?

Mr. D. Kurt Tibbetts: That was going to be a separate question, but if you want it all to be one, that's fine too. You know me well.

Ms. Jennifer Ahearn: Okay.

In terms of supporting the company as they move forward down this path, or they continue in their stabilisation and their strategic planning, the Ministry obviously is going to support them. We have taken on board the recommendations from the Auditor General's Office with regard to the tenure of the board members. We have (I think the chairman mentioned) put in place longer terms of appointment for the board as well as putting a rollover scenario in place so that the current board has been appointed for one, two and three years so that there will be some succession embodied as their terms come up and go forward. We think that will help to keep the company on a more even keel when you keep some of the old guard on board. And then you have an opportunity for the new members to come on and get up to speed before the longer-serving members (I was going to say "older", but longer-serving members) transition out.

In terms of the resource needs which have been brought up by the chair and the CEO, obviously this is a situation that the Ministry has been made aware of by the management. But with the current financial situation the Government faces, it's a scenario of competing priorities across Government. And everybody, I think, if you asked them, would tell you that everybody needs more staff, everybody needs more resources, everybody needs more to do what they are trying to deliver. And I know the CINICO team have worked as a very lean organisation with very low overheads, which we are very grateful for and we applaud them for. But in terms of an ability to increase their funding, it's a situation that the Minister and his colleagues will have to try and address.

Their funding from us, of course, is through the purchase of premiums, the payment of premiums for the civil servants and the pensioners and seafarers and veterans. And the Ministry is trying to keep up to date. We pay CINICO on a fee for service basis for the overseas care for the indigent seafarers and veterans. So the Ministry has endeavoured to make sure that we pay them for that in a very timely manner, as our budget permits.

As it was alluded to in the chairman's comments, we have a situation where in the past NGS-55 has gone over budget and CINICO has basically absorbed those costs. But there is an equity injection that is being paid over the next . . . we paid the first installment last year and we have one the next three years to cover that. So, that's the support that the Ministry is giving CINICO.

Mr. D. Kurt Tibbetts: And you were going to speak about overseas medical? I think it is fair comment that that has been and continues to be a situation of great concern just with cost, not about what's wrong; but simply the end of the day what the bottom line is and how much it is. Is there any specific plan in mind from the Ministry with regard to assisting CINICO in what they have planned to be able to deal with this matter?

Ms. Jennifer Ahearn: The Ministry convened a multi-stakeholder committee that we refer to as the healthcare cost review committee. Last year it came up with a number of recommendations. There were representatives from DCFS [Department of Children and Family Services] and the Health Insurance Commission and CINICO, the HSA, the Ministry and so on. And a number of those recommendations are ongoing in terms of the implementation and their review.

But the Ministry's approach has sort of been two-pronged. We are looking at trying to find some short term solutions, but also some longer term solutions as to what the country spends, not just on overseas healthcare, but on healthcare generally. It's a global phenomenon that the cost of healthcare has been increasing the world over. The cost of healthcare to countries has been escalating because people are

living longer. So the population is ageing, the healthcare costs—

Mr. D. Kurt Tibbetts: Nothing to do with doctors charging more.

Ms. Jennifer Ahearn: Well, the doctors have been charging more. They will tell you they have to charge more to cover their increased cost of doing business and so on. But that's not just here; that's the world over, so to speak.

In terms of some sort of longer term things that the Ministry has put in place, or is putting in place, of course we have the Dr. Shetty Hospital which is coming—

Mr. D. Kurt Tibbetts: I was going to ask you about that.

Ms. Jennifer Ahearn: —coming on line. I think next year they are forecasting to be open. And we are hoping that that will provide some tertiary care that isn't currently available locally that we are sending patients overseas for.

Dr. Shetty has said that he will be able to give us rates that are significantly lower than what we can currently get from South Florida, the market that we currently use. So that's one thing that we are looking at.

We have the CayHealth programme at the Health Services Authority which is a . . . its target is being piloted right now with the indigent population or the DCFS clients. And its focus is about encouraging patients, making sure patients are taking care of themselves now so that we can avoid catastrophic costs later.

Mr. D. Kurt Tibbetts: Preventive rather than curative.

Ms. Jennifer Ahearn: That's right.

And the Ministry has been very much focusing on trying to get the message out about preventative healthcare, about patients taking responsibility for their health and wellbeing and trying to forego those down the road catastrophic care costs by putting some investment into your health now, up front, while you're still healthy.

There is also . . . we recently did a chronic non-communicable disease risk factor survey with Healthy Nation 2012, which we are hoping to get data that will better inform our educational messages and our policy. Other jurisdictions when they got their data back they found out things like one of their biggest issues was binge drinking among women 40 to 49. And it was an area that they weren't doing anything about the messages for; they were focusing their appropriate drinking messages on a much younger population. So, as a result of that they were able to target their resources towards that group.

So, what we are hoping to get from the Healthy Nation data is a clearer indication of what we need to be targeting in terms of reducing those risk factors to hopefully keep the population healthier.

Another thing is the new Health Insurance Regulations that we have been working on and hoping to table, or the Minister will table very soon. They are adding a wellness benefit to the standard health insurance contract which is the minimum level of insurance that is required. Previously, that benefit wasn't in there, but by putting it in we will then have a tool or a vehicle to then actively encourage people to use that benefit. It will be a benefit that every insured individual will have and then we'll be able to really focus on making people more aware of the importance of having a wellness checkup, knowing your numbers, making sure that you are keeping track of where your health status is.

Mr. D. Kurt Tibbetts: Is that anticipated to affect premiums?

Ms. Jennifer Ahearn: It will. That will affect premiums because the benefits . . . it's just one of the components that's changing in the SHIC [Standard Health Insurance Contract]. But the benefits are changing quite significantly within the SHIC. And as a result, obviously if you have more benefits the premiums are going to increase.

But one of the other benefits to changing that SHIC, not just the wellness benefit, but enhancing all of the other benefits, is that currently Government quite often will pick up the cost for patients who are on SHIC when they have exhausted their benefits, if they are under insured. So, we're hoping that by having the basic level of insurance a little bit higher, the incidence of Government having to pick up those costs should decrease. And it will also help the Health Services Authority with their bad debt because by having that level increase somewhat, the insurance companies will be covering a lot more of the care, obviously, then they would if the benefits were lower.

We have also done things like, we have the CayHealth initiative (I mentioned that), sorry, the Be Fit. The Public Health Department has launched a Be Fit Campaign where they offer to go around to work places and get some workplace wellness messages out put a programme in place. Some research has shown that for every dollar invested in a workplace wellness programme, you can save as much as \$3 on preventative healthcare costs, or foregone healthcare costs. So, that is something Public Health has been working on.

And then we recently completed, although we haven't officially opened, a new walking track on the . . . it was the George Hicks, then, it was John Gray, the middle field, field. We put a walking track there because then people can now have some place. One thing that we kept hearing from people was that they

wanted to get back into the Truman Bodden track to have somewhere safe to walk where they could go and there would be other people and so this walking track . . . we couldn't do that, obviously, because it's the national stadium, the wear and tear on the mondo track wasn't really something that we could afford. So instead we have this new walking track on this field and it is getting utilised, and it's very encouraging to see people are using it, and using it to embrace some healthy lifestyle.

So we are hoping that all of those things will come together along with the efforts that CINICO is making. We are also looking at alternative destinations for overseas care. We're currently in the process of vetting some new destinations and doing some due diligence. The HSA is looking at opportunities to partner with Chrissie Tomlinson and other agencies here to try and enhance some of the services available locally so, again, to try and keep more patients here. And CINICO has increased their partnerships with providers like St. Luke's to try and get some better rates.

So, the Ministry believes that when all of these things come together that ultimately we will have a long term savings and some sustainable situation.

The Chairman: Thank you.

Mr. Tibbetts (Mr. Lonny Tibbetts, that is), on page 11 it says, "[49.] **We have noted that since a new CEO was hired in December 2010 the Board has requested the completion of a number of activities, some of which will have significant impact on how CINICO operates and how overseas health management Services are delivered. The CEO has been asked to:**

- **develop a network of health providers to deliver overseas medical services;**
- **bring case management and claims administration in-house; and**
- **implement a swipe card system for claims administration, including overseas service claims."**

Could you take your time and walk us through . . . Ms. Ahearn has done a very good job in some of these, but I think there is more to be added from CINICO's perspective.

Mr. Lonny Tibbetts: Yes sir.

First of all, the current structure, or the previous structure at CINICO (if I may take some time to explain to kind of explain what that was like, it will give us a better understanding of where we are and where we are actually moving forward to).

Under the previous structure that CINICO was initially formed and its services and functions began to deploy under, we utilised a Canadian Medical Network [CMN] exclusively as both our care and case coordination manager, our network access provider, as well as our billings and for a small period of time their actual

claims administrator. That subsequently changed and another party, CBCA (whose name is now simplified) was contracted just to provide claims administration, but the bulk of the care coordination network access still remained with CMN until April of this year.

At that point we completed an RFP whereby we recognised that the need to split those services was not only par for the course, but provided us, I think, better flexibility and fixed cost containment management opportunities which we did not have under the current structure.

The initial CMN structure possessed a component whereby they were paid on 16 per cent of savings for services and claims that were traditionally paid for overseas claims. I kind of have to backtrack for a second to explain how that works.

In a US facility they publish what they call their charge master, which is essentially the price of their services. Network aggregators like CMN and other large organisations will come into talks with a hospital, as well as the physicians that utilise the hospital for their services and negotiate discount prices or discounts on that charge master or their fee rates.

Once the fees are negotiated and a contract is put in place, they will include that or present that as a facility as well as a group or a physician within a network. Once we contact the network aggregator they will then present our member to that facility and subsequently the physician to diagnose, treat, et cetera. Once the bill returns for payment the discount is then applied to the facility-based charges and to the physician for his services. The amount of that discount then is multiplied by that 16 per cent and that is how CMN was traditionally paid.

Where we recognised that that was (for lack of a better word) a mechanism for weakness in that, was because they were also simultaneously making the decisions regarding the level, quantity and essentially what we consider the medical necessity decisions in conjunction with the CMO and other referring physicians here, whereby it presented an opportunity to manipulate length of stays, type of care, et cetera, which, in turn . . . and by no means am I accusing them of this, but it presented an opportunity to get a bigger bill, a bigger discount and subsequently more revenue for themselves.

This we did not find. And board, Minister, Chief Officer, all of us in examining this recognised immediately this mechanism had to change. The RFP was issued. We were successful in obtaining a new agency and separating those. So medical necessity is essentially examined by our care and case manager in coordination with referring physician, the CMO of the HSA, et cetera, and a prudent plan is put in place, vetted and monitored accordingly, not only with the particular treatment of the individual, but also in accordance with industry standards. So, it is a best practice model that we utilise MMSI-4 [Merit Medical Systems Inc.].

With CMN we still continue to have a relationship. However, the relationship remains for network access. As eloquently explained by the chairperson as well as the chief officer, resources are significantly scarce at CINICO. And not having the capacity to contract with facilities in the US directly or physicians directly on a daily functional basis, we recognise there is better value in yield in soliciting an organisation for such. And there are a number of them out there, and their volume of presenting representations for insurance agencies, self-insured organisations, or other companies, et cetera, give them more clout and subsequently discounts in their negotiations which, by essence, gives us an opportunity to tag on their back to get a better fee and discount and then inherently in our cost containment process of mitigating our cost and other challenges with regard to overseas care.

Having said that, CMN continues to play a pivotal role with us, as well as with the new case manager, in a number of our overseas functions. However, it must be noted that the actual re-negotiation in re-contracting, on a temporary basis essentially, both new agencies came on with fixed-fee arrangements, thereby we have completely mitigated the opportunity to extend care unnecessarily, have services performed that were not, you know, clearly defined as required but fell into a grey area. We think we have kind of put the onus now on being efficient in getting our members in quickly treated and identified, diagnosed and a proper course of plan put in place and subsequently returning them home because it is now in a benefit mechanism for the case manager to reduce the management time of each case.

CMN's current role still remains as a network aggregate provider in giving us access. We also utilise them for emergency evacuations and we are now . . . and again, they are also fixed fee. But we have now completed an RFP that's at CTC, it has some minor issues with it, but we are about to publish that RFP and we are going back to market right now to look for a new network aggregate provider to see if we can obtain better rates through a network aggregator or our original goal to look at opportunity to direct contract.

But what I have explained, the current challenge with direct contracting is that it requires a significant amount of resources to meet, maintain the physicians within the registry of the network, maintain the facilities within that and basically manage where and what physicians are available, where et cetera. Having such a small organisation there may be some opportunity to facilitate that work on our own, but at the same time, it is an elevated level of expertise, it's quite small and minimal industry to find those individuals. Therefore to retain someone on our staff to do that may not be the best use of our resources at this time.

So the RFP looks at what's going to yield an opportunity for a better network and, you know, sub-

sequent responses to that will also give the board as well as management a better idea of whether or not we should examine the facilitation of direct contracting.

The Chairman: Thank you.

If I could just ask you a question since we are right at this point, I heard 10 per cent administration fee.

Mr. Lonny Tibbetts: Yes sir.

The Chairman: And I heard the same price as Medicare.

Mr. Lonny Tibbetts: Yes sir.

The Chairman: So, rather than a starting point of the costs that a hospital or healthcare provider charges and the percentage that you get paid from . . . are you looking at actually starting at the bottom and building up?

Mr. Lonny Tibbetts: Thank you sir.

We certainly would like that opportunity. What we have achieved with St. Luke's is very rare. We are very fortunate to have the relationship, it provides a very unique feature whereby the same cardiologist that may examine, diagnose and identify an issue locally is the same one that may actually attend and perform the tertiary care for you at St. Luke's. It was a very unique opportunity.

In addition, the pricing that they gave us was very good. We've got Medicare-plus rates, essentially, from them, which is essentially the bottom rate that any US facility will accept because the US Government will only pay so much depending on the state and tax rates, et cetera. There are different issues that go through with regard to that, as well as the complexity of the case with DRGs [Diagnosis Related Groups]. Those things actually pay different factors in how and what a facility or a physician is reimbursed by Medicare. They don't like when you start negotiating to say that we want to start from Medicare rates and work up. Very few of them like that; they like the other, reverse down.

But we were very fortunate with St. Luke's. They entertained the conversation, the proposal and they sent back to us a very good contract proposal which we accepted. I think they recognised that they are in the middle of America and our traditional care overseas by our members on a regular basis is usually an hour and ten minute flight and they are there. This takes a little longer to get there and I personally pleaded with some members to take a look at it, give this organisation a chance to look at you and I have, you know, knock on wood, had very good results. Most of the members who have gone there are very pleased and are keen if there is a follow up. And they

are very happy to know that the physician that has seen them defined a course of management of their illness or even operated on them, intervened, to some level and usually follows up with them here so they don't have to travel again.

I think this is a model that we need to look at nationally and exploit it more. I think there are great opportunities for it to manifest into other levels of care, other than cardiovascular.

The Chairman: Are you saying a management contract with St. Luke's to run health services?

Mr. Lonny Tibbetts: No sir.

No. No, I am saying that I think other organisations in the US could provide a tertiary diagnosis or follow up opportunity maybe locally and then subsequently examine the treatment overseas because of sheer volume we can't perform some of those in the complexity here. But I think knowing that the follow up mechanisms here with the tertiary care provider gives us a greater opportunity and those opportunities can be fulfilled with using just telemedicine alone.

I guess that's the first one.

The case management claims administration in-house, both of them are taking their steps. The current contract that we basically took with or signed with MMSI, the Mayo organisation, has a specific clause in there that they are aware that in a year or two we would be hoping to have a full case management team on board. The challenge that we have with that, again, is the level of expertise and caliber. You know, one of the reasons why they were the winning bidder on that RFP is to know that they have the Mayo Clinic as their "mom" so-to-speak, to refer any challenging cases that we've had in the past and not just the limited expertise of the organisation itself. That is something that bringing in-house we would no longer have and we would have to look to retain someone or some other organisation for that level.

Long gone are the days when one eye can keep on the ball; we need two eyes on the ball with all of this. And we at CINICO are . . . some of the things that have been identified are having two eyes on the ball with all of these cases and having independence from a neutral perspective to say what else is happening here is something that we are developing internally for our own audit process, but we think is a critical component to case management. So, even bringing in-house we would certainly like to retain the right or the capacity to have a neutral third party monitor what our case management team is doing in that regard.

Claims administration is a little bit unique, but can be performed here, can be done with us here. I think the first step is the use of the AIS system, the care pay system between ourselves and the HSA. It is a very unique system in that it performs an adjudication rule process on a real time basis. This is something that is a vendor supplied product. We have ac-

quired it and there is a fee for use of it. And it continues to expand as we see more and more needs. We are very fortunate that they have continued to manipulate the software to be more customised and specific to us in our unique circumstances.

I remember talking to the programmer in examining our plan. He said it was easier for him to find the "no's" in this insurance plan than it was for him to populate the "yeses" because the "yeses" were so general. Everything was covered compared to a traditional programme where there are a lot of "noes", we don't cover this, or we don't cover that" et cetera. So, we joked about it, but "yes" was easier than the "no" in the programming aspect of the script.

But it is now done, it is in the hospital. It is both in the dental ward as in the medical services. It is now linked with the Cerner Electronic Medical Records System at the HSA. It produces simultaneously an invoice component as well as a billing, and, an adjudication run on the current system, and it gives us, I think, a dynamic base to start from to essentially bring in all claims from the US here as well.

Our concerns at that point is that US claims carry a lot more complexity and legislated monitoring than we currently have locally. HIPAA [Health Insurance Portability and Accountability Act of 1996] rules are very strict, very unique to the medical industry and any type of dissemination of medical records of an individual and the security concerns, if they are not sure 100 per cent, they know that you are not HIPAA compliant and a US facility will not be keen on sending or presenting via electronic format to us the type of claim that we would need to process and scrub, et cetera, from an auditing protocol. So it has to be considered, but these are the steps going forward.

The Chairman: So, Cerner is . . . what is Cerner?

Mr. Lonny Tibbetts: Cerner is the electronic management records system at the HSA. It is what the doctor will log into and present your treatment, your care, his recommendation, et cetera, which in turn records what we consider then a medical transaction which then converts those actions that he/she has input into Cerner into a billable format via a CPT [Current Procedural Terminology] code.

The Chairman: And then the other one is AIS.

Mr. Lonny Tibbetts: Yes sir. That's the final . . . that's the system we currently use that does both for us. It takes a set of . . . it takes an insurance policy and applies it . . . in the normal process a claim submitted to the insurance company, who then presents this into the system to adjudicate against those rules, and that will then say, *Well your current benefit was \$2,000 for this and the bill is \$3,000, we're only going to pay \$2,000, you can go back to the member, et cetera.*

With this real time, when the HSA is actually processing the bill and it's being converted from Cerner into the AIS module and then adjudicated, it will tell the cashier right in front of them, right there, *Mr. Tibbetts, you owe \$10 for this because your insurance company is only covering the first 50 per cent, et cetera.*

The Chairman: AIS is a Cayman company?

Mr. Lonny Tibbetts: I believe so, it is.

The Chairman: I asked this question in Finance Committee, so Ms. Ahearn has heard it before. I think you may have to . . . I don't understand how this works in my mind when I try to compare this to swiping to pay a bill.

Mr. Lonny Tibbetts: Yes sir.

Okay, what it does is when . . . there is a magnetic code on the back of each card. That magnetic code is actually tied to a unique identifying number that pertains to the policyholder. The policyholder subscribes to CINICO for a specific policy. In that policy . . . though we're quite unique, we don't have a lot of them, but some insurance companies can have 100 policies for healthcare out there, unique individual ones.

When that person swipes a card, not only does it tie them to that policy, it ties them to their specific medical record for the period of coverage. So, for example, if you have \$100 per year deductible for specific benefits, say it's a physician visit, at that point when you utilise the card and the facility swipes it to bill you \$125 for that service, it will prompt the individual right there, *Mr. Kirkconnell, you owe \$25, \$100 is covered by your insurance company, but the other \$25 is owed by you.* If you go the next day and do the same process, it will now say you owe the full \$125 because . . . or, I'm sorry, you don't owe again because you have used up your full \$100, you have to pay yourself. So it takes in all of the roles, the full deductible, the co-insurance, the co-pays, all of the components of a policy it has and it can customise each one time based.

If we make a policy change of any policy we currently have and say that that policy is effective February 1, 2013, we can programme it now and at 12:01 am it will switch that system over to that new policy at that date and time.

The Chairman: So when . . . I'm at the doctor's office, they swipe the card. I owe them . . . the insurance company says they are going to pay \$100.

Mr. Lonny Tibbetts: Yes sir.

The Chairman: Okay. So, if I did that with my MasterCard, then the doctor's office would be charged 3 per cent or 4 per cent.

Mr. Lonny Tibbetts: Yes sir.

The Chairman: Who pays . . . does the doctor absorb the percentage for this?

Mr. Lonny Tibbetts: Yes sir, he does.

The vendor absorbs the transaction fee traditionally, and we do as well. We also pay a fee as well.

So, from a credit card perspective the analogy would be, as a merchant you recognise you are paying for the swipe and then from the actually credit card company, so to speak (which would be us, the insurance company), we also pay a percentage of that claim as well.

Mr. D. Kurt Tibbetts: Mr. Chairman.

The Chairman: Mr. Tibbetts.

Mr. D. Kurt Tibbetts: I am trying to follow here, and I just want to make sure I understand. Just to follow up on what you are asking, because I am not familiar with this myself.

So, I have a card because I am a CINICO policyholder. I utilise the card. And then, depending on how much I have to pay and how much the insurance company (that is, CINICO), I have come up with the difference. But if I went to the HSA, the HSA then is charged a fee for that transaction to facilitate that fee and also CINICO who issues these cards, or through whom the cards are issued pays a fee. What kind of fee is that, first of all?

Mr. Lonny Tibbetts: Yes sir.

Okay, we pay 1.5 per cent of that transaction and the HSA I think pays 2 per cent of that transaction.

Mr. D. Kurt Tibbetts: So it's 3.5 total or gross, whichever way you want to look at it.

Mr. Lonny Tibbetts: Yes sir.

Mr. D. Kurt Tibbetts: Okay.

Now . . . so this does not work for a private doctor?

Mr. Lonny Tibbetts: Not yet sir.

The second stage of this rollout essentially would be that . . . as you are aware we currently utilise a significant number of the private physicians in the community to provide referral-type care. The next plan is to now contract with those individuals from a CINICO perspective and say once a CINICO member presents themselves here we want to provide the ser-

vices. The card mechanism, the adjudication role, would be programmed.

In addition, the physician outside should not see a patient unless a formal referral from the HSA has been manifested. The current system (we are developing it right now) will create what we call a "pre-certification certificate" to the physician. When he logs in he will see that Mr. Kurt Tibbetts is being referred to him and that he can contact you and schedule you. Once he swipes your card, it's tied to that pre-cert.

Mr. D. Kurt Tibbetts: What about overseas?

Mr. Lonny Tibbetts: It is not tied to overseas, sir. It is not tied to the referrals that go overseas at all. The US providers . . . we couldn't possibly expect them to utilise that sir.

Mr. D. Kurt Tibbetts: Probably not just no practical, but because of how it works mightn't be that easy to use because CINICO would be paying a lot of those bills themselves because of negotiations and everything else.

Mr. Lonny Tibbetts: Yes sir. And in addition, HIPPA does not permit a real time adjudication role sir.

Mr. D. Kurt Tibbetts: If I may, Mr. Chairman. Forgive my ignorance, because this is brand new. I'm just trying to get a grip on it.

So, CINICO decides that this is a more practical way to deal with it and this fee that is being paid is less costly than having to process the claims in the normal orthodox manner.

Mr. Lonny Tibbetts: Yes sir. It is.

Mr. D. Kurt Tibbetts: Okay.

How do you decide then who does it? How did you get where you are?

Mr. Lonny Tibbetts: There was an RFP that was published prior to my arrival, and I think the winning bidder was AIS.

Ms. Jennifer Ahearn: There was a joint tender that went out between the Health Services Authority and CINICO to have proposals through the CTC for this service. It's a tremendous benefit, not just to CINICO, but to the Health Services Authority.

Mr. D. Kurt Tibbetts: I understand the benefits. I am just trying to get a grip on it.

So this went out to tender and CTC decided that this tender was the best one.

Ms. Jennifer Ahearn: Yes. It went out to tender. CTC received the tenders and then sent it to the Evaluation Committee.

Mr. D. Kurt Tibbetts: Did you get more than one?

Ms. Jennifer Ahearn: Yes. I can't remember the number that we received, but—

Mr. D. Kurt Tibbetts: Okay. But there were multiple tenders.

Ms. Jennifer Ahearn: Mm-hmm.

Mr. D. Kurt Tibbetts: Okay.

Ms. Jennifer Ahearn: And this system was the most robust and the most cost effective on the recommendation of the Evaluation Committee.

Mr. D. Kurt Tibbetts: The Evaluation Committee now.

Ms. Jennifer Ahearn: The tender Evaluation Committee, the tender was issued jointly by the Health Services Authority and CINICO. So there was a Evaluation Committee that—

Mr. D. Kurt Tibbetts: All right. Where did CTC fit into it?

Ms. Jennifer Ahearn: The CTC fit in in their usual role.

Mr. D. Kurt Tibbetts: Right.

Ms. Jennifer Ahearn: So that—

Mr. D. Kurt Tibbetts: They received the recommendations from the—

Ms. Jennifer Ahearn: Evaluation Committee.

Mr. D. Kurt Tibbetts: From the technical committee.

Ms. Jennifer Ahearn: Right.

Mr. D. Kurt Tibbetts: And they issued the—

Ms. Jennifer Ahearn: That's correct.

Mr. D. Kurt Tibbetts: Okay.

The Chairman: I only have one other question on that subject: What do you think the volume of charges would be? Fifty million? Sixty million per year?

Mr. Lonny Tibbetts: About C\$30 million per year.

Mr. D. Kurt Tibbetts: Does that exclude overseas?

Mr. Lonny Tibbetts: I do believe that . . . does indigent go through it as well?

[Inaudible interjection]

Mr. Lonny Tibbetts: Yes, they do.

So the NGS-55 locally or the overseas, yes. So in addition to the \$30 million from the HSA from the CINICO covered group as well as the DCFS indigent individuals have the cards, or anyone that's covered by CINICO swipes it locally, all of the claims are processed through that.

[Inaudible interjection]

Mr. Lonny Tibbetts: Your \$30 million is of the insured. The total amount would be . . .

[Inaudible interjection]

Mr. Lonny Tibbetts: About 10 or 12. So, about \$40-something million. Yes sir.

[Inaudible interjection]

Mr. Lonny Tibbetts: The current cost for the overseas claims administrator compared to this 1.5 per cent that we pay is a lot more. And the goal . . . we are slowly going through a period where we are weaning them off of the system. They will only process the US and all of the CI will be processed through AIS.

It also provides an in-house manual claims processing for us as well. But we are not able to undertake the actual US processing of claims in the foreseeable future because of HIPPA rules and the receiving module which we are working on developing right now.

The idea is that we will utilise it as a platform for all of our record-keeping as well.

The Chairman: The CFO said that the total administrative cost was 10 per cent? Can you confirm that?

Mr. Lonny Tibbetts: Yes sir.

Mr. Frank Gallippi: Yes, let me just get my figures.

Based on our 2011/12, we expended, including the TPA charges, \$4.9 million. A million dollars of that comes from the head office charges at CINICO itself, you know, the rent, salaries and what-not; and then the remaining \$3.9 million comes from the TPA charges. When we put that as a percentage of the premium, which is essentially about \$61 million when you include the services and the claims for the indigent, that comes to essentially 10 per cent.

Mr. Lonny Tibbetts: And if I may, Mr. Chairman, the traditional industry yields between 15 per cent and 20 per cent.

The Chairman: Well, that was the second part of my question because what we have hear here today is

that you are short-staffed and that they need to ramp up. So in your, 1, 2, 3 year strategic plan, are you looking to increase the percentage that you have for administration? Or are you looking to grow your business and absorb it?

Mr. Lonny Tibbetts: Well that in itself is the challenge. Our concern is that if you recognise the use of a TPA overseas, say an organisation has a team of . . . just look at the case management, for example. Say they have a team of 20 qualified medical professionals from registered nurses to actual radiation nurses to actual physicians on staff. If we were to look at bringing a team of that dynamic, that qualified and that diverse, in house, it may actually cost us more than that 10 per cent.

That is our challenge in balancing this act. If we were to now say swap team for team and bring them in, we would not be able to. We could possibly only afford maybe four or five individuals to do our case management and would not have that breadth of expertise. Hence the reason why we really have to look at that and see that even if we do bring in a team, or we do coordinate a team or utilise services or professionals locally, and form our own case management services, the breadth of that may be limited and may inherently affect us in a negative way over the long period. So these are some of the challenges we are looking at.

And the way that we are actually looking at that is to see the caliber of the individuals to manage the number of cases that we send overseas. And I would say from a safe perspective, I think a 70 percentile would be a safe number, and see what calibre of team we would put together to achieve that.

The other rare and unique and extraordinary medical care that we would have to look at examining [would be] a one-off basis of professional teams overseas to look at that. But it has to be examined in the sense where, though more and more records of evidence-based care are becoming available and functional, you know, every individual is unique and some medical challenges are a combination of other things and it in itself poses a tremendous amount of challenge to an organisation to say you are going to be a one-stop shop for such unique cases. And I think this was what we ourselves, the board and the team looked at when we solicited MMSI and contracted them for these services we knew the breadth of that facility was quite unlimited so we felt very good about that.

Mr. Frank Gallippi: Sorry, Mr. Chairman, I would just like to make a correction. I looked at the wrong column. The \$4.9 million I quoted does not include the local head office expenses. So the total would be in the range of \$6 million to run CINICO which includes all expenses.

The Chairman: Which is still below the industry average?

Mr. Frank Gallippi: Correct. The 10 per cent still remains and it is still below the industry average.

Mr. Lonny Tibbetts: We don't have any money for the lizard, sir, so we can't go GEICO yet!

The Chairman: There has been conversation in the community recently about how you pick the different care facilities in the United States. Are you satisfied with how your TPA and your representatives in the United States pick these facilities that the patients are sent to? Or is this something that you are looking at?

Mr. Lonny Tibbetts: Well, unfortunately sir, it's very difficult to measure that satisfaction level. It is safe to say that both our TPAs, as well as our network administrator have clearly communicated standards of quality, excellence of facilities, et cetera. Unfortunately, there are some times when you could send someone to the finest facility and have a terrible outcome or a terrible experience by no forces of our own or nothing by our doings, and that in itself is a challenge we have.

I do feel that CMN has been a partner in this organisation and in our efforts for quite a while. They are very familiar with our clientele and the level of care that they expect and the caliber of facility. So, I feel comfortable knowing that the selection of facilities that they present to us for some of these cases are within that parameter.

However, we are working, I think, on defining a more tighter structure for our network. We did not have that capacity until the SPD, which is the Summary Plan Document that was signed. CINICO forever operated under an SPD that was essentially a monologue it was never agreed by the Cayman Islands or the Civil Service Association, nor was it accepted by POCS. So, it, in itself, presented us a forum where, *can we do this, can we not do this, can we send someone here, can we restrict someone from here.* It in itself, I think, lent to some of the challenges that have presented here today.

There could have been better strategies deployed for case management for strategies in steerage to certain facilities, but I think our members have a significant amount of say in where they go and who takes care of them mitigated a lot of those strategies that we could have deployed as an organisation to cut our costs. So, I think the new SPD still presents basically an unlimited access to US facilities, however, it does specify that we are going to define a network and if you select a facility outside of that network you will now be susceptible to 10 per cent of those costs.

The Chairman: It doesn't look like the Committee has any more questions, unless one out of the group of

four feels forthcoming with something else you would like to say to the Committee to help us write our report.

I want to take this opportunity to thank each one of you personally for the substance of your answers and the way you have embraced the Committee and helped to make our job quite easy, or helped to make it easier, let's put it that way.

So I thank you all very much for your time this afternoon and I look forward to seeing you someplace besides here soon.

Mr. Dwayne S. Seymour: Mr. Chairman.

The Chairman: Yes, Mr. Seymour.

Mr. Dwayne S. Seymour: Before they go, I would just like to put on record how proud I am of the leadership at CINICO and, in the eloquent words of the chairman of the board earlier, I want to thank the CEO, the CFO, the Chief Officer and CFO for the Ministry for all of the hard work they have put in to trying to turn this around and get this on a good footing.

Thank you.

The Chairman: Thank you, Mr. Seymour.

Proceedings suspended at 3.24 pm

Proceedings resumed at 3.50 pm

The Chairman: The Committee is starting back at 3.50 pm.

I would like to take this opportunity to welcome the last witness for today. This witness is here for the Roads Paving expenditure in Cayman Brac.

ROAD PAVING EXPENDITURE IN CAYMAN BRAC

The Chairman: I welcome the former director of NRA, Mr. Brian Tomlinson.

Mr. Tomlinson, I would like to apologise to you because we had anticipated taking you right after the witness around 1.30. I'm sorry for the miscommunication, that you didn't get the message, and I thank you for coming back. I'm sorry for the problem with that.

The Auditor General has already read his opening statement. Mr. Tomlinson, I would invite you to make any opening comments that you might like to make at this point.

Mr. Brian Tomlinson, Former NRA Director: Good afternoon, Mr. Chairman, and Public Accounts Committee.

My name is Brian Tomlinson, I am the former Managing Director of the National Roads Authority of the Cayman Islands. I am from the pleasant district of North Side.

Just a couple of things that I listened to today that maybe deserve some additional comment or clarity. One was a question to the Chief Officer about the source of funds for the paving operations in Cayman Brac. And in his reply in his statement he noted that the two executive asset accounts number 55 and number 36 were the source of funds for the operation. And that's true, but in addition to that there was approximately a million dollars, or slightly over a million dollars that came out of NRA9, which is an output called "Maintenance of Roads," and I believe in the budget documents it was appropriated for Grand Cayman. And I think that that's an important point to clarify.

Another important point to clarify, there was a lot of debate and bantering about how private roads seemed to be stuck in this category of not being properly identified, not being scheduled as public roads. And it has been a problem plaguing the Government for years. But it was the NRA Board policy to use public funds only for public roads. And this, I remember was at a board meeting fairly early on in my tenure as MD that that board policy was adopted.

It was . . . exceptions were made to that specifically I think in about April of 2011 when we were requested by the Minister to do some unscheduled public roads in the district of Bodden Town with public money. And the board agreed with that and amended their policy in that instance.

Another thing . . . like I said, this is not my show. I didn't come here to make a whole bunch of personal statements about what happened in the Brac with the paving. But just, again, one point of clarification I think that needs to be made is the lack of quality control that went into the project. I know that early on in the project we sourced, I believe it was about \$30,000 worth of testing equipment, and it was sent to Cayman Brac. And the last that I know of, up to February of this year, it hadn't been unpacked out of the shipping crates. So there was absolutely no empirical quality control work that went into the purchase of this \$3 million worth of asphalt.

Mr. D. Kurt Tibbetts: Are you ready for a couple of questions now, or . . .

Mr. Brian Tomlinson: Yes sir.

Mr. D. Kurt Tibbetts: Mr. Chairman, if you don't mind . . . First of all, Mr. Tomlinson, can you tell us in your experience while you were there as the Managing Director what was the relationship between the Public Works Department in the Brac and the NRA in Grand Cayman with regard to roadworks in the Brac and Little Cayman?

Mr. Brian Tomlinson: There wasn't a relationship.

Mr. D. Kurt Tibbetts: So, as far as you were aware, the roadworks in Cayman Brac and Little Cayman were just about always handled by the Public Works Department in Cayman Brac, I guess under the supervision of District Admin. Is that how it worked, or . . .

Mr. Brian Tomlinson: Yes sir.

I guess maybe the only exception to that would be with some technical drawings that we may have provided them with—

Mr. D. Kurt Tibbetts: So, really you just assisted on an as-needed basis, then.

Mr. Brian Tomlinson: Yes.

Mr. D. Kurt Tibbetts: Okay.

One of the points that I thought might be relevant is the equipment that was acquired, I think we would call it the paving equipment that was acquired for the works to be done over in the Brac . . . did the NRA have any role in that?

Mr. Brian Tomlinson: No.

Mr. D. Kurt Tibbetts: So, all of that that was—

Mr. Brian Tomlinson: Well—

Mr. D. Kurt Tibbetts: Forgive me—

Mr. Brian Tomlinson: The hotmix asphalt plant, if that's what your referring to—

Mr. D. Kurt Tibbetts: That's what I'm talking about.

Mr. Brian Tomlinson: No. But the laydown equipment was ours that was shipped over there.

Mr. D. Kurt Tibbetts: So that was on loan?

Mr. Brian Tomlinson: Ah, we were directed by Mr. Colford Scott to send certain pieces of equipment over there: the asphalt paving machine, some trucks, rollers, saws.

Mr. D. Kurt Tibbetts: How then did that affect the NRA's ability over here in Grand Cayman to perform its functions?

Mr. Brian Tomlinson: What we were doing previously in sending equipment to the Brac was that we were buying hotmix asphalt from one of the two suppliers and then laying it down ourselves with our own equipment. Obviously, when we sent the equipment to the Brac that changed and we changed our tendering process so that we tendered for supply and placement by one of the two local contractors in Grand Cayman.

Mr. D. Kurt Tibbetts: So, now with regard to personnel that were working with the NRA and when you had the equipment here (I'm thinking as I go along), those personnel who would have been operating the equipment when you would be buying the asphalt and not having the equipment after that, what happened with those personnel?

Mr. Brian Tomlinson: They went to the Brac with the equipment—

Mr. D. Kurt Tibbetts: Okay, so they went with the equipment, those who operated that equipment went and they worked over there.

Mr. Brian Tomlinson: Yes.

Mr. D. Kurt Tibbetts: Okay. I understand then.
Um . . . you go ahead.

The Chairman: Mr. Glidden.

Hon. Cline A. Glidden, Jr.: Thank you, Mr. Chairman.

I heard mentioned earlier on the policy of the NRA in regard to private roads and there was a statement made (from memory) that I think the first time would have been around 2011. But there was a lot of discussion . . . sorry, the first time would have been around 2011 that some private roads were done, because there was a request made and the board agreed to the request. But we have heard evidence given that this has been going on for a long time. Was that because it was going on . . . are you saying that that was the first time that you have knowledge of that happening, in 2011?

Mr. Brian Tomlinson: Mr. Chairman, no it is not. But it was the first time since the NRA Board actually considered such a policy and put that policy in place, which I think was in 2009/10. Prior to that, and prior to my tenure at the NRA, going back as far as the early '80s, private roads were being maintained and reconstructed with public funds.

Mr. D. Kurt Tibbetts: Mr. Chairman, I think the Auditor General in his report mentioned some possible conflict of interests with regard to the individual who was hired, and I think the Chief Officer mentioned it today and he was quite satisfied that there was . . . they had painstakingly thought about the possible conflict of interest with that person being the Chairman of the Board of the NRA.

[Inaudible interjection]

Mr. D. Kurt Tibbetts: Well, the Chief Officer not being there at the time the decision was made doesn't

change what I am saying. He said, whether he was the one who painstakingly thought about it or not doesn't matter, that whoever was Chief Officer at the time went to pains to make sure that nothing would be manifested by way of a conflict of interests. But the question . . . and he seems to be, from his report here today, he seems to be, the now Chief Officer seems to be totally satisfied that everything has gone as they would have hoped for it to go.

I understand that there was some question with the NRA with regard to whether or not . . . not whether or not, but they had to do some downsizing because they thought they were top-heavy (if I may use the term) with management level staff. Was there any situation where anyone (and forgive me if I have to ask you this personally because you would be one of the people that I would have to ask the question about), but was somebody like you asked about doing anything with regard to project managing anything or anything like that knowing that the NRA was going to have to downsize?

Mr. Brian Tomlinson: No sir.

Mr. D. Kurt Tibbetts: When this project was started was there any notion at that time of downsizing?

Mr. Brian Tomlinson: Yes, we started downsizing the NRA in 2009.

Mr. D. Kurt Tibbetts: And when was . . . do you have any idea when this . . . I can't remember off hand . . . when was this done? And when would have a new person have been appointed as a project manager for the project in the Brac? I mean, was it since then?

Mr. Brian Tomlinson: I am trying to recall from memory. I believe that it was in 2010 when we finally had a written memorandum of understanding between Mr. Colford Scott representing District Administration and the NRA. But like I said, our downsizing began shortly after the worldwide financial crisis which came in the autumn of 2008. So, as we went into 2009 we kept shedding any contracted non-Caymanian employees; and then in December of 2009 we got . . . we terminated the employment of 26 individuals out of a complement of 135, I think, at the time, which was a major downsizing.

Mr. D. Kurt Tibbetts: And was there any thought at the time given to trying to redeploy any of these staff? Or were they at retirement age, or . . .

Mr. Brian Tomlinson: The 26 that I am speaking of, were all expatriate contract employees, or retirees who had come back and working on retired contracts. And it was about a 50/50 split.

Mr. D. Kurt Tibbetts: Okay.

And then after that 26, was there any other redundancy which occurred?

Mr. Brian Tomlinson: Yes. There was Mr. Peter Ogden, in February of 2011. I should say the late Mr. Peter Ogden, God rest his soul.

Mr. D. Kurt Tibbetts: Yes, yes.

Mr. Brian Tomlinson: And of course myself this year.

Mr. D. Kurt Tibbetts: If I am not pressing too far, just asking of you, do you think that there were opportunities at any point in time for any type of redeployment that might have assisted any one of those people who were made redundant, especially the Caymanians?

Or I shouldn't ask that?

Mr. Brian Tomlinson: Well, let's drive to the heart of the matter, Mr. Tibbetts. I find that rather ironic, and maybe I am getting a little too personal here, but I find it rather ironic that my contract was terminated due to budget constraints, but yet we hire and pay the Chairman, with all due respect to Mr. Colford Scott who has been my mentor and colleague for over 30 years, but we as a Government hire a consultant to step in and do that role and we terminate staff that we have that are performing quite well.

The Chairman: Mr. Glidden.

Hon. Cline A. Glidden, Jr.: Mr. Chairman, I guess I have a question, two questions on the timing, when the mention was made as to, I think Mr. Tomlinson referred to it as going to the heart of the matter and the comparison being drawn. Was Mr. Scott in this particular case hired prior to or after for this particular project? Was he hired prior to or after the termination that you referred to?

Mr. Brian Tomlinson: My termination?

Hon. Cline A. Glidden, Jr.: Yes.

Mr. Brian Tomlinson: Prior to.

Hon. Cline A. Glidden, Jr.: So he was hired in the role for the Brac prior to your termination?

Mr. Brian Tomlinson: That's my understanding. I have never seen a contract, nor do I ever have any evidential proof of—

Hon. Cline A. Glidden, Jr.: So then if he was hired . . . when he was hired you were actually working in the capacity of Director.

Mr. Brian Tomlinson: Managing Director.

Hon. Cline A. Glidden, Jr.: Managing Director.

Mr. Brian Tomlinson: Yes sir.

Hon. Cline A. Glidden, Jr.: So I am a bit confused how we then get to that question as to how the Government would hire him and were terminating . . . because obviously your termination came after he had already been hired for that particular contract.

Mr. Brian Tomlinson: Well, I just find it curious that they wouldn't shed their consultants first and take care of employees that they have.

I didn't see during this whole downsizing any other heads of departments or authorities be terminated.

Hon. Cline A. Glidden, Jr.: Okay.

The Chairman: Any more questions?

Mr. Tibbetts.

Mr. Seymour.

Mr. Dwayne S. Seymour: I just want to clarify something that Mr. Tomlinson said earlier in terms of change of feed in 2011, that directives came from the Minister in terms of paving in Cayman Brac I think it was, or unscheduled roads in Bodden Town. I just want to clarify when he said that instructions came from the Minister straight to him, or directives were given to the Board and then the Board directed him.

The Chairman: Mr. Tomlinson?

Mr. Brian Tomlinson: Mr. Chairman, thank you. I will be very specific about Mr. Seymour's question.

What happened was I received an email from a Mr. Tristan Hydes, I think it was dated April, early April 2011, requesting that certain roads in Bodden Town be maintained and rehabilitated under our district roads programme. That was NRA 6 at the time. And I took it to the Board and the Board considered it and approved the deviation from the policy that they had put in place previously to only do public roads with public monies.

Mr. Dwayne S. Seymour: So it wasn't the Minister then.

Mr. Brian Tomlinson: It was the Ministry.

Mr. Dwayne S. Seymour: The Ministry. Okay. I wasn't quite sure.

Mr. D. Kurt Tibbetts: Mr. Chairman, if I may.

Mr. Tomlinson, you mentioned about getting to the heart of the matter. And if what I ask you is something that you prefer not to talk about, because it is something personal, then I am happy; but I have

heard on more than one occasion that after your termination there were some difficulties which ensued regarding health insurance. Is that something you are prepared to discuss or would you rather not?

Mr. Brian Tomlinson: You can ask me a specific question.

Mr. D. Kurt Tibbetts: Okay.

My understanding (and I may be wrong) is that whatever . . . with regard to health policy that because of some . . . because of a pre-existing condition, you have great difficulty now getting health insurance. Which is common, which I understand because I have a brother who faced the same thing at some point in time. Was there any consideration given by the NRA with regard to your ability to continue on the policy that you had while working there and you pay it, or not?

Mr. Brian Tomlinson: Yes sir. I requested that of the NRA in writing. The Acting Managing Director took it to the Board and the Board came back and stated that they would abide by the current, I believe it's the Labour Law, whereas they would provide health insurance under their policy for three months past the end of my contract, which will carry it through February of 2013. And after that I am on my own.

Mr. D. Kurt Tibbetts: When you asked that question was it because you have known of instances in the past where they dealt with it differently?

Mr. Brian Tomlinson: Yes. But that needs to be clarified, though. The late Mr. Peter Ogden was on our insurance policy right up until the day he died. But that was a policy . . . not policy; that was a decision that I had taken as Managing Director because it essentially costs us nothing. He paid for his insurance—

Mr. D. Kurt Tibbetts: After his retirement.

Mr. Brian Tomlinson: After his retirement, and continued on with it.

And this is a very serious issue that our Government needs to deal with because right now people who retire from statutory authorities and government companies do not receive health insurance benefits as do the civil servants. And it was something that we had been trying to deal with at the NRA through the Portfolio of the Civil Service and the Deputy Governor's Office, because you just can't let people come to work for you for their entire life and when they turn 65 you turn a light switch off and kick them out the door and say, "I'm sorry." You know? That's when they need it.

Mr. D. Kurt Tibbetts: But it . . . Forgive me, but it seems to me like it's kind of one set gets one treat-

ment and another set gets another treatment. And basically, while not all of them are civil servants, they are all public servants.

Mr. Brian Tomlinson: Well, Mr. Chairman, through you, yes, there is some confusion there because people . . . I believe the policy is that employees who work as civil servants for a long enough period of time before they went to work in an authority, there were several instances of that at the National Roads Authority because we became an authority in 2004. So all of those people who had worked many, many years as a civil servant had their—

Mr. D. Kurt Tibbetts: They retained it.

Mr. Brian Tomlinson: They retained their eligibility for CINICO health insurance once they retired. It was those people who fell under the bar of tenure. I don't know if it's 10 years, 15 years or 20 years, but those people who fall under that bar, when they retire they go out without any material health insurance.

Mr. D. Kurt Tibbetts: But in your instance you weren't asking for that treatment, you were just asking for continuation and you pay.

Mr. Brian Tomlinson: Yes sir.

Mr. D. Kurt Tibbetts: Okay. Well, perhaps that is something that there needs to be some consideration for, especially if it is not going to cost any more—

Mr. Brian Tomlinson: Right.

Mr. D. Kurt Tibbetts: —for certain circumstances.

Mr. Brian Tomlinson: I might add a note to that for your consideration, if this is going to become something to be considered, in that there needs to be some sort of proviso maybe that as long as the person doesn't cause a severe drain on the group as a whole and cause the whole groups' rates to go up, that they could continue on with that. Or maybe there's some sort of limit that would be set there so that they don't open themselves up to that risk.

The Chairman: Mr. Seymour? You're good?

Mr. Glidden?

Mr. Tomlinson, thank you very much for the time you spent with us this afternoon. We appreciate the answers, and again we apologise for the miscommunication when your time was to come in.

Mr. Brian Tomlinson: Thank you, Mr. Chairman. I appreciate the time. Thank you.

[pause]

The Chairman: At 4.20 we are going to adjourn for the afternoon. We will start back tomorrow morning at 10.00 am.

Proceedings adjourned at 4.20 pm



THE STANDING PUBLIC ACCOUNTS COMMITTEE MINUTES OF PROCEEDINGS

Meeting
Tuesday 23rd October 2012
10:15 am

Minutes of proceedings of the Standing Public Accounts Committee's meeting held Tuesday 23rd October, 2012 at 10:50 am in the large Conference Room of the Legislative Assembly Building, Grand Cayman.

Present: Mr Moses I Kirkconnell, JP, MLA – Chairman
Hon Cline A Glidden, Jr. MLA – Member
Hon D Kurt Tibbetts, OBE, JP, MLA - Member
Mr Dwayne S Seymour, MLA – Member

Absent: Mr Ellio A Solomon, MLA – Member

1. Meeting to Order

There being a quorum present (Standing Order 77(2) refers), the Chairman called the Meeting to order at 10:50 and thanked the Members present for attending.

2. PAC Reports for Approval

(a) *Performance Audit Report of the Auditor General on the Fuel Card usage and Management Follow-up.* The Committee reviewed the draft report and agreed to the following PAC comments at paragraph 9 of the Report.

9.01 The Auditor General's Office Report of May 2012 was a follow up Report on the Government's Internal Audit Unit's first phase report on the disbursement of fuel from the Department of Vehicle and Equipment Services in February 2012. The Auditor General's Report indicated that evidence showed that action was taken by the entities audited which has led to significant reduction in the number of fuel cards in use and a reduction in the average month consumption of fuel across government agencies. The Report also indicated that there have been systemic internal control issues relating to the distribution of fuel.

9.02 After hearing from the witnesses the Committee is satisfied with the Deputy Governor's acknowledgement and response to strengthen the controls with the assistance

of the Chief Officers. The witnesses confirmed that there is on-going improvement to the way the fuel is being charged and the method by which the fuel cards are managed.

9.03 The Committee is pleased with the introduction of a new fuel distribution system GASBOY 2, which was implemented in July 2012. In addition a Fuel Card Usage Policy and Procedures and a Fuel Card User Agreement has been implemented.

(b) *Public Interest Report of the Office of the Auditor General on the Road Paving Expenditure in Cayman Brac* – The Committee agreed to ask the Attorney General for a legal opinion on the question whether activities of the paving programme was carried out in accordance with the Roads Law, the National Roads Authority Law and the Public Management and Finance Law.

(c) *Performance Audit Report of the Office of the Auditor General on the Management of Overseas Medical Services* – the Committee reviewed the Report and agreed to the following PAC comments at paragraph 9:

9.01 The Auditor General's Office conducted an audit of the Cayman Islands Insurance Company Ltd for the period of May 2009 through April 2011 to determine if the Cayman Islands Government was providing overseas health management services in a cost effective manner. It was determined that the services was not effectively managed, leading to the likelihood that the Government wasted public resources in providing the services. It was also determined that the services were not controlled and administered in a manner that would provide meaningful information on how well the services were being provided. A number of issues were identified which created an environment of increased risks in the delivery of cost effective overseas medical services. The Auditor General's Report made a number of recommendations to which the Management of CINICO agreed.

9.02 Upon hearing the witnesses called the Public Accounts Committee is satisfied that the recommendations in the Auditor General's Report around the management framework and the role and responsibilities of the Board of Directors are being implemented. This is in addition to changes which the current CEO and Board had commenced prior to the Auditor General's Report.

9.03 The Committee is confident that under the present management there will continue to be improvements to the operation of CINICO which will place the Company in a better position to deliver overseas health management services in a cost effective manner.

(d) *Special Report of the Auditor General on the Affordable Housing Initiative and the Special Forensic Audit Reports of the Auditor General on the National Housing and Community Development*

Trust– the Committee took note of the Auditor General’s comments in the Special Report and the submission of the witness. The Committee agreed for the following comments at paragraph 9 of the PAC Report:

9.01 The Audit Office was concerned with how the Affordable Housing Initiative was initiated and with the procurement of goods and services for the project. A review took place on whether the project was executive in an economically viable way and that the procurement of goods and services were in accordance with applicable laws and regulations, with due regards to value for money. Subsequent to the Special Report of the Auditor General on the Affordable Housing Initiative the Auditor General was mandated by the then Governor to carry out a special forensic audit on the National Housing and Development Trust from the inception of the Affordable Housing Initiative. The audit was carried out in two parts which resulted in the Auditor General’s Special Forensic Audit Reports dated 17 June 2005 and 30 August 2005.

9.02 The Committee agreed with the view of the Auditor General that after the conceptualization of the initiative by the then Minister of Housing, the National Housing Trust should have been set up with its initial task being to develop a strategic plan to address the mode and timing of construction, the sourcing of financing and the overall management of the housing project. The Committee agreed that this would have provided decision makers with more comprehensive and detailed information and better means of assessing the financial feasibility of the project.

3. The Auditor General’s Report for consideration

(a) *Management of Major Capital Projects – June 2012* – the Committee agreed that witnesses would be called to address the Report and advise the Committee on how the recommendations of the Report were being facilitated.

(b) *Financial and Performance Reporting – Progress Update as at October 2012* – The Auditor General indicated that the Auditor General’s Office was in the process of preparing a detailed report for each Ministry and Portfolio which would be completed in January 2013. The Committee agreed that the witnesses would be called in an attempt to determine the key impediments to getting the financials reporting up to date.

(c) *OAG Annual Reports and Accounts for 2011 and 2012* – The Committee agreed to lay the Reports on the Table of the House at the next meeting.

4. Confirmation of Minutes

The following minutes were reviewed by the Committee, amended and approved on a motion moved by Hon Kurt Tibbetts.

- 18th September 2012 (with witnesses)
- 19th September 2012 (with witnesses)

5. Approval of the Auditor General's Office Invoices

The Committee reviewed and approved the following Auditor General's invoices on a motion by Hon Kurt Tibbetts.

- Invoice No. 205949 dated 5th October 2012 in the amount of CI\$50,080.64

6. Other Business

Hon Cline Glidden inquired on the matter of Mr Peter Young and indicated that Mr Young was still awaiting a response from either the Auditor General or the Chairman of the PAC regarding the issue of him being referred to as an 'analysis' in the Auditor General's Report on *Report on the Management of Government Procurement – Case Studies – August 2011 to 2011* to describe a service which Mr Peter Young provided to the Premier.

The Auditor General advised that Committee that the last correspondence between his office and Mr Young's attorney took place in January 2012 and he was of the opinion that the matter was concluded.

The Auditor General agreed to review the correspondence and advise the Committee. The Committee would then decide on a formal response to Mr Young.

7. Adjournment

There being no other business the Chairman adjourned the meeting at 12:40pm