



**Special Report of the
Auditor General**
on the
Port Royal Golf Course
Improvements Capital
Development Project

October 2014

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**The mission of the Office of the Auditor General,
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to add credibility to the Government's financial reporting and
to promote improvement in the financial administration
of all Government Ministries, Departments and all other entities
for which the Government is accountable to Parliament.**



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The Honourable K.H. Randolph Horton, JP, MP
Speaker of the House of Assembly
Bermuda

Sir:

Pursuant to Section 13 of the Audit Act 1990, I have the honour to submit herewith my Special Report on the Port Royal Golf Course Improvements Capital Development Project.

Respectfully submitted

Hamilton, Bermuda
October 2014

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE
Auditor General

TABLE OF CONTENTS

| | Page |
|---|-------------|
| 1 INTRODUCTION | |
| 1.1 Auditor General's Comments | 1 |
| 1.2 Audit Mandate, Reporting Authority, Policies & Practices | 1 |
| 1.3 Audit Committee | 2 |
| 1.4 Acknowledgements | 2 |
| 2 BACKGROUND | |
| 2.1 Establishment of Port Royal Golf Course | 3 |
| 2.2 Role of the Board of Trustees | 3 |
| 2.3 Role of the Government | 3 |
| 2.4 Responsibility for the Project | 4 |
| 2.5 Funding for the Project | 5 |
| 2.6 Expenditure Approval | 6 |
| 2.7 Board of Trustees spending | 7 |
| 3 AUDIT APPROACH AND FINDINGS | |
| 3.1 Audit Objectives | 9 |
| 3.2 Scope | 9 |
| 3.3 Criteria | 10 |
| 3.4 Summary of Findings | 10 |
| 3.5 Conclusion | 11 |
| 3.6 Recommendations | 11 |
| 4 KEY FINDINGS – BOARD OF TRUSTEES | |
| 4.1 Board of Trustees | 13 |
| 4.2 Processes to Control the Expenditure of Public Money not followed | 13 |
| 4.3 Accounting of Funds not adequate | 20 |
| 4.4 Oversight of the Project not adequate | 22 |
| 5 KEY FINDINGS – GOVERNMENT | |
| 5.1 Government | 25 |
| 5.2 Project not monitored | 25 |
| 5.3 Financial Transactions not accurately recorded | 28 |
| 5.4 Prior Approval for Cost Overruns not obtained | 28 |

1. INTRODUCTION

1.1 Auditor General's Comments

Port Royal Golf Course is a government-owned public golf course. Port Royal Golf Course is managed by the Board of Trustees of the Golf Courses (the "Board of Trustees").

Between 2007 and 2011, the Government of Bermuda (the "Government") approved a \$24.5 million refurbishment of the golf course, known as the Port Royal Golf Course Improvements Capital Development Project (the "Project").

Pursuant to Section 16 of the Audit Act 1990, we conducted an audit of the processes used by the Government and the Board of Trustees to manage the expenditures of the Project. Lack of oversight, cost overruns and inadequate accounting in large construction projects can undermine public confidence in Government's ability to safeguard public money, and to use it prudently for the public good.

This report highlights the consequences of not having appropriate processes in place to manage major capital expenditures and not following established guidelines which exist to protect public money.

1.2 Audit Mandate, Reporting Authority, Policies and Practices

The Bermuda Constitution Order 1968 and the Audit Act 1990 provide the legislative mandate for the Office of the Auditor General (the "OAG").

Sections 12 and 13 of the Audit Act 1990 authorize the Auditor General to present special reports to the Speaker of the House of Assembly, the Governor and the President of the Senate. Where a matter is of significant public interest, the Auditor General is permitted to make an immediate report in accordance with the legislation. The Audit Act 1990 allows considerable discretion in deciding the form and content of such reports to the House of Assembly.

Our audit work is conducted in accordance with our legislative mandate and our policies and practices. These policies and practices embrace the standards recommended by the Chartered Professional Accountants of Bermuda and Canada.

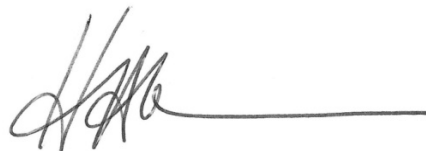
1.3 Audit Committee

A draft of this report was reviewed by the Audit Committee (the “Committee”) established under Section 5 of the Audit Act 1990. The Committee’s role includes reviewing drafts of my public reports, discussing the contents with me, and communicating to Cabinet any matters the Committee believes should be brought to Cabinet’s attention. The members of the Committee who reviewed this report are:

| Name | Position | Employer |
|---|--|-----------------------------|
| Mr. Kirk L. Davis, CPA, CA, MioD, Chairman | President & CEO | Pin High Limited |
| Mr. Alan F. Richardson, CPA, CA Deputy Chairman | President & CEO | The Centre Limited |
| Mr. Andrew A. Griffith, CPA, CA | Group Vice- President & CFO | BAS Group of Companies |
| Ms. Shade Subair, LLB FR (Hons) | Partner and Director | Mussenden Subair Limited |
| Mr. Ottiwell Simmons, JP | Consultant | |
| Mr. Christopher A. Coelho, CPA,CA | Retired - Former Senior Vice- President & CFO | Ascendant Group Limited |
| The Hon. Everard Trenton Richards JP, MP (ex-officio member) | Minister of Finance | |

1.4 Acknowledgements

I wish to thank the members of the Committee for their valued input. I also acknowledge the assistance and co-operation extended to my staff during the course of the audit. Finally, I am grateful for the hard work, professionalism and dedication of my staff, during the conduct of the audit and the subsequent production of this report. Their personal and professional commitment to every audit is the greatest contribution to the success of the Office of the Auditor General.



Hamilton, Bermuda
October 2014

Heather A. Jacobs Matthews, JP, FCPA, FCA, CFE
Auditor General

2. BACKGROUND

2.1 Establishment of Port Royal Golf Course

The Southampton Golf Club was founded in 1965. Following a period of construction, the club was renamed Port Royal Golf Course and opened for play in 1970.

2.2 Role of the Board of Trustees

The Golf Courses (Consolidation) Act 1998 (the “Act”) empowers the Board of Trustees to:

- have general control, management and administration over Port Royal Golf Course, and
- maintain the golf course in good and proper condition.

Section 10 of the Act requires the Board of Trustees to obtain the prior approval of both the Minister in charge of golf courses and the Minister of Finance for any capital development projects. The Act also requires the Board of Trustees to follow the Financial Instructions¹ of the Minister of Finance or any other instructions issued by the Minister in charge of golf courses. During the course of the audit, we were not aware of and were not provided with any other instructions issued by the Minister in charge of golf courses.

2.3 Role of the Government

The Government owns the land on which the golf course sits as well as any buildings erected thereon and the related furniture and equipment. The 1998 Act designated the Minister of Works and Engineering as the Minister responsible for Port Royal Golf Course. In 2006, the Act was amended and responsibility for Port Royal Golf Course was transferred to the Minister of Tourism and Transport.

¹ Financial Instructions issued by the Accountant General’s Department under the direction of the Minister of Finance are procedures designed to make certain that financial transactions are properly recorded and controlled on a consistent basis. The Public Treasury (Administration and Payments) Act, 1969, Section 3, requires the instructions of the Minister to be obeyed.

In 2009, the wording of the Act was amended to change the ‘Minister charged with responsibility for Tourism and Transport’ to the ‘Minister charged with responsibility for golf courses’. From 2006 to 2010, the Minister in charge of golf courses was the Minister of Tourism and Transport.²

2.4 Responsibility for the Project

Governments can efficiently and effectively deliver programs and services by concentrating and leveraging expertise across ministries and departments. The Ministry of Works and Engineering (“Works and Engineering”) had a mandate to carry out capital development projects and the accounting responsibility for all such projects was vested in its Permanent Secretary. In order to carry out its mission, Works and Engineering had developed governance structures, accountability relationships, and rules and procedures for managing major capital projects.³

This Project did not leverage the expertise of Works and Engineering. Instead, the ultimate responsibility for the Project was delegated to the Cabinet Office (2007 – 2010) and the Ministry of Tourism and Transport (2010 - 2012) and the Board of Trustees was given the responsibility for managing the Project. Neither the Cabinet Office, the Ministry of Tourism and Transport nor the Board of Trustees had demonstrated the capacity (systems, processes and qualified personnel) for the oversight or management of a project of this magnitude.

Additionally, Financial Instructions did not permit the delegation of the management of capital development projects to any entity other than Works and Engineering. The Public Treasury (Administration and Payments) Act 1969 in fact provided that every person “concerned in or responsible for ... the payment of public monies... shall obey all instructions ... issued by the Minister (of Finance) ...”.

² The major expenditures for the Project occurred in 2008/2009. Therefore, the Act as amended in 2006 was the primary legislation in effect during the audit period. During the audit period, the Ministry was known as the Ministry of Tourism and the Ministry of Tourism and Transport. We refer to it as only as the Ministry of Tourism and Transport.

³ P.F.A.2000 – Purchase of Goods and Services, and P.F.A.2002 – Procurement of Contract Services.

These instructions unequivocally provided that the accounting responsibility for major capital development projects rests with Works and Engineering. Government did not follow the law.⁴

2.5 Funding for the Project

Typically, golf courses require major refurbishment every 20 – 25 years. In November 2006, the Board of Trustees requested \$7.7 million in funding from the Government for refurbishments of all three golf courses (\$4.5 million for Port Royal Golf Course, \$3.0 million for Ocean View and \$0.2 million for St. George's). Government approved only \$3.0 million at that time.

By January 2007, the scope had changed to a refurbishment of Port Royal Golf Course only and the Board of Trustees developed a preliminary budget of \$6.5 million. We were not provided with the rationale for the change in scope nor was the scope clearly defined at this point.

In November 2007, the Government approved a \$13.6 million expanded capital redevelopment project for Port Royal Golf Course. The scope of the Project then included a reverse osmosis plant⁵ and irrigation system, lengthening of the course, rebuilding of tees and greens, remodeling bunkers, re-grassing fairways, constructing a new maintenance building, and purchasing new maintenance equipment - sufficient that the course would meet Professional Golfers of America (PGA) tour standards.

Government also discussed remodeling the Port Royal Golf Course clubhouse. However, it is not clear from documentation provided whether the clubhouse renovations were to be included in the original \$13.6 million project, or whether further funding would be provided. The Board of Trustees understood that further funding would be provided.

Port Royal Golf Course subsequently spent \$1.4 million on the clubhouse. We were not provided with evidence that the Government formally approved the renovations of the Port Royal Golf Course clubhouse.

⁴ Government of Bermuda; Approved Estimates of Revenue and Expenditure for the year 2007/08 includes an explanatory note (C-1 Note 3) that for those capital projects which the Ministry of Finance delegates the accounting responsibility for such expenditure to a Ministry other than Works and Engineering, the applicable Permanent Secretary or Head of Department shall be regarded as the Accounting Officer for such projects. However, an explanatory note is not the law.

⁵ Reverse Osmosis Plants desalinate salt-water to make it suitable for consumption and irrigation.

2.6 Expenditure Approval

On an annual basis, expenditure estimates are prepared by the Government. Parliament approves appropriations out of the Consolidated Fund based on these estimates.⁶ Capital development estimates usually indicate the Total Authorized Figure (“TAF”) related to each project. The TAF represents the total estimated cost of a project approved by Parliament. Between 2007 and 2011, Parliament approved a TAF of \$24.5 million for the Project as outlined in Figure 1.

Figure 1—Capital Development Costs approved for the Project

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|--------------------------------------|----------------|----------------|----------------|-----------------------|
| Ministry | Cabinet Office | Cabinet Office | Cabinet Office | Tourism and Transport |
| Total Authorized Figure (TAF) | \$7.7 M | \$5.9 M | \$3.1 M | \$4.4 M |
| Supplementary Estimate | - | \$3.4 M | - | - |
| Cumulative Approval | \$7.7 M | \$17.0 M | \$20.1 M | \$24.5 M |

Source: Government of Bermuda; Approved Estimates of Revenue and Expenditure for the Year

Project costs were paid directly by Port Royal Golf Course. The Cabinet Office or the Ministry of Tourism and Transport then reimbursed Port Royal Golf Course for most of the direct costs it incurred. In addition to these payments out of the Consolidated Fund, the Government also repaid loans which the Board of Trustees used to finance other costs related to the Project.

The Cabinet Office and the Ministries of Tourism and Transport and Public Works reported to Parliament that \$24.5 million was spent as capital development costs as indicated in Figure 2.

Figure 2—Capital Development Expenditure reported to Parliament

| | 2007/08 | 2008/09 | 2009/10 | 2010/11 |
|--|----------------|-----------------------|----------|--------------|
| Ministry | Cabinet Office | Tourism and Transport | Tourism | Public Works |
| Amounts reported to Parliament as spent | \$6.9 M | \$10.1 M | \$3.0 M | \$4.5 M |
| Cumulative Expenditure | \$6.9 M | \$17.0 M | \$20.0 M | \$24.5 M |

Source: Government of Bermuda; Approved Estimates of Revenue and Expenditure for the Year

⁶ The Consolidated Fund is the general operating fund of the Government of Bermuda which records the financial transactions of the Senate, the House of Assembly, all Government departments and offices and all courts.

However, the records of the Board of Trustees, as detailed below, reflect differently.

2.7 Board of Trustees spending

The financial statements of the Board of Trustees of the Golf Courses for the year ended March 31, 2007 include a subsequent event note stating that the total Project costs were \$20.1 million (Figure 3). Of this amount, \$16.0 million was allocated to the golf course renovation, a further \$1.4 million was recorded as capital spending on the clubhouse renovations and \$2.7 million was recorded as operational expenses.

Figure 3—Board of Trustees’ Spending for the Project

| | Golf Course Renovations | Clubhouse Renovations | Total |
|-----------------------------|-------------------------|-----------------------|----------|
| Capital Spending | \$16.0 M | \$1.4 M | \$17.4 M |
| Operational expenses | \$2.7 M | - | \$2.7 M |
| | \$18.7 M | \$1.4 M | \$20.1 M |

Source: Board of Trustees Accounting Records

It has been represented to us that the difference between the amount reported to Parliament and the amount recorded in the accounting records (\$4.4 million) was used to cover operating deficits incurred in the 2007 to 2011 period. As the Board of Trustees has not provided financial information susceptible to satisfactory audit verification, we can neither verify the total costs of the Project, nor the accuracy of the accounting information which has been provided.

It should be noted that the Government’s Department of Internal Audit conducted an operational review of Port Royal Golf Course in November 2011. The review noted numerous deficiencies in internal controls, highlighted areas for improvement and provided suggestions for change relating to operational procedures.

3. AUDIT APPROACH AND FINDINGS

3.1 Audit Objectives

We conducted an audit of the Project for the period January 1, 2007 to March 31, 2011 to determine whether the Government and the Board of Trustees appropriately managed expenditures of the Project and followed legislation and Financial Instructions.

Specifically, we wanted to determine whether the Board of Trustees:

- Used the funds it received for the Project for the intended purposes and properly spent them in accordance with its legislation and Financial Instructions,
- Maintained essential records, and fully accounted for the money it received for the Project, and
- Used proper oversight processes to manage the Project.

We also examined the processes used by the Government to oversee the Project to determine if it:

- Monitored the progress and status of the Project,
- Correctly accounted for the money spent in the Consolidated Fund, and
- Approved all Project costs.

3.2 Scope

We limited our audit to the Board of Trustees' management and the Government's oversight of expenditures and processes related to the Project. We did not design the audit to determine whether the processes were adequate for all of management's purposes, nor would the audit likely reveal all opportunities for improvement or conditions requiring management's attention. We did not examine the expenditures related to the annual operations of the golf course nor audit its financial statements. We did not conduct a forensic audit to examine the legality of payments relating to the Project.

Our audit consisted of interviews with staff of various Ministries, past and present members and employees of the Board of Trustees and other persons. We also reviewed minutes of meetings of the Board of Trustees, and examined tenders, quotations, applicable contracts, accounting records and supporting documentation related to the Project.

In conducting this audit, we followed the standards for assurance engagements recommended in the CPA Canada Handbook - Assurance.

3.3 Criteria

In order to evaluate the Board of Trustees' and Government's processes, we used criteria based on governing legislation and Financial Instructions.

3.4 Summary of Findings

- The Board of Trustees did not follow processes to control the expenditure of public money (Section 4.2)
- The Board of Trustees did not adequately account for the Project (Section 4.3)
- The Board of Trustees did not adequately monitor the Project (Section 4.4)
- The Government did not adequately monitor the Project (Section 5.2)
- The Government did not correctly account for the Project (Section 5.3)
- The Government did not follow its processes to approve all Project costs (Section 5.4)

3.5 Conclusion

We concluded that neither the Board of Trustees nor the Government appropriately managed expenditures for the Project.

We cannot conclude whether the Board of Trustees used all of the funds it received for the Project for the intended purpose. Further, we cannot conclude whether it has fully accounted for the money it received because the Board of Trustees has not provided accurate financial reporting including financial statements audited for reliability, completeness and accuracy.

However, we can conclude that the Government did not appropriately approve all Project costs and did not correctly account for capital spending in its accounting records.

3.6 Recommendations

We recommend that the Board of Trustees comply with its legislation and Financial Instructions when undertaking major capital development projects. We further recommend that the Board of Trustees prepare reliable, complete and accurate financial information and provide such information for audit on a timely basis.

We also recommend that the Government should satisfy itself that those charged with managing and monitoring major capital projects have the required competency. Furthermore, it should accurately record capital spending in its accounting records and follow the rules and procedures governing the authorization of payments.

4. KEY FINDINGS – BOARD OF TRUSTEES

4.1 Board of Trustees

The Board of Trustees is responsible for managing the operations of the golf course. However, based on our findings, the Board of Trustees did not demonstrate the requisite expertise and capacity to appropriately manage this major capital project, nor did it maintain essential accounting records.

4.2 Processes to Control the Expenditure of Public Money not followed

We expected that the Board of Trustees would have had adequate processes to control the expenditure of public funds such that monies received were prudently spent in accordance with legislation and Financial Instructions.

When an entity does not follow the rules and procedures established to control the expenditure of public money, there is a risk that money will be spent for unintended purposes, or spent imprudently, in error or fraudulently.

4.2.1 Non-compliance with Legislation

Borrowing

Section 11 of the Act restricts the Board of Trustees' ability to borrow money without the prior written approval of the Minister of Finance. The Board of Trustees received the required approval to borrow \$3.0 million in August 2008 (for renovations to the clubhouse) and \$4.5 million in September 2009 (to complete improvements to Port Royal Golf Course, cover operating deficits and provide operational support).

We were advised that the Board of Trustees pursued this method of financing the Project and the Minister of Finance approved this financing arrangement as the Ministry of Tourism and Transport did not have funds budgeted for the golf courses.

However, it should be noted that the TAF was exceeded in both 2008 and 2009. At March 2009, the TAF was only \$17.0 million inclusive of a \$3.4 million supplementary. But the Board of Trustees had already incurred costs of \$18.7 million.

The Government was not authorized to provide further funding until approval was received from Parliament through the budgetary process. In addition to avoiding Parliamentary scrutiny, this financing arrangement compromised the Government's ability to oversee the Project adequately. Once the loans were obtained, the Board of Trustees did not have to submit detailed capital payment requests, and the Government could no longer monitor such payments.

Board of Trustees Approval of Major Decisions

The Act contains provisions relating to the constitution and proceedings of the Board of Trustees, including quorum requirements and the decision making process (the majority of votes of members present during decisions). We examined the minutes of Board of Trustees meetings and noted that quorum requirements were generally met.

However, the process for approval of major procurement decisions was not adequate. In order to expedite the Project, the Board of Trustees agreed that procurement decisions (i.e., awarding of contracts) would be circulated by e-mail to Board members. Approval of each matter would then be recorded at each Board meeting.

While there was some evidence that e-mails were circulated to Board members, there were no subsequent resolutions⁷ of decisions noted in the minutes. We noted three contracts over \$50,000 which were approved in the Board of Trustees' minutes. However, there was little indication in the minutes that many other contracts over \$50,000 were fully discussed or received Board approval.

Without resolutions, Boards run the risk that inappropriate decisions can potentially be made by some board members, rendering the entire board ineffective. Important decisions should be confirmed by Board resolutions and minutes of Board meetings should be maintained to serve as evidence of oversight and control by the governing body.

⁷ A resolution is a written motion adopted by a deliberative body (i.e. Board of Trustees)

As the minutes did not provide adequate evidence of Board-approved decisions, we could not conclude whether the Board of Trustees exercised adequate oversight and control to ensure that contracts were good value for money and awarded in an open and transparent manner.

4.2.2 Non-compliance with Financial Instructions and related rules

The Act requires the Board of Trustees to follow Financial Instructions. We examined the following sections of Financial Instructions that we considered to be significant in addressing the major risks of the management of this Project:

FI 3 – Business Conduct
FI 6 – Value for Money
FI 8 – Purchase of Goods and Services
FI 9 and F10 – Expenditure
FI 12 – Capital Expenditure

In addition, Works and Engineering had adopted more rigorous and complex guidance for procurement of goods and services relating to major capital development projects. This guidance is appropriate for entities charged with the management of such projects. Therefore, we used criteria in the following guidance as the appropriate rules and procedures:

P.F.A.2000 - Purchasing of Goods and Materials issued February 2004
P.F.A.2002 - Procurement of Contract Services issued November 2008

Business Conduct

Government Boards have a fiduciary responsibility to act in good faith and in the best interests of the entity and the Government. Boards are required to avoid conflicts of interest (real or perceived) and to be always cognizant that the interests of the entity and the Government take precedence over personal interests. A conflict of interest exists when an entity does business with a board member or a board member has a compensation arrangement. Board members must not use their positions for personal profit or gain.

There were at least three instances where the interests of Board of Trustee members were, or appeared to be, in conflict with the interests of the Board. On two occasions, major contracts were awarded to companies in which Board of Trustee members appear to have had personal interests. In another instance, it appears that a Board of Trustee member received a commission from a company which was awarded a contract by the Board of Trustees.

In the first instance, a contract for equipment rental was not formally put out to tender following established procedures. Instead, contractors were invited to bid and only one company submitted a bid. The company was awarded a \$1.6 million contract and was paid \$1.7 million. A subsequent contract for \$1.2 million was awarded to the same company without being tendered. The contract was based on the lowest quoted rates per hour for equipment rental. The company received a further \$0.6 million for other services for which no bid appears to have been received. In total, approximately \$3.5 million was paid to the company. A Board of Trustee member, who was also an elected Member of Parliament, had an ownership interest in the company. Since other bids were not requested, we do not know if the subsequent services were provided at a reasonable cost.

In the second instance, a contract was awarded to a contractor to provide goods and services based on a guaranteed supply and uniformity of quality/colour of product basis. The contractor subsequently sub-contracted the supply of materials to another company in which a Board of Trustee member was a director. The contractor received \$1.3 million for the services provided to the Project. The amount paid to the sub-contractor was not provided.

In the third instance, the Board of Trustees authorized and paid \$10,000 in excess of the invoiced price to a company which was awarded a contract for goods. The Board of Trustees' minutes indicate that this payment was to enable the company to pay a 'finder's fee' of \$10,000 to a Board of Trustee member. It is not clear what relationship, if any, the Board of Trustee member had with the company to earn such a payment.

By any standards, this is inappropriate behavior by board members who have a fiduciary responsibility to avoid the appearance of actual or perceived conflicts of interest. Additionally, without a fair and transparent process to award contracts, it is not possible to know if spending decisions were appropriate.

Value for Money

Financial Instructions require everyone concerned with the payment of public monies to achieve ‘optimum value for money’. Achieving value for money requires due regard to economy, efficiency and effectiveness.

Government owned golf courses are not social programs. At a minimum, they should be self-sustaining. Section 8 of the Act, in effect, requires that revenues should be sufficient to meet expenses and deficits should not be incurred.

While it is recognized that golf courses need refurbishment periodically, there was little evidence that a sound business case was prepared to support this substantial capital expenditure. We were provided with the Board of Trustees’ proposals for both the Project and the clubhouse renovation. However, these proposals only outlined the needs and did not address the expected benefits. Without a complete analysis such as a business case⁸, the Board of Trustees and the Government could not know if the proposed project would achieve value for money.

Originally, the Board of Trustees requested approval to spend \$4.5 million to refurbish the course and the course designer’s preliminary estimate was \$8.6 million. We were not provided with original plans. We, therefore, cannot comment on the adequacy of the plan or budget or whether the \$7.7 million initially authorized by the Government was appropriate in the circumstance.

Regardless, Cabinet made a pre-emptive decision to upgrade the course to PGA-rated standards at an approved cost of \$13.6 million. While these may have been decisions based on improving the attractiveness of Bermuda for tourism, we were not provided with an analysis of the projected increase in tourism to the island in general, or the projected increase in usage of Port Royal Golf Course in particular.

Without the appropriate analysis of critical information, neither the Board of Trustees nor the Government could confirm that value for money was achieved in the Project.

⁸ A business case examines the business need or opportunity (i.e., expected benefit), the alternative solutions considered, and the estimated cost of the options including status quo.

Purchase of Goods and Services

Financial Instructions require that a written contract must be prepared for the supply of goods and services in excess of \$50,000. Although the Board of Trustees entered into some formal contracts with suppliers, there were many instances where goods and services in excess of \$50,000 were purchased using only a purchase order. The use of purchase orders to obtain significant goods and services is an inadequate business practice because purchase orders do not cover important considerations which would be covered in a formal contract and could expose the entity to the risk of loss.

Financial Instructions also require that contracts greater than \$50,000 (including those with multiple payments) must be submitted to Cabinet for approval before acceptance. We were not provided with any evidence that such contracts received the appropriate Cabinet approval.

Despite the requirement to have such contracts vetted by the Attorney General, none of the contracts reviewed indicated evidence of such vetting. In one instance, ambiguity in the contract resulted in additional costs of \$40,000 being paid to a contractor. These costs may have been avoided had the contract been reviewed by the Attorney General and the terms clarified prior to signing.

Non-compliance with these required procedures reduced the Board of Trustees' ability to demonstrate that it effectively managed public funds.

Expenditure

Financial Instructions require that an authorized signing officer should certify that goods or services have been duly received and that amounts have been verified and appropriately approved before payment is made. We noted many instances where these basic procedures were not followed yet payments were made.

For example, invoices were received, approved and paid but the rates invoiced were higher than the contract's quoted rates. We can only conclude that those amounts were not verified prior to approval and therefore paid in error. The failure to follow established control procedures increases the risk that errors or fraud could occur without detection.

Financial Instructions provide guidance when hiring consultants who perform duties on a fee for service basis. A consultant can only be retained with the approval of the Secretary to the Cabinet. We noted that the Board of Trustees retained the services of several consultants (e.g., course designer, Project Manager, architect, etc.) to manage or provide expertise for the Project. However, we were not provided with any evidence of approval by the Secretary to the Cabinet for the consulting services.

Non-compliance with these required controls reduces the Board of Trustees' ability to demonstrate that it effectively managed public funds.

Capital Expenditure, Purchase of Goods and Materials, and Procurement of Contract Services

Financial Instructions outline the expectations for tendering contracts. P.F.A.2002 requires that major contracts with an estimated value greater than \$50,000 are to be procured through an open tender process. We were only provided with evidence of one contract which was tendered. The Board of Trustees entered into many contracts greater than \$50,000 and we did note that many of those contracts did at least have three or more quotations. However, as a result of the lack of documentation provided, we do not know if these quotations were solicited in an open bid process.

It should be noted that the Project Manager frequently used progress reports to inform the Board of Trustees about various quotations received for major components of the Project. Equally, the Board of Trustees did discuss many facets of the Project, and bids and options for various components of the Project as evidenced in the minutes.

Financial Instructions permit a consultant, such as the Project Manager to authorize invoices for payment once the consultant is satisfied that the terms of the contract are met and the work being billed is complete. As an additional control, the payments also need to be authorized by an officer of the Board of Trustees. The officer's scrutiny of invoices provides an opportunity to both verify that payments are valid, and to assess whether the Project Manager is managing the Project well.

However, we noted that most payments were only authorized by the Project Manager and amounts authorized for payment were not always correct. We seldom saw evidence that payments were authorized by an officer of the Board of Trustees.

Based on documentation provided to us, it is evident that the Board of Trustees did not follow the appropriate rules and procedures to control the expenditure of public money.

4.3 Accounting of Funds not adequate

We expected that the Board of Trustees would have

- *maintained essential records, and*
- *fully accounted for the money it received for the Project and the assets under its control.*

Without timely, accurate and appropriate accounting, entities run the risk that inappropriate decisions will be made based on poor financial information.

Essential records

Essential records were not maintained. The periodic financial information provided to the Board of Trustees about the Project only included costs incurred, paid for and recorded as capital expenses. It did not include costs that were incurred but not yet paid (i.e., accounts payable) or costs not yet incurred but agreed to (i.e., contractual obligations). It also did not include amounts spent on the Project that were incorrectly recorded as operating expenses.

We noted that the Board of Trustees received frequent and comprehensive progress reports from the Project Manager. The reports highlighted the progress of construction, items for decision, major challenges during the course of construction and spending compared to budget. However, by any standards, this would not be considered an accounting of funds.

It is evident from the minutes of the Board of Trustees meetings, as well as progress reports from the Project Manager to the Board, that decisions relating to the Project were based on incomplete and/or inaccurate financial information. For example, the Project Manager had reported to the Board of Trustees that the Project was under-budget up to October 2008. Based on this information, the Board of Trustees agreed to spend a further \$1.1 million on an unplanned improvement to the golf cart path.

By March 31, 2009, the Board of Trustees had already overspent their \$13.6 million by at least \$5.1 million (Figure 4). Had the Board of Trustees received essential information about the true Project costs on a timely basis, different spending decisions with respect to the golf cart path may have resulted.

When managing and monitoring large capital projects, it is crucial for project managers and boards to have a complete, timely and accurate financial picture of the status of a project on which to base further decisions.

Accounting of Funds

The original budget of \$13.6 million included a 10% contingency of \$1.2 million to pay for unforeseen expenses. The actual unforeseen expenses incurred for the Project was approximately \$5.2 million. It has been represented to us that the \$5.2 million cost overrun related to additional required items to bring the course up to the appropriate standard to host the PGA Grand Slam. However, details of such items have not been provided.

Figure 4—Spending for the Project to March 31, 2009

| | Original Budget | Actual Spending | Variance |
|--------------------|-----------------|-----------------|----------------|
| Course Renovations | \$12.2 M | \$12.2 M | - |
| Golf Cart Path | \$0.2 M | \$1.3 M | \$1.1 M |
| Sub-Total | \$12.4 M | \$13.5 M | \$1.1 M |
| Contingency | \$1.2 M | \$5.2 M | \$4.0 M |
| Total | \$13.6 M | \$18.7 M | \$5.1 M |

Source: Board of Trustees Accounting Records

The Board of Trustees spent a further \$1.4 million in the year ended March 31, 2010 for renovations to the Port Royal Golf Course clubhouse. We do not know the Government-approved budget because the Board of Trustees did not request funding from the Government for the clubhouse renovation separately, but instead borrowed \$3.0 million (\$1.4 million of which went to pay for the clubhouse renovation).

Also, as noted previously, \$4.4 million was used to cover operating deficits incurred in the 2007 to 2011 period.

Without accurate financial reporting, including financial statements audited for reliability, completeness and accuracy, we cannot know if the Board of Trustees has fully accounted for the money it received for the Project and the assets under its control.

4.4 Oversight of the Project not adequate

We expected that a Project of this nature and significance would have had proper oversight to enable it to be delivered within budget, on time and meet its objectives.

Without proper oversight and monitoring, projects run the risk that there will be unanticipated cost overruns, delays, and/or the final result may not be of the required quality.

Major capital projects can be delivered in varying ways. A general contractor can be contracted to take responsibility and accountability for the entire project including any sub-contracted work. Alternately, the entity can itself act as a general contractor and undertake or sub-contract the work directly. Having received the approval of Cabinet (which was aware that an 'in-house construction team supplemented by overseas experts' would be assembled), the Board of Trustees chose to provide or sub-contract the work directly.

Since the option to manage the Project was selected, it was incumbent on the Board of Trustees to demonstrate the requisite level of oversight. Generally, there are four main stages of a capital development project and each stage (project planning, procurement, construction and completion) requires appropriate oversight and monitoring by those charged with governance in order to both maintain control and to hold contractors accountable for the goods and services they provide.

This Project experienced both cost overruns and delays.

- Cost overruns

The original budget was segregated by the major components of the Project (reverse osmosis plant and irrigation - \$2.7 million, green, bunker and tee construction - \$2.3 million, maintenance equipment and maintenance building - \$3.2 million, etc.). Many of the components of the Project incurred major cost overruns greater than 10%. One of the contributing factors was the failure to use change orders⁹ which resulted in costs being incurred without the appropriate scrutiny and approval.

- Project delays

The original time frame for construction was a 12-month period commencing January 1, 2008. However, the course was not fully reopened until August 2009 (a 19-month period). Delays in construction resulted in a significant loss of revenue estimated to be \$1.9 million based on historical Port Royal Golf Course revenues averaging \$3.2 million per year.

As previously described, we were not provided with a business case nor an approved design and as noted in Section 4, procurement processes were inadequate and the Board of Trustees did not adequately control construction costs. The Board of Trustees has similarly not provided us with Project completion documentation showing that all contract requirements had been met nor any analysis to explain why the Project was over-budget and late, and where opportunities for improvements might exist.

In short, the Board of Trustees did not follow accepted practices for the appropriate oversight and monitoring of the Project.

⁹ Change orders are a formal process to approve alterations to a project due to design and/or engineering plan changes for unanticipated construction challenges or changes to the scope of a project.

5. KEY FINDINGS - GOVERNMENT

5.1 Government

The Government is ultimately responsible for the spending of public money. Before responsibilities are delegated to any entity, the Government needs to assess the entity's expertise and capacity to adequately manage a project. It also needs to receive regular reporting on the progress of such responsibilities to determine whether the delegated entity is delivering the project as expected.

Without adequate oversight, the Government assumes the risk of loss and it cannot evaluate whether money is spent prudently for the intended purposes. As described in this report, Government did not have the appropriate level of oversight for this Project.

5.2 Project not monitored

We expected that the Government would have adequately monitored the progress and status of the Project, including receiving accurate and timely reports.

When the rules and procedures designed to control the expenditure of public money are not followed, there is a risk that money will be spent for unintended purposes, or spent imprudently, in error or fraudulently.

Financial Instructions require detailed monitoring of all projects with an annual estimate greater than \$1 million. However, it is not clear what 'detailed monitoring' should encompass. At a minimum, we would expect regular reporting on the progress of construction, costs and any major issues that might affect the outcome of the Project such as cost overruns, timing of delivery or quality.

The Board of Trustees did not indicate that it provided any progress reports to the Government. We do not know what on-going monitoring of the Project, if any, the Government undertook. We were provided with evidence of some interactions between the Board of Trustees and the Ministry of Tourism and Transport such as requests for payment. However, such requests in and of themselves do not provide evidence of regular monitoring.

Once the Project cost exceeded the \$13.6 million budgeted amount in October 2008, the Ministry of Tourism and Transport did request more information and explanations of variances, and began to attend some Board of Trustees’ meetings.

As indicated in Figure 5, the approved TAF for the Project increased significantly over the 3 year period – from \$13.6 million in 2008/09 to \$24.5 million in 2010/11. We were not provided with any documentation from the Board of Trustees to the Government supporting the requests for further appropriations.

We were provided with Cabinet Conclusions authorizing the initial \$13.6 million and a further Supplementary Estimate for \$3.4 million. As described in Section 5.4, neither the Cabinet Conclusion nor the Supplementary Estimate contained sufficient information to support the \$3.4 million increase to the Project budget. We were not provided with any further Cabinet information which authorized the remaining \$7.5 million which was subsequently provided.

From April 2007 until March 2011, the Government made payments to the Board of Trustees as outlined in Figure 5 and recorded these payments against the capital development project in the Consolidated Fund.

Figure 5—Government’s Payments and Spending for the Project to March 31, 2011

| | Date | Revised Estimate* | TAF ¹⁰ | Govt. spending* | PRGC Spending** | Variance (Govt. vs. PRGC) |
|-------------------------------|---------|-------------------|-------------------|-----------------|-----------------|---------------------------|
| Capital Request #1 - 13 | 2007-08 | \$3.5 M | \$7.7 M | \$6.5 M | \$7.0 M | (\$0.5 M) |
| Capital Request #14 - 19 | 2008-09 | \$10.1 M | \$5.9 M | \$8.4 M | \$11.7 M | (\$3.3 M) |
| Spending 2007-09 | | | \$13.6 M | \$14.9 M | \$18.7 M | (\$3.8 M) |
| Supplementary Estimate | 2008-09 | | \$3.4 M | | | |
| Operating Grants | 2008-09 | | | \$2.0 M | | \$2.0 M |
| Miscellaneous Expense | 2008-09 | | | \$0.1 M | | \$0.1 M |
| Total Spending 2007-09 | | | \$17.0 M | \$17.0 M | \$18.7 M | (\$1.7 M) |
| Loan Repayment | 2009-10 | \$3.0 M | \$3.1 M | \$3.0 M | \$1.4 M | \$1.6 M |
| Loan Repayment | 2010-11 | \$4.5 M | \$4.4 M | \$4.5 M | | \$4.5 M |
| Total 2007-2011 | | | \$24.5 M | \$24.5 M | \$20.1 M | \$4.4 M |

* Source: Accounting Records of the Consolidated Fund of the Government of Bermuda

** Source: Accounting Records of the Board of Trustees; includes amounts recorded as capital expenditures and amounts incorrectly recorded as operating expenditures

¹⁰ TAF – Total Authorized Figure

More importantly, it is clear from Figure 5, that the Government was not monitoring the Project adequately. By March 2009, the Board of Trustees had spent \$18.7 million and the Government had reimbursed \$17 million, \$14.9 million for capital expenditure and \$2.1 million for operating and miscellaneous grants. Both the Government and PRGC figures exceeded the total authorized amount of \$13.6 million.

The Government then gave approval to the Board of Trustees to borrow \$3 million and \$4.5 million in 2008 and 2009 respectively and provided guarantees to the bank; repaying the loans in 2009-10 and 2010-11. The Board of Trustees likely spent \$1.7 million on cost overruns on the Project and a further \$1.4 million for renovations to the clubhouse. As noted earlier, the remaining \$4.4 million was used to cover operating deficits incurred in the 2007 to 2011 period.

We have two major observations about the manner in which the Government authorized and recorded these transactions.

- Lack of timely monitoring

By 2009, the Government had reimbursed the Board of Trustees \$14.9 million, more than the authorized amount (TAF - \$13.6 million), and the Board of Trustees had spent even more than was reimbursed (\$18.7 million). We therefore question the adequacy of the Government's monitoring of the Project during the initial two years.

The Government did require an explanation of spending, but only after the Board of Trustees had spent more than the authorized amount.

- Loss of control

Government authorized \$7.5 million in borrowing by the Board of Trustees. When the loans were received, the Board of Trustees was no longer required to submit detailed capital requests to the Ministry for funding. Once this occurred, the Government could no longer effectively control and monitor how the money was being spent.

5.3 Financial Transactions not accurately recorded

We expected that the Government would have recorded transactions in the Consolidated Fund in accordance with accounting principles generally accepted in Bermuda and Canada.

Although the Government spent \$24.5 million on this Project; (\$17.0 million to the Board of Trustees and \$7.5 million to a bank for the repayment of the loans) the Government only recorded \$14.9 million as capital assets in the records of the Consolidated Fund. Government did not record the \$1.4 million spent on the clubhouse as capital as it considered the clubhouse to be an asset of the Board of Trustees, not the Government. Government does not have a clear policy on which assets belong to the Government and which assets belong to Port Royal Golf Course.

The remaining \$9.6 million was recorded as operational expenses in the Consolidated Fund. Government did not provide us with the rationale for not accurately classifying the costs between capital development and operational expenses.

The funding estimates submitted to Parliament were authorized for capital development not operational expenses. As a result of poor monitoring of the Project, the Government did not make certain that funds were spent for the purpose authorized by Parliament.

5.4 Prior Approval for Cost Overruns not obtained

We expected that the Government would have approved all cost overruns prior to committing to further spending.

Financial Instructions outline budgetary controls expected for major capital projects. These controls relate to contracts, the annual estimates and the TAF. For example:

- when contracts are likely to exceed the original price by 10%, the variation must be reported to the Accounting Officer and Director of Budget,
- when the cost of a project is likely to exceed the annual estimate, the anticipated cost overrun must be reported to the Accounting Officer, Director of Budget and the Accountant General, and

- when the cost of the project is expected to exceed the TAF, the excess must be reported to the Accounting Officer, and a supplementary estimate request must be submitted to the Ministry of Finance with an explanation of the excess.

As described in Section 4, the Board of Trustees did not routinely and systematically track expenses. Many of the components of the Project exceeded 10% of their budgeted cost. We are not aware that any such instances were reported to the Accounting Officer and Director of Budget as required by Financial Instructions.

During fiscal 2008, the Government funding provided to the Board of Trustees exceeded the annual estimate by \$3.4 million and the Board of Trustees' spending exceeded the annual estimate by \$3.5 million. We were not provided with documentation to support the requirement that such overruns be reported to the Accounting Officer or the Director of Budget and Accountant General.

By March 2009, the Government had reimbursed the Board of Trustees \$14.9 million, \$1.3 million more than the total authorized figure of \$13.6 million, and the Board of Trustees had spent \$18.7 million, \$5.1 million more than the total authorized figure of \$13.6 million. We were not provided with documentation of a report to the Accounting Officer, but we note that a Supplementary Estimate for \$3.4 million was prepared and approved on March 3, 2009. We examined the explanation for the supplementary estimate provided to the members of the House of Assembly for debate. Very little information was included and no explanation of the reason for the cost overrun was provided.



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