



**OFFICE OF THE DIRECTOR OF AUDIT**

**AUDIT ON THE PROCESSING OF CLAIM  
FORMS FOR SICKNESS AND MATERNITY  
BENEFITS FROM THE NIC AND PAYMENT  
OF THOSE CLAIMS TO SALARIED  
EMPLOYEES**

**JULY 2013**

## Table of Contents

INTRODUCTION .....	2
Audit Objectives .....	3
Scope and Methodology .....	4
RESULTS OF THE AUDIT .....	6
Processes and Procedures for Claim Forms.....	6
Recommendation .....	6
PAYMENT OF SALARIES DURING SICK OR MATERNITY LEAVE PERIODS .....	7
Recommendation .....	8

## INTRODUCTION

- 1.1 In May 2003, the Government took a decision to amend the Revised Laws of St. Lucia Cap 15.26 (Pensions Act 1967). Consequently, the Pensions (Amendment) Act No.19 of 2003 took effect. Circular No. MPS 24/2003, released by the Ministry of Labour Relations, Public Service and Co-operatives in August 2003 stated ***“Notwithstanding the provisions of subsection (1) the provisions of the Act shall not apply to officers first appointed to the public service of the Government of Saint Lucia on or after the 1st day of February 2003.”*** As a result, effective February 1st, 2003 all persons appointed to the Public Service were required to contribute to the National Insurance Corporation (NIC) and were subjected to the Revised Laws of St. Lucia, Cap. 16.01 National Insurance Corporation Act.
- 1.2 The Pensions Act was amended as a cost cutting measure since the GOSL’s expenditure for pensions at March 2002 was \$31,929,000 and was projected to escalate significantly over the years.
- 1.3 The amendment to the Act presented some anomalies to the government because the requirements of the Pensions Act and the Staff Orders were different to that of the NIC Act. Additionally, there were implications for salary arrangements when those employees who contributed to the NIC proceeded on sick and maternity leave.
- 1.4 Pensionable officers appointed to the Government service from 2003 contribute 5% of their salaries to the NIC. Under the NIC Act, both employees and employers are required to contribute 5% each of the gross salary up to the established maximum of \$250.00 each. The NIC provides for short term benefits such as sickness, maternity and employment injury.
- 1.5 Employees receive 65% of their salaries from the NIC during a sick or maternity leave period. The Government would only pay these employees 35% of their salaries during such periods.
- 1.6 As a result of these changes one of the main requirements for the government is to have employee benefits data that is accurate and complete. This is necessary to ensure that sick and maternity benefits are paid to the right employee, at the right amount and at the right time. Therefore, all agencies involve in the administration and processing of sick and maternity benefits should collaborate to ensure that processes are efficient and properly administered.
- 1.7 In this regard, there are several agencies within government that play a major role in ensuring that contributions on behalf of employees are paid to the NIC on a monthly basis and that sick and maternity benefits due to employees are accurately processed before they are paid by the National Insurance Scheme (NIC) . These agencies and their responsibilities are as follows:

Agency	Responsibility
Accountant General's Department	<ul style="list-style-type: none"> <li>• Computing and making accounting entries for employer contributions</li> <li>• Paying employee and employer contribution to NIC</li> <li>• Deducting salary for period of sick/maternity leave</li> <li>• Recouping any overpayments</li> <li>• Implementing internal control systems over the accounting functions</li> <li>• Reconciling the NIC accounts</li> </ul>
Ministry of the Public Service	<ul style="list-style-type: none"> <li>• Implementing internal control systems over the human resource functions</li> <li>• Communicating information with regards to new and terminated employees to the line Ministries</li> </ul>
Line Ministries	<ul style="list-style-type: none"> <li>• Processing change forms for additions and deletions of employee contributions</li> <li>• Processing sick and maternity leave and apportioning monthly salaries accordingly</li> <li>• Remitting sick leave requests to the NIC and receiving benefit cheques for disbursement to employees</li> </ul>

1.8 Due to the essential roles that each of these agencies play in the process and the importance of these benefits to employees and as auditors of the Government of St. Lucia, it is our responsibility to report on any significant matter arising from the conduct of government operations. Consequently, the Office of the Director of Audit conducted an audit of the processing and payment of sick and maternity benefits to employees who contributed to the National Insurance Corporation and were appointed to the Public Service after 2003.

### **Audit Objectives**

1.9 The objectives of the audit were to determine whether:

- The government agencies had sufficient standardized policies and procedures to guide them in processing the various activities for sick and maternity benefits on behalf of employees;
- These policies and procedures were properly and effectively communicated;
- The systems of internal controls were sufficient to guide these operations and whether the data maintained was accurate and to;
- highlight any weaknesses and report on any errors or losses uncovered during the course of the audit

## Scope and Methodology

- 1.10 Our audit covered the period April 1, 2010 to March 31, 2012.
- 1.11 Although employees who contribute to the NIC are eligible to receive a pension as well as short term benefits including sickness, maternity and employment injury, this audit focused only on sickness and maternity benefits. We did not examine the other benefits such as pensions.
- 1.12 In the conduct of the audit we were guided by the International Standards for Supreme Audit Institutions (ISSAIs) for audit engagements issued by the International Organization of Supreme Audit Institutions (INTOSAI) and accordingly included such tests of the records and procedures that we considered necessary.
- 1.13 Our audit universe consisted of eight Ministries/Departments which included:
- The Ministry of the Public Service, Information & Broadcasting
  - Ministry of Legal Affairs
  - Ministry of Infrastructure, Port Services & Transport
  - Customs and Excise Department
  - Ministry of Planning, Housing & Urban Renewal
  - Ministry of Health, Wellness, Human Services and Gender Relations
  - Ministry of Tourism
  - Ministry of Education, Human Resource Development and Labour
- 1.14 To achieve our objectives we conducted documentation reviews of the Revised Laws of Saint Lucia namely the Pensions Act and its amendments and the National Insurance Corporation Act, related circulars, staff orders, Union agreements, NIC information documents and other related materials.
- 1.15 We interviewed senior management within the Ministry of Public Service and the Accountant General's department, accounting and human resource officers at the sample line ministries and key personnel at the National Insurance Corporation.
- 1.16 We reviewed the automated accounts maintained by the Accountant General's department for employee and employer contributions in order to confirm payments made to the NIC. During our initial assessment of the system, we found that the lack of controls posed the greatest risk for fraud within the scope of our audit and thus we focused on that system.
- 1.17 We obtained a sample of employee personal files to confirm sick/maternity leave deductions and compared the data as per the Ministry's records to that of the NIC to determine any instances of overpayments.
- 1.18 A major part of the audit focused on the internal control systems within the various line ministries. We considered that there should be a robust internal control system over this important function.

1.19 An adequate system of internal controls would mitigate the risk of:

- Employees receiving double benefits by claiming 65% of their salaries from the NIC while receiving full salary from the government during periods of sick or maternity leave;
- incorrect payments made on behalf of employees;
- employer contributions not made to the NIC for eligible employees
- the benefits which should be derived by the GOSL from utilizing the benefits scheme from the NIC are not being realized.

## RESULTS OF THE AUDIT

### Processes and Procedures for Claim Forms

- **There were no procedures manuals to guide personnel when processing sickness and maternity claim forms**
- 1.20 Before employee benefits are paid by the NIC, the line ministers are responsible for obtaining the appropriate information from the beneficiary employees. This would require that the appropriate forms are completed, data bases and personal files are updated and any other necessary procedural operations for the efficient processing of these benefits are executed.
- 1.21 In carrying out these processes and to ensure consistency across agencies it would be useful to have a step-by-step easy to understand guide or manual to assist with these processes. At the very least a circular from the appropriate agency outlining the processes relating to sick and maternity claims should be available to all line agencies.
- 1.22 Our audit found that the line ministries were not adequately aware of their responsibilities with regards to processing sick and maternity claim forms on behalf of the employees. There were no standards procedures manuals/guidelines/circulars to guide ministries when sick and maternity leave forms were submitted by employees who were contributors to the NIC. As a result, individual ministries and departments implemented different procedures for processing leave forms and submitting them to the NIC.
- 1.23 As a result of the inconsistencies and sometimes inaccurate procedures used by Ministries and Departments when processing sick/maternity forms on behalf of employees, instances of double payments, over/underpayments and payment of full salaries to employees, in instances where the NIC should have been making part payments were found.
- 1.24 In our sample of eight ministries only one consistently processed NIC claims for all contributing employees, maintained a database, and did not authorize employees to liaise with the NIC directly for claims. Two Ministries did not submit sick leave claim forms to the NIC for any of its employees. Although the other five ministries, submitted claims to the NIC, however this was not consistently done for all of its contributing employees.

### Recommendation

- 1.25 **A circular or set of guidelines should be issued to line agencies on how to process claim forms for sick and maternity benefits on behalf of those persons who contribute to the NIC.**

## **PAYMENT OF SALARIES DURING SICK OR MATERNITY LEAVE PERIODS**

- **The Government paid full salary to employees who contributed to the NIC while they were on sick/maternity leave**

1.26 According to the NIC Act, contributing person are eligible to receive 65% of their salaries during sick and or maternity leave. The employer pays 35% of the salaries of those employees during such periods.

1.27 We found several instances where the Government of St. Lucia paid the entire salaries of employees who contributed to the NIC while there were on sick or maternity leave. The main reasons for these instances were as follows:

- Accounting officers of the line ministries were not aware that NIC contributing officer's salaries should be apportioned (NIC 65%, GOSL 35%) during a sick maternity leave period.
- In most ministries, there were no clear procedures on how claim forms for sick maternity leave should be dealt with once the officers submitted the forms
- There were no stated guidelines to public officers who contributed to NIC on the procedures which they should follow when proceeding on sick/maternity leave.

1.28 As a result of these issues, we noted that:

- Officers who contributed to the NIC did not always use the correct sick leave forms.
- A request for the NIC to pay 65% of the officers' salaries was not made; therefore these officers' entire salaries were paid by the government.
- In cases where sick leave/maternity forms were submitted to the human resource officers of the ministries, these were sometimes not forwarded to the accounting sections for processing. Consequently, the officers' salaries were not apportioned accordingly.
- In some instances, the employees and responsible officers within the ministries were unaware of the time stipulations and claims were submitted to the NIC subsequent to the deadline dates. This resulted in claims being disallowed by the NIC and the GOSL having to pay the full salaries.

1.29 The table below provides some examples:

Ministry	Number of employees	Number of sick days	Total paid by the GOSL which should have been paid by the NIC \$
Ministry of the Public Service	3	9	415.51
Ministry of Legal Affairs	14	174	7,490.64
Customs and Excise	4	44	1,917.85
Ministry of Health	6	29	1,759.45

1.30 With over 6,000 employees currently contributing to the NIC, there is therefore significant potential for losses from monies not recouped for reimbursements from NIC due to sick/maternity leave.

1.31 The Government of Saint Lucia (GOSL) spent approximately 19.45 million dollars for employer contributions. Therefore, it should at least reap the benefit of paying only 35% of employee salaries during a sick or maternity leave period.

### Recommendation

**1.32 Line ministries should put suitable mechanisms in place to enable timely and accurate processing of sick and maternity claim forms on behalf of employees that would not result in the government bearing the full cost of the salaries of those employees.**

- **Officers whose salaries were adjusted for sick leave were sometimes over/under paid**

1.33 Our audit found that deductions from employee's salaries during periods of sick leave were not the same as refunds received by those officers. Consequently, officers were either over or underpaid in most instances.

1.34 We noted numerous instances where employees' total salaries after they were reimbursed by the NIC were either in excess of or below the employees' monthly salaries. The responsible officers explained that in some instances these over/under payments occurred because the NIC uses a 6 day calculation of the work week and government uses a 7 work day week for calculation of daily salary.

1.35 Some examples of the accumulated effect of the calculation differences were as follows:

Ministry	Total number of employees	Total Surplus/ (shortfall) in salary \$
Ministry of Infrastructure	18	852.39
Ministry of Education	4	(4,944.12)
Ministry of Health	10	(7,389.78)

1.36 Reimbursements of salaries for sick and maternity leave should not profit or cause loss to employees. In the union agreement between the Government and the daily paid workers, it is stated that where NIC reimbursements do not compensate the employee to his/her full salary the employer shall cover the cost of the difference to pay the employee full salary. However, the collective agreement for monthly paid employees does not make mention of this issue.

### Recommendation

1.37 **The GOSL (employer) should engage the NIC on the issue of reimbursement of salaries to its employees and agree on the best possible formula that would cause employees to be equitably reimbursed.**

- **Some employees received full salary from the Government as well as reimbursements from the NIC**

1.38 We found instances where the Government of St. Lucia paid full salaries to some employees and these employees were also reimbursed by the NIC. Some of the amounts overpaid to employees were recovered, but to date some amounts remain uncollected as follows:

<b>Ministry</b>	<b>Total number of employees affected</b>	<b>Total overpaid through the NIC \$</b>	<b>Total recouped by the GOSL \$</b>	<b>Amount still outstanding \$</b>
Ministry of Legal Affairs	7	10,960.36	2,500.00	8,460.36
Ministry of Education	2	3,248.40	0.00	3,248.40
Ministry of Health	8	9,970.23	0.00	9,970.23

1.39 As the information presented in the table shows that over a two month period 17 employees from three (3) ministries received full salary from the government. These same employees also received 65% of their salaries from the NIC. Consequently, a total of \$21,427.30 was overpaid to these employees.

1.40 In addition over one year two hundred and thirteen (213) employees from four (4) ministries received full salary from the government in addition to receiving sixty five (65%) their salaries from the NIC. This resulted in overpayments to employees of \$144,601.61 which were not recovered within four months as shown in the following table:

<b>Ministry</b>	<b>Total number of employees affected</b>	<b>Total overpaid through the NIC \$</b>
Ministry of Legal Affairs	19	\$18,927.45
Ministry of Education	145	\$98,019.37
Ministry of Health	36	\$25,302.34
Ministry of Finance	13	\$2,352.45

- 1.41 In discussions with the staff of the NIC and the Accountant General's department we learned that the NIC has taken steps to rectify the situation. The NIC decided to liaise with the Accountant General's Department prior to making payments to employees to ensure that the employees do not receive full salaries from the government in addition to the payments from the NIC. It must also be highlighted that this new measure was put in place after fraud was discovered
- 1.42 While we acknowledge that this is a step in the right direction, the Accountant General's Department should not rely on the NIC, an outside party to mitigate its risk of fraud.

### **Recommendations**

- 1.43 The Accountant General's Department should seek to develop an efficient internal control system which has the capacity for ensuring that employees do not get paid by the NIC in addition to receiving their salaries from the government.**
- 1.44 An effective system to properly monitor payments should be established.**