

Major Capital Projects – Building Schools





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EXECUTIVE SUMMARY

Our audit examined the Government's management of the major capital projects to plan and construct high schools and primary schools over a period between 2008 and 2013.

The Ministry of Education was responsible for both projects. The high schools project resulted in the completion of only one of the three high schools originally planned, another two high schools being started but not completed, took over nine years, and cost \$172.7 million, or almost double the initial planned costs. During this same period, the project's design concept went from conventional, single-building high schools to a campus-style approach that included hurricane protection capacity and other facilities for community use.

The primary schools project was completed over a three-year period. While the costs at \$13.4 million were 34 percent higher than planned, the project delivered only four of the five classroom buildings originally planned.

The Ministry of Education demonstrated that it does not have the capacity to deliver major capital projects in a manner that ensures that value for money is achieved. Specifically, the Ministry of Education planned and constructed schools that:

- cost far more than originally planned;
- delivered less than promised; and
- were delivered later than when they were required.

The high schools and primary schools projects provide clear examples where value for money was not achieved due to:

- lack of clear roles and responsibilities between the responsible ministry and the responsible minister; and
- inadequate project management and procurement practices.

Our audit found weaknesses in the Government's budget process for major capital projects as well as in the process for approval of appropriations and supplementary appropriations by the Legislative Assembly. We also found weaknesses in how the Government accounts for and reports on spending for major capital projects. The Legislative Assembly needs to have sufficient information about requests for major capital project funding in order to provide informed approval, and there should be at least a summary-level accounting back to the legislature at the end of the project. Given the shortcomings we noted in transparency and accountability to the Legislative Assembly, we believe the Government should implement improvements in the way the governance framework operates.

The observations raised in this report demonstrate that Cabinet and the Minister of Education did not understand their role in the oversight of major capital projects, either as called for by the governance framework or as a commonly understood good practice. While Cabinet was provided with regular project updates as part of annual funding requests, and it received information supporting requests for specific project decisions, the information provided did not give a clear picture of how value for money was to be achieved over the lives of the projects. Cabinet was never provided with, nor was it asked to approve, the key project outcome decisions related to the estimated cost, planned completion dates, and design quality for the two school projects.

We found that the former Minister of Education intervened to a highly inappropriate degree in the day-to-day management of these projects leading to obscured accountability for the rise of the projects' costs and their late delivery.

Our audit also found that the Ministry of Education failed to establish the management framework necessary to ensure that value for money was achieved for these projects. Specifically, the Ministry failed to:

- establish an appropriate oversight function that ensured that planning, construction, and project completion and closeout were adequately managed by competent officials;
- establish the key planned outcomes for the projects—cost, completion deadlines, and the quality or design attributes—before key spending decisions went too far;
- ensure that procurement activities complied with legislative and policy requirements and were not open to the risk of abuse;
- establish appropriate management systems and practices necessary to ensure that responsible Ministry officials received timely information about the actual and forecast project costs and completion schedules; and
- establish adequate control over the project completion activities, including the production of adequate post-project completion reports.

The Ministry of Education's records for these projects were not complete, causing us difficulties in conducting the audit. Further, we are concerned that Ministry officials attempted to control the information made available to us for audit purposes. While we were eventually given sufficient information to complete the audit, these restrictions have had an impact on our ability to report clearly to the Legislative Assembly on the weaknesses we observed in the governance and management frameworks.

The school construction projects represent significant investments by the Government. There are important lessons to be learned by the Government as it considers future major capital projects, including the completion of the John Gray High School. To avoid significant waste of public funds in the future, the Government should consider this report and our previous recommendations so that the lessons learned can be implemented.

INTRODUCTION

GOVERNMENT INVESTS SIGNIFICANTLY IN SCHOOL INFRASTRUCTURE

1. The Government invests in significant capital projects from time to time as part of its responsibility to deliver its programs to citizens. The quality of the Cayman Islands' school infrastructure is an important element of its education program.
2. Since the mid-2000s, one of the Government's largest capital investments has been the construction of high schools and, more recently, the construction of primary school buildings. With these investments, the Government planned to renew a significant amount of the country's school infrastructure.
3. **High schools:** In 2005, the Ministry of Education estimated that the construction of three planned high schools in Grand Cayman would cost \$95 million and would be completed by 2009. The Ministry informed us that the planned number of high schools to be built dropped to two in 2009 and that the estimated cost had risen to \$197 million. During this same period the Government decided that it wanted to build campus-style high schools, incorporating a hurricane shelter capacity and facilities that would be used by the community.
4. In September 2012, the Clifton Hunter High School opened with three of the planned four academies built. Only the exterior shells of four of the eight buildings planned for the John Gray High School have been completed. While the Ministry has approval to proceed with the completion of these four buildings, it does not have the funding to do so. As of 31 December 2013, the Ministry reported that it has spent \$166.7 million on the two high schools, and \$172.7 million on the high schools project overall (this includes spending on the third high school, no longer planned). The final project costs are below the 2009 cost estimate of \$197 million largely because the John Gray High School was not completed.
5. **Primary schools:** Since 2005, many primary schools had been operating with temporary modular units as classrooms. The Ministry reported that these units were susceptible to mold infestations and were expensive to operate, while providing a less than ideal education environment.
6. In early 2010, the Government started planning a program to build a 2-story primary school building replacing the modular units at each of five existing school sites. The project would also include other improvements needed at specific schools and two smaller projects at other schools. The 2010-11 budget included plans to spend \$10 million. All construction was to have been completed by the end of 2010-11.

7. During the period between 2011 and 2013, the Ministry constructed new classrooms in 2-story buildings at four primary schools. This project also included parking lots and sports fields, depending on the site. In addition, smaller projects were undertaken at the Cayman Brac High School and at another primary school in Grand Cayman. The final primary school building was opened on 27 February 2013. The Ministry reports that the primary schools project has cost \$13.4 million up to 31 December 2013.
8. The Ministry of Education spent over \$180 million to plan and construct the Clifton Hunter High School, and the primary schools, and to partially complete the John Gray High School (see Exhibit 1). Including the cost of the Beulah Smith High School construction (abandoned before completion— see our July 2012 report), the Ministry spent over \$186 million.

Exhibit 1 - Spending by fiscal year for the specific school construction projects included in this audit.

Fiscal Year	Clifton Hunter High School (\$000)	John Gray High School (\$000)	Primary Schools Project (\$000)	Total (\$000)
2005-06	7	7		14
2006-07	634	608		1,242
2007-08	8,963	2,323		11,286
2008-09	30,372	25,223		55,595
2009-10	12,606	12,576		25,182
2010-11	17,346	10,951	2,331	30,628
2011-12	28,719	4,155	9,725	42,599
2012-13	11,402	832	1,241	13,475
2013-14 ¹	6	38	45	89
Total	110,055	56,713	13,342	180,110

Source: Ministry of Education

¹ Spending as at 31 December 2013

THE HIGH SCHOOLS PROJECT RAN INTO DIFFICULTIES IN 2009

9. During 2008, the Ministry began to have difficulties in its relationship with the prime contractor for the high schools project and, on 25 November 2009, terminated its contract to build the two high schools. The termination decision led to a protracted legal dispute with the contractor and others associated with that contractual relationship. On 22 March 2013, all the parties in this dispute agreed to settle their claims.
10. This ongoing dispute took three and half years to resolve, and it set in motion developments with existing sub-contractors that complicated the progress of the high schools project. The Ministry needed to decide how it would proceed with the project after the termination, including developing a new procurement strategy and procuring the services of consultants and contractors to carry out that strategy.
11. In the end, the Ministry proceeded with a construction management approach, in which it selected a project manager, a construction manager, consultant architects and engineers, and multiple prime contractors to complete the high schools project. While different approaches could have been selected, they all carried inherent risks largely around the state of the works that had been carried out but not completed under the previous prime contractor's period of construction. No matter what approach the Ministry selected, it would have to pay the higher costs associated with the uncertainty about what was needed to complete the construction of the two high schools.
12. It was the Ministry's responsibility to manage these risks and put in place the necessary management framework to ensure that value for money was achieved under the new procurement strategy and construction management approach.

WHY DID WE DO THIS AUDIT?

13. In July 2012, the Office of the Auditor General tabled its report entitled Management of Major Capital Projects. The report focused on the government's overall management of major capital projects from the definition of need, evaluation of project merits, design, approvals, procurement, construction and, finally, project completion. The 2012 audit had examined two major projects: the construction of the Government Administration Building and the construction of three high schools (including the Beulah Smith High School, cancelled early in its construction). We had also examined project management for construction of the John Gray and the Clifton Hunter high schools although, given the legal actions surrounding the construction phases of these two schools, only to the end of the initial procurement phase when the contract was signed.

14. We reported in 2012 that the Ministry of Education’s project management practices were deficient, which impacted the cost and the delivery timeframe of the high schools. We also observed that the Ministry did not have the expertise to manage major capital projects such as the construction of the high schools. It did not develop a business case for the eventual design concept used to proceed to the contract tendering in 2008. Also, the involvement of politicians in the conceptual design phase contributed to poor management of the project.
15. While the high schools project has experienced lengthy time delays and delivered far less than promised, the primary school additions were carried out over a comparatively shorter period and have provided replacement classrooms and other services needed in the period following Hurricane Ivan.
16. The Government has invested significant funds to construct high schools and primary schools. We believe that an audit of the management framework used to manage the construction of these major capital projects provides useful information to legislators about what happened and lessons learned for future developments of this nature.
17. Generally, major capital projects have four distinct phases:
 - **Project governance and planning.** A strategic framework guides the governance and planning of major capital projects to ensure that proposed projects are well researched and planned and that they meet the Government’s legislative requirements, strategic objectives, and operational needs. Frameworks consist of legislation, policies and practices that establish clear responsibility for procurement, identify the risks associated with the procurement, and establish effective project management practices and procurement strategies to mitigate the identified risks.
 - **Procurement/contracting.** Procurement processes lead to an approved contract with qualified contractors and support an effective partnership with them to deliver the project based on the identified procurement strategies, with due consideration of cost, time, and quality—the key elements of value for money.
 - **Construction.** The project management team oversees the physical construction of the asset in accordance with the project design and contract documents. The project management team, often supported by specialists under contract, also oversees the often numerous players who have an impact on the cost, time, and quality of the project. The project management team ensures that the contract deliverables are being met.
 - **Completion closeout leading to operation.** Once construction is nearing completion, project closeout activity protects the interests of government by ensuring that all contract requirements for cost, time, and quality are met and that a post-project evaluation of the benefits is completed.

ABOUT THE AUDIT

18. The audit objective was to determine whether the Government managed the completion of the construction of the Clifton Hunter High School and the John Gray High School, and the construction of primary schools within a management framework that ensured that value for money was obtained from these significant public investments.
19. For the high schools project, we largely examined the construction and completion closeout phases. The termination of the original prime contractor's contract led to a new procurement strategy and the use of a construction management approach. This significant re-planning of the project meant that we had to examine aspects of project governance, planning, and procurement under the new procurement strategy developed in 2009 and 2010. The construction activities we examined related to the completion of the Clifton Hunter High School and the completion of the exterior shells of the four John Gray High School buildings.
20. For the primary schools project we examined the planning, procurement, construction, and closeout phases. We selected two out of four primary school buildings for more detailed examination.
21. Our audit did not examine details of the numerous disputes and settlements between the Ministry of Education and contractors, including the initial prime contractor for the high schools. However, where we found that disputes were linked to weaknesses in the Ministry's overall management framework, we have referred to these weaknesses where we consider it appropriate.
22. Audit criteria are a key component of a performance audit to set out what basis the auditor will use to assess performance and to conclude on the audit objectives. Normally, the criteria reflect regulatory requirements and established business practices that management uses to assess its own performance. In the absence of such practices, it is the auditor's responsibility to develop criteria that are reasonable under the circumstances based on best or reasonable practices and, to the extent possible, obtain agreement from the organization being audited.
23. The audit used the same criteria that were established for the audit of major capital projects reported in July 2012. These criteria came from established processes and practices for the management of major capital projects as well as legal and regulatory requirements specific to the Cayman Islands.
24. More information "About the Audit" is contained in Appendix 1.

AUDIT FINDINGS

25. In the mid-2000s, the Government set out to build three high schools that would support educational needs on Grand Cayman. As initially approved by Cabinet in 2005, the project had an estimated cost of \$95 million with all the schools to be built by 2009. The original high school design concept called for a traditional one-building school, but the concept evolved to a campus-style approach with other features such as hurricane shelter capability. By December 2013, the Ministry reported that it had spent at least \$172.7 million on the high schools project (not including costs associated with the purchase of land) but to date only one high school has been completed.
26. The Clifton Hunter High School has provided educational services for about 900 students since early September 2012. While a new John Gray High School is partially built, the four buildings at that site are only partially completed and will require significant additional funding to get to the point where students can use them.
27. The plan to build five new primary school buildings as well as two smaller projects emerged in early 2010, with \$10 million approved in the Government's 2010-11 budget. At that time, completion of the construction was planned for the end of June 2011. Later, one primary school building was removed from the project. In the end, four new 2-story primary school buildings along with the two smaller projects were completed by 27 February 2013, at a cost of \$13.4 million.
28. Our examination of the schools construction revealed three significant observations:
- the Ministry has spent far more than was originally planned;
 - the Ministry has delivered less than was promised; and
 - what the Ministry has delivered has been later than promised.
29. The cost information we have included in this report was provided by the Ministry of Education. However, due to the significant weaknesses in its financial control framework we observed during the conduct of this audit and carrying out other financial audit work, we are unable to provide the Legislative Assembly with any assurance that the Ministry has reported the costs of the construction of schools either accurately or completely. In effect, the Ministry does not maintain an accounting system and practices for the capture of cost information relating to a capital project.
30. In the following sections, we report on the underlying reasons behind the Ministry of Education's poor management in the construction of schools. In addition, we examine several important governance and accountability issues that are systemic in the Government's overall governance framework for major capital projects, expanding on findings in our July 2012 Report to the Legislative Assembly.

GOVERNANCE AND ACCOUNTABILITY

31. Clearly articulated governance arrangements that are supported by management systems and practices increase the likelihood that projects will succeed. Therefore, we expected to find that:

- the legislative and regulatory environment supports good project management;
- ministries proposing projects have clear mandates compatible with what they are proposing;
- decision making authority is supportive of good project management;
- accountability relationships are clear and sufficient to hold key players accountable; and
- appropriate management and financial practices are in place to support project management.

THE GOVERNANCE FRAMEWORK STILL HAS WEAKNESSES

32. Prior to amendments in 2012, the *Public Management and Finance Law* and the *Financial Regulations* set out the expectations for the governance of major capital projects. Given the potential significance of major capital projects like the high schools, the expectations were not very high. Ministry chief officers were responsible for ensuring that a project profile was prepared for projects over \$300,000; a business case was required only for projects over \$1 million.

33. In 2012, the *Public Management and Finance Law* was amended to include the Framework for Fiscal Responsibility. The Framework includes more rigorous requirements for major capital projects with lifetime costs that are expected to exceed \$10 million. Although the Framework did not apply to the projects that we examined, the audit criteria that we applied do incorporate the concepts underlying the approach set out in the Framework. That is, while these concepts are not a legal requirement, they represent good practice and therefore we expected to see them applied to the high schools and primary schools projects.

34. While we focused on school construction projects managed by the Ministry of Education, we found a number of weaknesses associated with the overall governance of major capital projects generally:

- funds appropriated by the Legislative Assembly for a multi-year major capital project are not easily identified, as they are included with all the other ministry capital funding requests and are not individually highlighted;
- the budgeting process leading to the appropriation and supplementary appropriation funding requests by ministries does not require them to specifically state the major capital project for which the funds are being requested;

- funds approved for, and the costs of, major capital projects undertaken by ministries are accounted for within one account where the funds are comingled with those approved for all other capital projects. There is a risk that ministries, if required, would subsequently be unable to account for those funds for individual projects; and
- ministries are not required to account to the Legislative Assembly for the funds that have been approved and spent on a major capital project, either on an annual basis or over the life of the project.

35. Even though the governance framework does not call for public accountability to the Legislative Assembly for spending on individual major capital projects, the Ministry of Education has told us that it focuses on ensuring that spending on each major capital project in each fiscal year does not exceed what has been approved by the Legislative Assembly. However, for the high school and primary schools projects examined, it was very difficult and sometimes impossible to determine what had been approved by the Legislative Assembly. Therefore, we were unable to verify whether the Ministry had adhered to its appropriations.

36. During this audit, we observed significant weaknesses in the Ministry’s financial systems that would preclude the accurate capture of the costs associated with these projects. So even if the Ministry were called upon to account for its project spending, say at the Finance Committee, we do not believe it could demonstrate that the information it provides is accurate or complete.

37. We note that the Framework for Fiscal Responsibility does not specifically address the weaknesses we identified in the budgeting processes that support the Legislative Assembly’s approval of appropriations and supplementary appropriations. Given the shortcomings we have noted about transparency and accountability to the Legislative Assembly, we believe there is a need to consider making changes in the governance framework.

Recommendation #1: The Government should consider changing the governance framework, including amending the *Public Management Finance Law and Financial Regulations*, to improve the transparency of planning and budgeting processes that lead to requests for appropriations for specific major capital projects and to improve accountability for major capital projects.

CABINET DID NOT APPROVE THE KEY VALUE-FOR-MONEY ATTRIBUTES OF PROJECTS

38. We would expect Cabinet to play a significant role in approving the need to proceed with a specific project and the key project planned outcomes related to the cost, completion schedule, and quality of design (once they are clearly known and before investments are fully committed). We would also expect that Cabinet would periodically receive accountability reporting on these planned outcomes from the Ministry.

39. Since 2012, with the introduction of the Framework for Fiscal Responsibility in the *Public Management and Finance Law*, investment strategies and detailed business case analyses for Government decision-making are a requirement for projects with lifetime costs expected to exceed \$10 million. We believe it is an important element of accountability that Cabinet approve key decisions to proceed with such major capital projects and the key decisions related to setting the benchmark standards for accountability, or the expected cost, completion schedule, and quality of the project (often this is the final design approval on which the cost and time elements are determined).
40. We found that Cabinet was provided with information updates on the high schools project and was sometimes asked to approve specific decisions, such as sole-source contract arrangements. We also found that Ministry officials briefed Cabinet on the primary schools project. However, the Minister and the Ministry did not provide Cabinet with timely information on the two project's expected costs, completion schedules, and quality of design expectations.
41. The recommencement of the high schools project after the termination of the initial prime contractor and the move to a different construction approach would have been the appropriate time for the Ministry to establish what the project was going to cost, when its completion was expected, and whether the project quality or design was changing from the initial decision to proceed. It was especially important at this point to reconfirm Cabinet's commitment to go forward with the funding for the project, as it was struggling with constraints associated with the economic downturn. Government officials were not able to provide us with evidence that the Ministry finalized the project's cost estimate, completion schedule and the quality of design at or near the time of the project's recommencement. This information was never provided to Cabinet for its consideration to decide whether the project should proceed.
42. In 2010 and then 2011, it became apparent to the Ministry that the escalating cost of the high schools project meant that it did not have sufficient approved funding to complete both high schools. A decision was made to continue construction of four of the originally planned eight buildings at the new John Gray High School site, but only initially to the completion of the exterior shells and the purchase of some equipment and supplies. Had the Ministry taken the time to re-plan the high schools project before recommencing it and obtained the Government's commitment to provide the required funding, the new John Gray High School project may not have proceeded and those funds may have been used for other more productive purposes.
43. The information provided to Cabinet to obtain its support focuses largely on the Ministry's in-year need for funding. Cabinet's approval of project funding requests that lead to appropriations or supplementary appropriations is a governance requirement. However, we are concerned that with the focus solely on annual funding needs, Cabinet was not presented with the full project cost and completion time implications when these annual funding decisions were being made. Given the significant changes that the high schools project was undergoing, it would have been prudent for

the Ministry to seek a new mandate from Cabinet as the basis of accountability for the completion of the project.

44. Cabinet was never asked to approve the primary schools project apart from the inclusion of \$10 million in the 2010-11 budgetary documents and the appropriation approval by the Legislative Assembly. A business case for the project was never produced. No assessment of primary schools condition and capital needs was provided as part of the budget preparation process. The Minister has stated that he provided his support for the concept of the primary schools project based on a tour of schools and a discussion with Ministry officials. We asked for information to support how the project was planned and approved, but we were given very little documentation.
45. Cabinet was briefed on the primary schools project in September 2010, well after it had approved the \$10 million in the 2010-11 budget. The briefing showed that the project would not be completed within fiscal year 2010-11 and that additional funding would be required.
46. A business case or a formal plan defining what a project will entail and how it will proceed is important beyond indicating that a ministry has complied with a legislative requirement. A rigorous business case submitted to Cabinet when seeking funding approval demonstrates to Cabinet that a ministry has done its due diligence in planning. In the case of the high schools project and the primary schools project, the Ministry of Education did not produce a business case and, other than through the annual budgetary process, it did not seek Cabinet approval.

MINISTER WAS INVOLVED IN PROJECTS BEYOND THE DEFINED ROLE

47. Part of an appropriate governance framework is a clear delineation between the political process of government and the administrative responsibilities of ministry officials in the delivery of major capital projects. Good governance in public sector procurement requires a clear division of responsibilities and accountability between Cabinet, the responsible minister, and administrative officials.
48. The role of ministers is clearly defined under the governance framework. For example, a minister can recommend outputs and equity investments, such as major capital projects, that should be undertaken by his or her ministry. However, once Cabinet has agreed to those outputs and major capital projects and the Legislative Assembly has provided funding through an appropriation, the responsibility for the delivery of the output rests with the ministry's chief officer. This responsibility includes determining and acquiring the inputs needed to produce the outputs. Inputs refer to the labor, capital, and any other resources needed to produce the outputs. (For a more detailed description of the governance framework see the December 2013 report of the Office of the Auditor General, *Governance in the Cayman Islands Government—Describing the Framework*.)

49. In the Ministry of Education, the Minister recommends outputs related to educational services and investments in new schools. It is Cabinet’s responsibility to consider and decide whether to approve those outputs and capital investments. However, it is the Ministry of Education’s Chief Officer who is responsible for acquiring capital investments—in this case, new schools. There should be a clear separation of responsibility between the two roles while still recognizing the need for the Minister and Chief Officer to coordinate with each other to discharge their individual responsibilities.

50. Subsequent to the recommencement of the high schools project in 2010, we observed instances when the former Minister went beyond his defined role within the governance framework:

- **Pressure on officials to record payments incorrectly.** We found that the Minister rebuked the Chief Officer, in an 18 September 2012 email, for questioning the budgetary handling of a planned ex-gratia payment to each of three prime contractors in the primary schools project. The Minister felt that funds had already been included in the previous year’s budget and that the payments should be accrued against that budget. Since these payments were considered ex-gratia payments (that is, with no legal obligation to pay), the Chief Officer was right to point out the lack of a budgetary item in 2012-13. According to the legislative framework, the Minister was incorrect to pressure the Chief Officer to record the expenditure in 2011-12. Ultimately, the ex-gratia payments were appropriately accounted for in 2012-13.

The Minister went on to inform the Chief Officer that it was he who was responsible for the appropriations provided by the Legislative Assembly and that it was he who would make decisions on behalf of the Ministry regarding its transactions. This view of the Minister’s responsibilities as stated in his message to the Chief Officer goes far beyond the powers provided to him by Section 39 of the *Public Management and Finance Law* and demonstrates a significant failing in this and other actions during the project.

- **Contracting policy.** The Minister established a directive encouraging the direction of contracts in the two projects toward small, local construction companies. This directive was not in writing but was communicated to those who had a role in procurement. For example, the Central Tenders Committee referred to the Minister’s directive in a project tender decision. In that decision, the Central Tenders Committee encouraged the Ministry to apply the directive, even though both the Ministry and the Departmental Tenders Committee had already recommended that the contract be awarded to a single, larger company based on value-for-money considerations.

The high schools project construction manager referred to the directive when discussing problems that had arisen in procurements involving small, local construction companies selected by the Ministry. We interviewed Ministry and other Government officials who also referred to the Minister’s directive. By not putting the directive in writing and presenting it to Cabinet for endorsement, the Minister’s actions amounted to his personally directing the actions of Ministry officials, something he was not allowed to do under the law.

In a July 2012 Cabinet paper, the Minister indicated that a part of the construction strategy was “to provide the opportunity for small, local construction companies to contribute to the construction works.” This was the first reference to such a procurement approach as a part of the construction strategy. In another section of the same Cabinet Paper, the Minister reported that delays in the procurement processes had been necessary so that work packages could be broken up in order to be procured by the small companies. On 6 February 2012, the construction manager reported that these delays were an important factor in the increased cost of the high schools project.

- **Flexibility in considering quality of work.** The Minister directed that small, local construction companies be given flexible treatment when it came to concerns about the quality of work being completed and to remedies needed. This kind of direction is not permitted under the law. In a report to the Ministry, the high schools project construction manager noted that several important project components involving these companies were delayed by poor workmanship.
- **Inappropriate involvement in details of project management.** The Minister participated in construction meetings where procurement and contract management issues were being discussed. In addition, the Minister met with Ministry officials to discuss how they would handle specific issues related to prime contractors and subcontractors. This kind of involvement should never occur, according to the law.
- **Involvement in inspection requirements.** The Minister requested that a meeting be set with the Building Control Unit, which is responsible for enforcing the Building Code, so he could ensure that they “agree cooperation on an inspection strategy” for the Clifton Hunter High School. It should be noted that the Clifton Hunter High School and the Sir John A Cumber Primary School were each provided with a Special Certificate of Occupancy by the Building Control Unit, even though considerable work remained uncompleted in both schools when students began to use them. This raises a concern of whether the schools were occupied before they were completed as a result of pressure placed by the Minister.

51. The role of the Minister in these projects made the delivery of much-needed school infrastructure more difficult for Ministry officials by requiring them to implement his wishes or directives. The Minister played an active role in the projects and influenced how decisions were made and implemented by the Ministry, but there is no formal basis for his activities and no formal accountability for his actions. While the Ministry was charged with the responsibility of having the schools constructed and ready for use by certain dates, it was told at the same time (although not in writing) to use small, local construction companies who might not have been the contractors best placed to ensure that the projects were completed on time and within budget. From our review of documentation and interviews with senior officials, we believe that the implementation of this directive was one of several factors that resulted in the late delivery and cost overruns of these projects.

52. In the primary schools project, we found similar issues that we believe relate to the Minister’s directive of spreading the procurement of construction activities to small, local construction companies. For the Sir John A. Cumber Primary School, the Ministry went out of its way to select and protect a small, inexperienced Caymanian construction company whose prior experience had been in residential building (see Exhibit 2, which provides details about how the Ministry implemented the Minister’s policy and the problems that followed).

Exhibit 2 – Implementation and impacts of the Minister’s directive on selecting small, local construction companies at the Sir John A. Cumber Primary School

Implementing the directive

In June 2010, the Ministry began planning for the construction of four primary school “block” buildings to replace existing modular schoolrooms. One of those four buildings, part of a larger primary school project, was to be located in the West Bay and would later be named the Sir John A. Cumber Primary School (the Cumber School).

Bids were not evaluated properly. Tenders were advertised for procurement of the primary contractor for the Cumber School on 23 February 2011. A departmental tenders committee consisting of a Ministry official and three Public Works Department (PWD) officials reviewed the bids on 31 March 2011. The committee gave the highest ranking to the bid from a small Caymanian construction company that proposed the lowest price at \$1,899,921. A larger, more experienced Caymanian company was ranked second, by one point.

The tender evaluation criteria gave 65 percent of the total bid score to price and adherence to the 26-week construction period. Non-price factors such as relevant experience, quality construction management, and workload were to be weighted at 35 percent. A review of the tender documents submitted by the winning bidder shows that the company did not have the requisite industrial and commercial experience called for in the non-price selection criteria. At the time of the tender, the company had been a residential builder. The tender documents indicate that although no marks were to be given for residential experience, the departmental tenders committee gave the winning bidder marks for just such experience. Other marks were given for relevant construction quality management systems, even though no evidence was provided that the winning bidder maintained any such systems. Had the bids been evaluated properly, the more experienced construction company would have won the tender. The Central Tenders Committee (CTC) was told that the smaller company had been evaluated as the highest-ranked bidder using the tender evaluation criteria, and the CTC duly approved the award of the contract.

Tools available to mitigate risks were not used. While awarding the contract to an inexperienced prime contractor carried a risk that the contractor would not successfully complete the project, there were ways that the Ministry could have mitigated the risk. For example, it could have asked that the contractor provide a performance bond. Indeed, the tender documents indicated that a

performance bond would be needed. However, the Ministry removed this requirement from all of the four primary school contracts before the final contracts were signed.

Another means of protecting the Ministry from risk when using an inexperienced contractor would be to not advance funds to the contractor before it had actually completed works or paid for equipment and supplies. The form of contract used by the Ministry did not provide for mobilization advances to prime contractors but it did allow for advances under certain conditions. PWD, the project manager, has indicated that it did not support the provision of advances. However, the Ministry made payments to the prime contractor before costs were incurred.

The contract provided for another important opportunity to minimize the risk to the Ministry by holding back or retaining a portion of funds due to the contractor on each payment, up to 5 percent of the contract value, until all works under the contract were completed. The retained amounts were to be paid once the project manager was certain that all works had been carried out in accordance with the building design requirements and the contract. However, the Ministry paid the retained funds to the contractor well before the project was completed as an incentive to finish the contracted work. By paying these funds earlier than the contract required, the Ministry lost an opportunity to ensure compliance.

Why would the Ministry eliminate all of the tools at its disposal to protect the Government, deviate from best practice in managing construction contracts, and, in so doing, provide the prime contractor with an almost risk-free contract? We could not find evidence in the Ministry files to answer that question.

Impacts of implementation

Construction on the Cumber School began on 2 May 2011. The project construction meeting minutes indicated that there were problems with the contractor from the beginning but that they were being resolved. However, beginning in November 2011 there were indications that work was slowing down and deadlines were beginning to slip.

On 12 February 2012, the PWD architect reported to the Ministry project leader that PWD had concerns about two of the primary school project primary contractors, one of whom was the Cumber School prime contractor. PWD cited problems with the non-payment of subcontractors and concerns that funds advanced to procure equipment overseas had not been used for that purpose. The architect requested that special processes be instituted to ensure that all future funds would be advanced only after proof of payment was available. We saw no response from the Ministry to this message and a similar message in May 2012.

In June 2012, three of the prime contractors engaged in the primary schools project informed the Ministry that they were experiencing cash flow problems. On 8 June 2012, the Ministry and PWD met with them to discuss these problems. Subsequent accounts of that meeting indicate that the prime contractors said they had experienced losses on the projects and that each would need more

funding from the Ministry to complete the construction of the primary school building it was contracted to build.

On 11 June 2012, PWD reported to the Ministry that it could not support any additional payments to the three prime contractors, as:

- PWD had already reviewed the tender submissions from the contractors and had adjusted payments to them upward for errors they had made in the contractors tender submissions, even though there was no obligation to do so under the contracts;
- the Ministry had requested that funds be advanced to the contractors to help them with their cash flow problems even though there was no evidence that the funding was being used for the requested purposes;
- the loss claims provided by the contractors were not sufficient to validate whether these losses were for purposes that might be claimable under the contract (for example, should there be claims for the impact of time extensions due to changes to the project scope), and further analysis was necessary;
- contractors' claims that they had under-bid their contracts were not valid; and
- any move by the Ministry to make an ex-gratia payment or a payment reflecting a "gesture of goodwill" would not be supported by PWD.

On 7 August 2012, the Ministry authorized the release of the final funds being held for these prime contractors in an attempt to have the remaining work completed. This action did not accomplish the desired result.

The Minister and the Ministry then engaged in discussions about the way forward, including the possibility of terminating the contracts. In the end, it was decided that the Minister would seek Cabinet authority to provide ex-gratia payments to the contractors, enough to pay all subcontractors, suppliers, and employees, so the contractors would finish the work. Since the projects were all estimated to be more than 90 percent complete, this was deemed the best way to proceed.

In our view, the Cabinet paper submitted to Cabinet for its decision was prepared in a manner that would favor the decision to make the ex-gratia payments to the three contractors. Information that would support a contrary position was left out of the Paper. The Minister inserted a section in the final Cabinet Paper from the Attorney General indicating that the Government did not have a contractual obligation to make the payments (the definition of an ex-gratia payment). However, the Attorney General went on to indicate that the Government had made a promise to the contractors that might be enforceable. The nature of this promise was not described.

On 18 September 2012, Cabinet approved ex-gratia payments of up to \$905,685 in total to be made to the three prime contractors.

The Minister directed the Ministry to release \$35,000 to the Cumber School contractor prior to the

formal Cabinet decision, as he felt that conflicts with subcontractors and employees needed to be addressed immediately. The remaining funds were released after the Cabinet decision.

In total, the Ministry paid \$746,286 in ex-gratia payments to the three contractors for the three primary school buildings.

In our opinion, the Ministry implemented the Minister's directive on providing work to small, local construction companies without due regard for the public funds spent.

PROCURING CONSTRUCTION AND CONSULTING CONTRACTS

53. Successful procurement activities for major capital projects should be organized in such a way that they adhere to legal and policy requirements and ensure that the project's procurement strategy and final design are followed. Procurement processes should lead to a formal arrangement with qualified contractors that provides for an effective partnership to deliver the project with due consideration of cost, time and quality.
54. To mitigate the inherent risks associated with procurement, management should ensure that the following key controls are in place:
- roles and responsibilities of all players in the bid and procurement processes should be clearly identified, should be in accordance with existing legislative authorities, and should support an independent oversight of the selection process;
 - bid solicitation documents should match the approved procurement strategies and the building design documents;
 - bid solicitation should be conducted in an open and fair manner that promotes the receipt of competitive bids from qualified contractors;
 - assessment criteria should support the procurement strategy;
 - there should be adequate oversight over the final bid assessments, which should be conducted by people with relevant skills and experience; and
 - final procurement and contracting decisions should reflect the bids received and the bid evaluation process and should be approved by the responsible authorities.
55. For the high schools project, we examined procurement activity related to the recommencement of the project after termination of the prime contractor. We did not focus on procurement activities to acquire legal services related to disputes with contractors.
56. For the primary schools project, we examined procurement processes related to two of the four buildings that were constructed. These procurements related to the Sir John A. Cumber Primary School and the George Town Primary School.

THE MINISTRY FAILED TO FOLLOW THE FINANCIAL REGULATIONS AND THE OPEN TENDER PROCESS

57. The Ministry of Education officials directed the procurement activities related to both the high schools and the primary schools projects. It used the high schools project and construction manager and the primary schools project manager to prepare tender documents and to participate in the tender evaluation process. The Ministry provided direction to these individuals and was responsible for ensuring that the *Public Management and Finance Law*, and *Financial Regulations*, and the Open Tender Process policy were being followed.
58. In the procurement activities we examined, we observed that Ministry officials did not fully comply with the legislative and policy requirements.
59. For example, under the *Financial Regulations*, the Central Tenders Committee is to review all procurements amounting to \$250,000 or greater, and all procurements greater than \$50,000 must be open to public tender. In the high schools project, we found that Ministry officials provided direction to project officials on how to prepare tender packages in a manner that would circumvent those requirements. A review of the lists of subcontracts and small works contracts shows many examples of contracts approved in a manner that avoided these tendering requirements.
60. We also made the following observations about procurement activities that we believe fall outside of the *Financial Regulations* or the Open Tender Process policy:
- In the high schools project, a program was started as a means of engaging small, local construction companies to carry out works that did not fall within the scope of works contracted to the Multiple Prime Contractors. The Ministry provided the construction manager with a list of contactors to be considered. The Ministry has told us that any contractor could sign up for the program as long as they met certain conditions. In all cases we examined, the contractors provided the necessary evidence that they met the conditions (for example, they had adequate insurance coverage or their employees had pension plans). However, we were not provided with documentation showing how the Ministry screened the companies that it actually put on the list it gave to the construction manager.
- Initially, contracts under this small works program were to be for no more than \$10,000. Once the contractor reached this limit, it was to stop work. However, we found that most of the contracted works continued well beyond the \$10,000 limit, and several modifications of the original contracts were signed to allow this. Some of these contracts were eventually modified to more than \$50,000. At other times, contracts were modified to have the contractor do work that was different from what was called for in the original contract.

- After a short period within the original \$10,000 limit, which created significant work for Ministry officials to manage, the small works contracts were mostly made for amounts up to \$50,000. Many of the contractors had several \$50,000 contracts back to back for providing the same type of service (although sometimes on the other high school work site). Many times either the contracts were modified to exceed \$50,000 or works were simply billed that exceeded \$50,000. This procurement approach did not comply with the public tendering requirement of the Financial Regulations and the Open Tender Process policy. In other words, the Ministry carried out the procurement process in an unlawful manner.
- The Ministry did not play an active role in the tender process to select two consultants employed to support the design of three of the four 2-story primary school buildings. We found evidence that one consultant was provided information about its bid by Public Works Department (PWD) officials and subsequently made handwritten changes in the bid documents. PWD has not been able to provide us with an explanation for these changes. There is evidence on the file provided to us that the eventual tender winner was the company PWD wanted for the job and that the two other tender respondents were either not qualified or bid significantly above the pre-tender estimate. In the end, the winning consultant changed the bid proposal to eliminate one component of its initial bid and to increase its project expenses to allow for more visits to Grand Cayman. The final amount approved for the tender proposal was increased to \$195,102, or just below the PWD pre-tender estimate of \$200,000 for the contract related to the schools design.

The contract for this consultant was later modified to include the final building in the primary schools project and the Prospect Primary School, approved as a standalone project after the original approval of the primary schools project. An additional \$104,375 was added to the original contract after the consultant provided an estimate of the cost to complete the design work for the additional two schools. PWD did not open this additional work to tender as is required for works exceeding \$50,000. It also did not seek approval to provide this work to the consultant under a sole-source arrangement, which would have required the Chief Officer to approve the decision after ensuring that value for money was adequately considered. Instead, a PWD official and a Ministry of Education official approved the contract modification.

THE FORMER PREMIER INFLUENCED THE SELECTION OF THE HIGH SCHOOLS PROJECT MANAGER

61. In 2009, concerns were growing that the relationship between the Ministry and the original prime contractor was deteriorating. The Ministry informed us that in August 2009, the former Premier asked an American construction claims dispute consultant to review the high schools project with a view to recommending how the Government should proceed. We are not aware of the arrangements with this consultant, as Ministry officials could not provide us with a signed contract. The Ministry informed us that the consultant undertook this substantial review at no charge. However, the consultant's report provided to Cabinet in September 2009 indicates that the consultant was retained by the Premier, although it provides no details about how this was accomplished.
62. The September 2009 report provides some insight into the consultant's expectations about a future role in the high schools project. The report made specific observations and recommendations that pointed to the Government's need to employ someone with the consultant's skills to help navigate through the project's complex dispute and management issues.
63. On 25 September 2009, the Ministry entered into a sole source contract with the consultant for the provision of services in October 2009. In late October 2009, the Minister of Education put forward a Cabinet paper proposing that the consultant's company be hired to undertake the role of dispute resolution and project manager. The Paper indicated that this company was the only one that could provide these services in the time frame needed by the Ministry, and the services would therefore be procured under a sole-source contract; that is, the work was not put up for public tender. The Ministry indicated to us that it did not complete a due diligence review of the consultant and his company, as the Premier had recommended the consultant and Ministry officials had observed his work during the recently completed review. While the information provided by the consultant demonstrated a long history in claims dispute resolution, it did not indicate that he or his company had similar experience in project management. The Paper also indicated that the Ministry had already engaged the consultant for services in October 2009.
64. Cabinet approved a sole-source contract for services between December 2009 and March 2010, which the consultant entered into with the Ministry on 14 December 2009. The scope of work included resolving the contract dispute with the original prime contractor, developing the tender package for the construction manager position, and entering into transitional arrangements with legacy subcontractors. A new contract signed with the consultant's company on 29 March 2010 included the additional duties of project manager for the high schools project—among them, helping the Ministry establish key project outcomes such as the project budget and completion schedule. This contract and subsequent modifications to it were based on the level of effort set out in the contract or agreed to in each modification, and did not include specific project performance expectations aligned to key project objectives such as cost, time, and quality.

65. The 29 March 2010 contract with the consultant's company had a value of \$2.3 million, with work to be completed by September 2011. The project manager was still working on the project in December 2012, well after the Clifton Hunter School opened in September 2012. The consultant's company has been paid a total of \$3.1 million.
66. We do not believe the Ministry did enough to ensure that the consultant and his company had the requisite skills to undertake all of the duties included in the contract, especially the duties of project manager. The project manager duties had the consultant proposing procurement arrangements with contractors and then, when those arrangements resulted in disputes, also proposing how the Ministry should settle the disputes. The Ministry may have been better served had it looked for independent advice on these disputes.

FAILURE TO PROTECT THE GOVERNMENT'S INTERESTS

67. In late 2009, the high schools project recommenced using a construction management approach. Under this type of approach a project manager and a construction manager are selected to oversee the project, but the actual construction work is carried out by multiple prime contractors selected to complete specific work packages. On 30 December 2009, Cabinet approved the Minister's request for authority to purchase equipment that had already been or was being purchased by existing or "legacy" subcontractors. Also, Cabinet approved payments to subcontractors with whom the Ministry was able to conclude agreements to assign to it their existing contracts with the former prime contractor. The process of negotiating the assignment of the contracts and the purchase of the equipment was given to the project manager, whose recommendations to the Ministry were to be verified by the project's quantity surveyor and architect.
68. The project manager was not able to obtain the assignment of the "legacy" subcontractors' contracts within the time allowed under the existing contracts. The project manager then negotiated temporary funding arrangements with the subcontractors so that the project could continue. These temporary arrangements were followed by new contractual arrangements with most of the subcontractors.
69. We examined four temporary funding agreements that provided for legacy subcontractors to receive \$7.3 million as parts of arrangements to have them continue working on the construction site or to procure equipment. There is very little documentation available to show how this process was managed by the project manager or how the Ministry provided oversight for this procurement activity. For example, we were not provided with evidence that the quantity surveyor or the architect had verified the amounts included in these temporary funding arrangements. We do know that some of the more significant arrangements with legacy subcontractors eventually ended up in dispute with the Ministry.

70. The services of the multiple prime contractors (MPC) used under the construction management approach had to be procured on a timely basis for the project to proceed efficiently. The construction manager for the high schools project indicated that limitations in the Government's procurement policies and processes had a negative impact on the ability to achieve the project completion dates. A review of information in the Cabinet paper proposing that Cabinet approve the move to the construction management approach failed to highlight the potential challenges associated with applying the Government's legislative and policy requirements to the procurement of so many MPC contracts.
71. The mechanical, electrical, and plumbing (MEP) contracts had to be procured twice, between 2010 and 2011, due to problems and disputes with the selected contractors. The final contractor won a tender process that proposed the completion of the project's MEP requirements largely by supplying only the human resources needed to finalize the identified scope of work. The tender documents indicated that most equipment and supplies had been procured under previous contracts. However, the project manager who prepared the tender documents had failed to adequately assess the state of the existing MEP works and the amount of equipment and supplies actually purchased. Indeed, the tender documents included many untested assumptions. The promised equipment and supplies could not be found when the contractor began the work, and the amount of work defined as still needed to finish the project was underestimated.
72. The MEP contractor won the contract award in March 2011 with a bid valued at \$2.4 million, and completion was scheduled for August 2011. After numerous time extensions and price increases, the Ministry ended up paying the MEP contractor \$11.3 million and the work was not completed until June 2013, ten months after the Clifton Hunter High School opened for its first school year. The construction manager estimated that an additional 21,200 man hours were required to remediate existing MEP works, while a further 12,400 man hours were required to implement design changes. In other words, the scope of work was very poorly defined and the amount of time required was clearly underestimated.
73. The project's quantity surveyor, the construction manager, and the Ministry's last senior capital works manager all highlighted problems with the Ministry's high schools project procurement activity including:
- failure to set realistic budgets and schedules;
 - failure to adequately define the scope of works to be undertaken by contractors prior to entering into contractual arrangements;
 - failure to adequately control the number of design changes that impacted the contractual arrangements; and
 - inadequate bid documentation.

MINISTRY'S OVERSIGHT OF PROJECTS

74. Generally, it is the project manager's responsibility to co-ordinate and to hold accountable the numerous parties who have responsibility for the key factors of cost, time, and quality in a major capital project. As the party that hired the project managers for the high schools and primary schools projects, the Ministry of Education was responsible for ensuring that they put in place the appropriate project management practices to manage changes in project scope, monitor the quality and quantity of work, monitor costs, and ensure compliance with safety and environmental rules. We expected to find that project management reports were produced to keep the responsible Ministry officials informed about critical project issues and project progress and to serve as a means of holding the project management team accountable for the key cost, time, and quality factors.

THE MINISTRY FAILED TO ESTABLISH ADEQUATE OVERSIGHT OF PROJECTS

75. We found that the Ministry does not have any policies and procedures in place for the management of major capital projects. There is no guidance to staff on how they are expected to carry out their roles in overseeing major capital projects. Each project is treated as "one of a kind," with the approach to be taken left to those responsible. Given that the Ministry has limited capacity to undertake such projects, it is all the more important that it clearly set out what is required to manage them.

76. The Ministry's files that hold the reports, correspondence, meeting minutes, and other important documents demonstrating the management approach and decisions taken are very poorly organized and incomplete. For some periods in the high schools' construction, there are almost no records to demonstrate how the Ministry carried out its role. At the time of our audit, some documents for both projects were still waiting to be filed even though the projects were completed over a year and a half previously. In September 2012, the Ministry's senior capital works manager made the following comments about the state of record keeping during the initial prime contractor construction phase:

"But there are currently no accessible MOE records or data – specifically showing key management decisions and processes – available for any future audit. Where such records do exist, they will have to be released by staff holding such data on personal file systems. This is a continuation of the situation presented during the previous audit when there were either no records in existence or such were not made available by staff holding these records."

77. The Ministry personnel with a role in the high schools project changed continually. There was a lack of continuity from the beginning of construction under the initial prime contractor (2008-2009) through to the recommencement of the project in late 2009, and finally during the construction management period (2010-2012). The high schools project was carried out over a period from 2005 to 2013, and some turnover would be expected for any multi-year project. That is why it is important that such a project be organized in a manner that allows it to continue even with personnel changes and that records are maintained to demonstrate key aspects of project management.
78. For both the high schools and primary schools projects, we found that the Ministry relied too heavily on its consulting project managers to ensure that proper project management systems and practices were in place. A normal expectation is that a ministry will establish a steering committee for a major capital project. The steering committee would meet regularly with the hired project manager to discuss critical project management issues and the project manager's reports on the key project attributes of cost, time and quality.
79. The high schools project manager's contract called for him to report to such a steering committee, but the Ministry did not create one. The contract also called for monthly project manager's reports to be reviewed by the steering committee; the Ministry has told us that these reports were not produced. Nor was information provided to the Ministry so that project budget and completion schedules could be approved, as the contract stipulated. While it is easy to blame the project manager for not having carried out his responsibilities, the Ministry never demanded that the contract requirements be met, and it failed to carry out its responsibility under the contract to establish the steering committee. It was left to the project manager to communicate through letters, emails, and occasional meetings with the ever-changing Ministry staff.
80. In our view, the Ministry failed to establish an adequate control framework for the oversight of the high schools project, a failure that has had serious consequences. The obvious immediate consequences were late delivery, final products that did not meet needs and cost overruns. However, the ultimate consequences are much greater for the children of the Cayman Islands, the construction industry, and the economy.
81. The Ministry assigned one staff member to oversee the primary schools project under the supervision of the Deputy Chief Officer. The Ministry had the Public Works Department (PWD) fulfill the roles of both design architect and project manager. How the Ministry and PWD were to consider and resolve critical project issues was never formalized. Regular project management meetings were not scheduled, and issues discussed between the Ministry and PWD during the project were largely not documented as part of a formal project record unless they were raised in the weekly construction meeting with the prime contractor.

82. The absence of a formal record of discussion and decisions can lead to misunderstandings. For example, we noted that the Ministry requested numerous changes to the project through the contractors directly rather than through PWD. The Ministry told us that PWD had not been responsive to its requests. Meetings where critical issues were discussed between the Ministry and PWD and recorded in minutes would have ensured that these issues were dealt with in an open manner and thereby minimized the chance of misunderstandings.

ONGOING DESIGN CHANGES LED TO UNCERTAINTY AND DROVE UP COSTS

83. The high schools project was commenced with the final design not yet established and with “value engineering” decisions yet to be made after the contract was signed with the prime contractor. Value engineering is undertaken when the owner, in this case the Ministry, wants to reduce a project’s cost and is willing to consider changes to the project design in order to achieve savings. However, these decisions would not normally have a significant impact on the first phase of construction, thus allowing construction to begin. All parties in the high schools project entered into this value engineering arrangement knowing that the project design would be subject to some uncertainty while these decisions were being made.

84. The Ministry was under considerable pressure to reduce the project cost, and this pressure increased as the economy worsened in 2008. Construction started in May 2008, while the architects continued to search for ways to reduce the cost of the project and still adhere to the approved design concept. The Ministry did not ensure that it had a robust process in place for timely agreement with the prime contractor on the cost of the proposed changes. As the number of changes and their potential costs rose, the relationship between the Ministry and the prime contractor began to deteriorate. It is important to note that contractual arrangements between an owner and a prime contractor are designed to provide an environment whereby an effective partnership is developed to deliver the project. The Ministry failed to establish the preconditions under which that partnership could develop successfully for the high schools project.

85. Given the pressure by the Government to reduce the project cost, in hindsight it would have been best had the Ministry decided to delay the project so that it could firm up its notion of what could be delivered given the available funding. However, it proceeded with the project amid uncertainty about how much funding the Government would provide.

86. Once the prime contractor’s contract was terminated in November 2009, the Ministry had an opportunity to establish a partnership with the new project manager and multiple prime contractors under the new construction management approach. Despite early signs that the Ministry would put in place the management control framework necessary to oversee the project manager’s work, we saw no evidence that it followed through with measures such as regular meetings with the project manager. Ministry officials told us that they met regularly with the project manager but that those meetings were not documented in the Ministry’s files. We do not believe that Ministry officials

understood what their oversight role required. The high schools project was a significant undertaking and it needed a more formal structure than provided for by phone calls and email communication alone.

87. As the high schools project recommenced in early 2010, works by legacy subcontractors continued under temporary arrangements with the Ministry, and small works contractors were hired. The project manager was stretched to manage the work site, establish procurement arrangements for the many contracts required under the construction management approach, deal with the ongoing changes demanded by the Ministry, and provide support to ongoing legal disputes with contractors.
88. A priority under the construction management approach is to have a construction manager appointed to oversee the construction site so that the works conducted by multiple prime contractors are managed in accordance with the project design and the contractual arrangements. The initial tender for the construction manager position was rejected by the Central Tenders Committee in June 2010, and it was late October 2010 by the time a construction manager was under contract and engaged at the project site. So work by legacy and some smaller contractors continued for almost a year without a dedicated construction management function.
89. We noted that existing works were removed throughout 2010 and 2011 in order to incorporate the significant ongoing design changes. The costs of these removals were often discussed by the Ministry and the project manager as necessary to remediate deficiencies in the work done by previous contractors. However, we found that a subsequent arbitration decision and numerous dispute settlements with contractors provided very little support for the notion that the removals were largely a result of faulty work. It is more likely that the majority of the remediation work undertaken at the site was caused by the steady stream of design changes introduced by the Ministry and the resulting construction problems that ensued. Ministry officials demonstrated a lack of comprehension about the impact these changes would have on the project's cost and its completion schedule. While the Ministry was continually looking for savings through design changes, its efforts largely escalated the project costs. Changing a project's completion schedule alone carries inherent cost escalation factors, as contractors have to mobilize their construction crews and overhead staff to be on the project for the longer timeframe.

THE MINISTRY DID NOT HAVE CONTROL OVER THE PROJECT COSTS AND COMPLETION SCHEDULE

90. The Ministry does not have financial systems or staff capable of providing the detailed project information needed to carry out project management for major capital projects. Its financial systems are geared toward capturing costs annually to ensure that the Ministry does not exceed its funding authorities. Project management requires more detailed financial information about different aspects of the project over its full life. Project managers not only need to know the past

costs but also must be able to forecast the future costs of completing the project. This is a capability that does not exist at the Ministry.

91. The Ministry relied on the project managers to provide the capability to capture detailed project cost information and to forecast future spending requirements. We found little evidence that the project managers used by the Ministry provided this type of reporting.
92. **Clifton Hunter High School.** In 2012, the Ministry hired a consultant to review the construction budget, monthly cost reports, and selected trades packages prepared by the project manager for the Clifton Hunter High School. In its report, the consultant stated that he was not able to substantiate the original construction budget, as the project manager had not provided the original build-up for the budget. Further, it reported that the project manager's cost spreadsheets contained significant arithmetical errors and that the project manager did not have the capacity to forecast the future costs associated with the project.
93. The consultant did report that the construction manager's financial reports included forecast cost information. However, given differences in these reports and the errors that they contained, it is clear that the Ministry did not know what the costs of the project were or what they were likely to be.
94. When it came to the completion schedule, we saw many different dates provided for completion and indications that comprehensive work scheduling was not always done. The Ministry's records provide almost no information on work scheduling. It is clear that Ministry officials were almost always caught off guard each time they learned that the completion dates had slipped. In these instances, they would demand answers from the construction manager; the project manager never seemed to be held to account.
95. On 6 February 2012, the construction manager sent a detailed report to the project manager about their experiences during the project and describing their understanding of project issues. The report was prepared by the construction manager in response to questions raised by the Ministry for the reasons for the project completion dates slipping. According to the report, the planned project completion date in the tender documents was based on numerous incorrect assumptions. The construction manager provided a long list of reasons for the changes to the project completion dates over time:
 - there was an incorrect planning assumption that mechanical and electrical equipment, plumbing and lighting fixtures, and window and roofing materials had been procured and delivered to the site or to offsite storage;
 - estimates of works that tender documents said had been completed up to 31 October 2009 were overstated;

- the extent of remediation work and redesign necessary was underestimated and appears to have been largely unknown by the Ministry at the time of the tender;
- subcontractors listed in the tender documents as available to complete project works had not in fact been engaged under contract;
- the mechanical, electrical, and plumbing contractor was terminated soon after the construction manager came onto the project, and there was a considerable delay in finalizing the contractual arrangements with a new contractor;
- procurement of multiple prime contractors took considerably longer than planned in the tender documents;
- the construction manager had to manage over 200 construction and supply-only contracts for the project, whereas initial plans called for only up to 45;
- the Ministry overrode the construction manager’s advice that only one contractor should provide the metal stud and drywall works. Instead the Ministry used three small, local contractors from its list of small works contractors. There were delays in the Ministry’s procurement of the contracts and there were performance issues with two of the three contractors chosen by the Ministry; and
- finally, the scheduled completion date was impacted by a significant number of changes by the Ministry and the architect that had to be arranged with multiple prime contractors, and by late and incomplete design drawings from the architects.

96. It is clear from the documents made available to us that the Ministry did not have a good grasp of the state of the construction works throughout much of the period between 2009 and 2011. We believe that the Ministry had to spend considerable time to address ongoing disputes with the original prime contractor and the “legacy” mechanical, electrical, and plumbing contractor. The Ministry appears to have relied heavily on the project manager and the architect for the ongoing management of the project, without receiving project reports on which to base this reliance.

97. **Overspending on the high schools project.** The high schools project has had a long and complicated history, with many publicly stated positions on what has gone wrong. It is clear that far less has been delivered at a far higher cost than predicted. In this report, we have presented observations about different factors in the cost increases and time delays. It is not possible for us to identify all factors or the amount of overspending associated with each. However, it is possible to identify some of the causes and to provide estimates of the cost impact (see Exhibit 3).

Exhibit 3 - A brief history of the high schools project and the causes of overspending

Brief history of the high schools project

There have been plans for a new high school at Frank Sound dating back to as early as 2000. The original design brief for that school carried an estimated cost of \$25 million. This project did not

proceed; a new proposal surfaced in 2004 to build three schools at a total cost of \$95 million.

The plan in 2004 for a traditional school construction was replaced in 2006 by a new concept design whereby the three high schools would be built in a campus style with individual academy buildings, gymnasium, performing arts, administration and other facilities. Each was to be designed with a hurricane shelter capability that could also be used by the local community. We were never provided with the projected cost of building the three high schools under this design concept, but it is clear that expanding the design had a significant impact on the eventual planned cost of the high schools project.

In 2007, land purchases were finalized, site preparation was started, and procurement of the prime contractors began. In May 2008, contracts were signed with one prime contractor who would be responsible for the construction of the Clifton Hunter High School and the John Gray High School. Construction works began at or about the same time for both schools.

The third school was started later in 2008, but work stopped in December 2008 when the Government determined that it did not have the funds to complete the project.

What project costs and completion timeframes have been approved?

We found that the Ministry never established and approved cost and time budgets at critical stages of the high schools project. Certain costs are known to be firm, such as the contracts signed with the prime contractor in 2008. Below is our best determination of the estimated cost of the project as at 1 May 2008, based on information provided in 2012 by the last Ministry senior capital works manager and shown in the construction contracts signed in May 2008.

	CHHS	JGHS	Total
Construction contract	\$56.7	\$59.0	\$115.7
Site work	4.7	1.4	6.1
Architectural design	1.9	2.6	4.5
Management fees and expenses	1.5	2.2	3.7
Furniture and Equipment	3.9	4.3	8.2
Total project cost	\$68.7	\$69.5	\$138.2

At the signing of the construction contracts in May 2008, completion of the Clifton Hunter High School was planned for 1 February 2010 and the John Gray High School for 15 December 2010.

Final costs as at 31 December 2013

The Ministry provided us with the final costs per high school as at 31 December 2013. We found a large number of errors in the Ministry's financial records, and we observed weaknesses in its financial management and control systems for major capital projects. Therefore, we are concerned that the costs may not have been allocated properly between the two high schools. Below are the project costs reported by the Ministry.

	CHHS	JGHS	Total
Total project cost	\$110.1	\$56.7	\$166.8

Some factors in cost increases for the Clifton Hunter High School

The final costs of the Clifton Hunter High School were \$41.4 million, or 60 percent higher than our best estimate of the May 2008 planned spending. The following are costs that have risen beyond what was planned in May 2008:

- Architectural design contracts \$3.7 million
Provided architectural design and engineering services and some project administrative services – \$3.7 million more than in the May 2008 plan.
- Project manager contract \$3.1 million
Provided dispute resolution, procurement and project management services from October 2009 to December 2012 – Not in the May 2008 plan.
- Construction manager contract \$5.1 million
Provided construction management services from October 2010 to October 2012 – Not in the May 2008 plan.
- Legal and arbitration services \$4.0 million
Estimate by project manager in July 2012 for legal and arbitration costs needed to deal with the numerous contractor disputes.
- Defective work items \$6.0 million
Project manager’s estimate in July 2012 for cost to remediate faulty works, including concrete, mechanical, electrical and plumbing, flooring, and structural.
- Changes to the design at Ministry request \$1.7 million
Project manager’s estimate in July 2012 for the direct cost of changes requested by the Ministry.
- Claims by contractors due to prolongation of time \$2.2 million
Project manager’s estimate in July 2012 for claims made by two contractors to cover costs of extension of time for completion of their contracts.
- Ministry’s termination of the mechanical, electrical and plumbing contractor in 2010 \$4.5 million
Project manager’s estimate in July 2012 for the additional costs associated with the termination of this contract.

The total of the items listed above is \$30.3 million

COMPLETION AND CLOSEOUT PROCEDURES WERE INADEQUATE

98. Good project management practices during construction normally minimize the number and nature of issues that need to be dealt with once construction is complete. The project manager should establish procedures to protect the owner's interest by ensuring that all cost, time and quality requirements of contracts are met.
99. We would expect that the project manager would complete a post-project evaluation of what went right or wrong and whether the desired benefits have been achieved.
100. We found that information about the Ministry's efforts to manage the closeout of both projects was almost non-existent, or very limited. In the last days of our examination work we found some unfiled documentation relating to the high schools project.
101. In many ways, the poor management found in the construction phase carried over into the closeout phase. The documents provided to us show that a Ministry official rather than the project manager took the lead in summarizing the results of meetings to discuss the closeout. The project manager did not provide clear reporting to the Ministry about how its interests were being protected during the closeout phase.
102. Our biggest concern about the closeout procedures for the Clifton Hunter High School is whether the Ministry should even have taken possession of the school in early September 2012, given the extent of work yet to be completed.
103. The Ministry was under intense pressure to open the school for the 2012 school year and, despite a one-week delay, the school opened with considerable work still going on. A significant portion of that work related to the mechanical, electrical, and plumbing contractor. The Clifton Hunter High School's mechanical, electrical, and plumbing systems, including fire suppression and alarm systems, are very complex; however, when the school opened, the facilities management staff still had not received training on how these complicated systems should be operated. The correspondence we reviewed noted that any errors by untrained staff after possession could invalidate warranties on potentially affected equipment and could put students and staff at risk. The mechanical, electrical, and plumbing contractor continued to work on the project until June 2013, and between October 2012 and June 2013 the Ministry paid the contractor \$1.43 million.
104. It was not until May 2013² that the Building Control Unit gave the Ministry a Certificate of Fitness for Occupancy for the Clifton Hunter High School. The Ministry received special permission to

² Based on discussion with Ministry officials. Certificate not provided by Department of Planning.

occupy the high school on 16 October 2012 while the school opened to students in the second week of September 2012.

105. On 3 September 2012, the Ministry's senior capital works manager communicated his concerns about the prospect of having the project deemed substantially complete:

“As far as I am aware there is as yet no strategy or schedule in place for remedying defects, providing close out information or training. Hence my concern at the issue of a schedule of completion which does not address these important contractual obligations.”

106. At the time of issuance of this report, over 30 months after opening the school, Clifton Hunter High School has yet to receive a final certificate of occupancy with several matters still outstanding, some of which relate to student safety.

107. We also have concerns about the lack of documentation for the closeout work completed on the primary schools project, even though this project involved considerably fewer contractors.

108. The prime contractors for three of the four primary school buildings ran into financial difficulties during the construction. While the Ministry and the project manager worked with the contractors trying to find a way to get the prime contractors to finish the jobs, the three affected contractors eventually told the Ministry that they would not be able to complete the project without further payments from the Ministry. Exhibit 2 describes the process by which the Ministry made ex-gratia payments totaling \$746,286 to the three contractors in order to have them complete the primary school construction, even though they had already been paid for this work.

109. The George Town Primary School opened on 17 May 2012 and the Sir John A. Cumber Primary School opened on 27 February 2013. However, the Certificates of Fitness for Occupancy were not issued until 15 May 2013 and 6 May 2014, respectively. We are concerned that the Ministry did not obtain the appropriate approvals before these schools opened and students began attending classes. The Ministry has not provided us with letters from the Building Control Unit giving special permission to occupy these primary school buildings in advance of receiving the Certificate of Fitness for Occupancy. We believe that the Ministry took unnecessary risks with the safety and welfare of the students attending the schools at that time.

110. Given that both the high schools and primary schools projects have been complete for an extended period, we would expect the Ministry to have received a post-project evaluation report from each project manager establishing what went right or wrong and whether the desired benefits have been achieved. The specific requirement to provide such a report was not included in the project manager's contract, and no such report has been produced for the high schools project. For the primary schools project, PWD produced a form of project report for the Ministry in May 2012 before the project was completed. The reports, one for each primary school building, largely focused on the problems with the primary contractors. PWD updated these reports during our audit, but they were still focused on construction activity and provided little in the way of lessons learned.
111. Why are post-project evaluation reports important? They provide ministries with important information that can help them learn and change their management practices as they go forward. In this case, for example, the Ministry of Education is still considering how it will complete the John Gray High School, which has not been worked on for over 2 years. It is important for the Ministry and Cabinet to have these problems highlighted, given the obvious problems encountered with the Clifton Hunter High School, so they are dealt with properly in planning the next stages of the John Gray High School development before the Government makes its decisions.
112. Given the high cost of the Clifton Hunter High School, we would have expected to see a school that would deliver all of the educational needs for some years ahead in the area that it serves. However, the school is already operating at maximum capacity, with some teaching areas exceeding capacity. With the population growth in the East End, there could be a need for more high school classroom space. To expand the school by adding a fourth academy would be very expensive, as it would require significant mechanical, electrical, and plumbing work.
113. Also, the approved concept of the high schools project included community use of the facilities. However, the Clifton Hunter High School has not been used by the community except for some international sporting events. Therefore, a planned benefit of the school is not being realized in practice.
114. We were informed at the time of the audit that there wasn't a formal assessment of the risks and a strategy in place to mitigate the risks of the John Gray High School site deterioration and the potential additional costs to the public purse while this project remains uncompleted. The Ministry has informed us that it intends to complete such an assessment when the project is restarted.

Recommendation #2: The Government should carry out an assessment of the John Gray High School project site and develop a strategy to manage its risks and future development before Cabinet is requested to approve further funding.

LIMITS ON ACCESS TO INFORMATION

MINISTRY OFFICIALS LIMITED OUR ACCESS TO INFORMATION

115. Under the *Public Management Finance Law*, the Office of the Auditor General has “*the right of access to all information held by any public officer...*”. These powers, while considerable, are applied during the audit only after discussions with ministry officials and only with regard to the audit objective and criteria.
116. Our minimum requirement is that auditors be given access to those documents that we believe are necessary to conclude against the audit objective and criteria. We believe that in this audit we have met the requirement to conclude, but only after considerable extra audit work carried out over an extended period of time. We found the Ministry’s records in a state of disarray, and few staff with knowledge of their organization were available. For example, at the beginning of the audit, we asked for access to all records related to the management of the two projects, including the closeout activities for the high schools. We found high schools project records still waiting to be filed that related to closeout activity undertaken from September 2012 to the spring of 2013. These records were not formally provided to us.
117. During the audit, Ministry officials actively screened files and documents that we requested. They would indicate that they were ensuring we were provided only with records that we “needed” to perform the audit. Under the *PMFL* and accepted international auditing standards it is the Office of the Auditor General, and not public officials, that determines what is required for it to complete its audits.
118. Ministry documents we examined revealed that past Ministry officials had warned officials working on the high schools project about maintaining personal files that contained important project records. They warned that there was a high likelihood of important information being lost through this practice. Attempts were made at one point to have known personal records transferred to Ministry files. This appeared to have worked for a very short period during the project.
119. When we requested documents needed to complete our audit of both projects, we were sometimes provided with personal files of Ministry officials. Near the end of the audit examination work for the primary schools project, we found files in the Facilities Management office that contained documents important to that project that we had not yet seen. It turned out that the source of those documents was a Ministry official’s personal file. This official should have known that we required access to those documents. It is important that all public officers know there is no such thing as a personal file when it comes to records pertaining to government activity.

120. We believe that the actions of the Ministry demonstrate at best an inability to manage the information for which it is responsible. At worst, the Ministry's actions were designed to limit our ability to conclude clearly on the selected audit objective and criteria. The *PMFL* is clear that *"In the performance of his duties or exercise of his powers under this or any other law, the Auditor General shall not be subject to the direction or control of any person."*

121. The Office of the Auditor General has remedies under the *PMFL* to gain access to Government records. In this instance, we attempted to work with senior Ministry of Education officials to overcome the problems encountered. In doing so, we have been able to meet the minimum necessary requirements to conclude on the audit objective and criteria; largely because there is clear evidence that the Ministry did not manage these projects in a manner that met the audit criteria. However, we believe that the restrictions placed on us have driven up the cost of our audit considerably. Also, we believe that this audit report could have provided more information to the Legislative Assembly about the nature and extent of problems caused by the Ministry's poor management of these projects.

122. In clearing our report with Ministry officials, we agreed that it would be inappropriate for the Office of the Auditor General to discuss the findings with the former Minister who was very involved in the day-to-day management of the schools projects. ³As Ministry officials provided the information documenting the former Minister's involvement in the management of the projects, we agreed with the Deputy Governor that the current Ministry's Chief Officer would discuss the findings with him. After following up with Ministry officials, we were unable to determine if Ministry officials followed through with their commitment.

³ The OAG holds government administrators to account by reporting its findings to the Legislative Assembly.

CONCLUSION

123. The audit's objective was to determine whether the Government managed the completion of the construction of the Clifton Hunter High School and the John Gray High School and the construction of primary schools within a management framework that ensured that value for money was obtained from these significant public investments. In my opinion, the Ministry of Education failed to establish the management frameworks to ensure that value for money was obtained, and it managed these projects poorly.

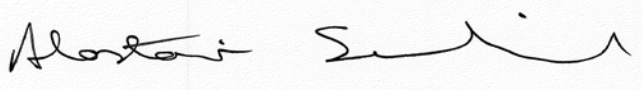
124. In 2005, the Ministry of Education promised to deliver three single building high schools by 2009 at a cost of about \$95 million. It was able to deliver only the campus-style Clifton Hunter High School, and not until the 2012 school year. The John Gray High School has only four buildings that are partially completed but not yet fit for occupancy; construction of the third high school was cancelled in 2008. As at 31 December 2013, the Ministry reports that it has spent \$172.7 million on the overall project to deliver the three high schools (\$166.8 million on the Clifton Hunter High School and the John Gray High School).

125. In 2010, the Ministry of Education began a project to build five two-story classroom buildings at primary schools to replace existing modular classrooms. The buildings were to be in place for the 2011 school year. Only four buildings were completed, and they were available only part way into the 2012 school year. Also, the cost of the project rose from the planned \$10 million to \$13.4 million—a 34 percent increase—for approximately 80 percent of the deliverables initially planned.

126. The Ministry has delivered less than it promised at a far higher cost than planned, and what has been delivered has been late. The people of the Cayman Islands and the students who need proper buildings in which to learn are still waiting for the high school infrastructure that the Government promised in 2005.

127. The Ministry did not implement the appropriate oversight functions necessary to manage large major capital projects such as the construction of schools. It has failed to ensure that projects are adequately planned, that the planned project outcomes related to cost, completion schedule, and quality of design are determined before proceeding, and that basic Cabinet approval is obtained for its plans before the investment decision is made.

128. The procurement activities that we examined for both projects demonstrated a disregard of the *Financial Regulations* and the Open Tender Process. Procurement was not conducted in an open and fair manner. Procurement activities led to the inappropriate selection of contractors, at the wrong price, completing the wrong works; and, in too many instances, they led to protracted disputes with the contractors. We are concerned that the procurement process was subject to override by politicians and officials.
129. The Government recently made some improvements to the governance framework for the management of major capital projects involving more than \$10 million in planned project lifetime spending. In 2012, the *Public Management Finance Law* was amended to incorporate the Framework for Fiscal Responsibility, which provides new requirements for planning and controlling major capital projects. However, we have found that the governance framework still does not ensure that the Legislative Assembly receives adequate information to support requests for appropriations or supplementary appropriations related to funding a ministry's major capital projects. Further, there is no accountability from ministries for their use of funds approved for major capital projects, especially those undertaken over a number of years.
130. Finally, there are important lessons to be learned from the Ministry of Education's poor management of its construction of schools in recent years. As the Government considers new major capital projects, including the completion of the John Gray High School, it should review this report so that the lessons learned can be implemented in future projects. This report has two recommendations; one related to the need for greater transparency and accountability for major capital projects and the second, to mitigate continuing wasteful expenditure by assessing the John Gray High School site and developing a strategy for its development going forward.
131. The recommendations made in my July 2012 report on major capital projects need to be implemented as soon as possible to mitigate the waste of public resources in the future.



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28 May 2015

APPENDIX 1: ABOUT THE AUDIT

AUDIT OBJECTIVE

1. The audit objective was to determine whether the Government managed the completion of the construction of the Clifton Hunter High School and the John Gray High School projects, and the construction of primary schools within a management framework that ensured that value for money was obtained from these significant public investments.

AUDIT CRITERIA

2. The audit used eight criteria against which we evaluated the audit findings. Senior Ministry of Education officials agreed with our criteria at the outset of our audit. The audit used the same criteria that were established for the Audit of Major Capital Projects reported in July 2012 except for the first criterion that related more to government's overall management of capital projects. These criteria came from established processes and practices for the management of major capital projects as well as legal and regulatory requirements specific to the Cayman Islands:
 - Establish appropriate governance structures to ensure that prior to the approval of construction of the major capital project it is well researched, planned and meets the Government's legislative requirements, strategic objectives and business needs.
 - Projects should be organized with clear mandates, and delivery arrangements; competent, experienced project teams that have the capability to deliver the project should be put in place.
 - Project design should be critically reviewed to ensure consistency with the approved project proposal and the adopted procurement strategy.
 - The procurement process should fully incorporate the requirements of an approved business case, the building design, applicable legislation, and clear eligibility and assessment criteria.
 - The procurement process should be conducted in an open and fair manner that encourages competitive offers from qualified contractors with a capability to deliver the contract requirements.
 - The procurement process should be subject to appropriate oversight so as to encourage the selection of the best qualified bidder to deliver the business and procurement strategy adopted, and to discourage abuse of process and corruption.
 - Good project management practices should be employed to ensure that key project requirements are monitored and supervised for the quality and quantity of work performed, project scope, costs incurred, completion time schedule, and key safety and environmental requirements.

- Assessments are made of the final billings and claims by contractors, outstanding quality issues in construction and the operational status of building components with a view to protecting the Government’s interests and making the decision to accept the building for operational purposes.
- A final post-project evaluation is completed that provides lessons learned and determines whether the desired benefits have been achieved.

AUDIT SCOPE AND APPROACH

3. The audit was conducted in accordance with International Auditing Standards with audit procedures designed to obtain the information necessary to complete the audit including:
 - agreement of audit criteria;
 - interviews of individuals;
 - documentation of the processes and practices;
 - review of documentation supporting the processes;
 - draft audit report including the key findings and recommendations; and
 - clear audit report for factual accuracy with the parties noted above whom also provided input to the audit criteria.
4. The audit focused on the Government’s management of the projects designed to plan and construct two high school and four primary school “block” buildings.
5. For the high schools project, we largely examined the construction and completion close-out phases. The cancellation of the original prime contractor’s contract led to a new procurement strategy and the use of a construction management approach. This significant re-planning of the project means that we had to examine aspects of project governance and planning, and procurement as it relates to the new procurement strategy developed in 2009 and 2010. This audit examined construction activities related to the completion of the Clifton Hunter High School and the completion of the exterior shells of the four John Gray High School buildings.
6. We examined the planning, procurement, construction and close-out phases for the primary schools project. Our examination selected 2 out of 4 primary school buildings under the primary schools project for more detailed examination – the George Town Primary School and the Sir John A. Cumber Primary School.
7. We have not included in our scope the examination of the details behind the numerous disputes and settlements that the Ministry of Education has had with contractors, including the initial prime contractor for the high schools, during this audit. We do not have the resources to carry out such an examination. However, where we have found weaknesses in the Ministry’s overall management framework that are linked to these disputes we have referred to them, where we consider it appropriate.

AUDIT STAFF

8. The audit was led by Martin Ruben, CPA, FCGA – Performance Audit Principal, and was assisted by an external consultant and a staff member from the Office of the Auditor General.

APPENDIX 2: RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of planned implementation
<p>1. The Government should consider changing the governance framework, including amending the <i>Public Management and Finance Law</i> and Financial Regulations, to improve the transparency of planning and budgeting processes that lead to requests for appropriations for specific major capital projects and to improve accountability for major capital projects.</p>	<p>None received</p>		
<p>2. The Government should carry out an assessment of the John Gray High School project site and develop a strategy to manage its risks and future development before Cabinet is requested to approve further funding.</p>	<p>The Ministry accepts this recommendation and has previously indicated to the Auditor General's Office that it intends to carry out such exercise as part of the work required by the PMFL to restart the JGHS project</p>	<p>Responsibility for implementing this recommendation will fall to the JGHS Steering Committee and the Government Project Management Office</p>	<p>September 2015</p>

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Complaints

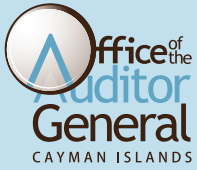
To make a complaint about one of the organisations we audit or about the OAG itself, please contact Garnet Harrison at our address, telephone or fax number or alternatively email: garnet.harrison@oag.gov.ky

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Media enquiries

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