

December 7, 2007

The Honourable Bruce Golding  
Prime Minister  
Office of the Prime Minister  
1 Devon Road  
Kingston 10

Dear Prime Minister,

**Re: Jamaica/Cuba Light Bulbs Project**

Please refer to your letter of 17<sup>th</sup> October, 2007 asking me to conduct an audit of the captioned project. The assignment has been completed and this report reflects the observations that I have made.

**Project Agreement and Objectives**

2. In an attempt to understand the arrangements and conditions under which the Cuban Government was to supply Jamaica with energy-saving fluorescent light bulbs, I sought to obtain from the Ministry of Energy, Mining and Technology and the Petroleum Corporation of Jamaica (PCJ), any written agreements between the Governments of Jamaica and Cuba setting out such matters as the number of bulbs to be supplied, number of Cuban assistants to be engaged, and what expenses in relation to their stay in Jamaica would be met by either governments. No such agreement was presented. I was however able to glean the following information from correspondence and other documents made available by the Ministry and the PCJ.

**Pilot Project**

3. It was indicated that in a meeting between the President of Cuba and former Minister, Phillip Paulwell held in November 2005 in Cuba, the President agreed to donate 30,000 energy- saving bulbs to be distributed to residents in the Minister's constituency, East Kingston and Port Royal. The documents further disclosed that approximately 75,000 bulbs were actually received and as such the project was extended to East Rural St. Andrew. It was also stated that the Cuban Government offered 30 volunteers/social workers to assist with the distribution of the bulbs to ensure that they reached the intended beneficiaries. Investigations disclosed that local volunteers were also recruited to assist with the distribution process. However, the Ministry advised that it was unable to say what was the recruitment process, the role they were intended to play and the stipend payable to each. It was reported that the respective Members of Parliament and the PCJ funded the pilot project. The PCJ presented a schedule of expenditure amounting to \$7M which was its contribution to the pilot exercise.

No documents were presented to indicate the amounts expended by the respective Members of Parliament. In an undated report submitted to former Minister Paulwell by the Cuban Ambassador it was indicated that 30,167 bulbs were installed in the constituency of East Kingston and Port Royal. Other information seen indicated that 42,860 bulbs were installed in East Rural St. Andrew.

**Island-Wide Project**

4. A report dated October 23, 2007 prepared by the Policy, Planning, Project and Research Division of the Ministry stated that "In April 2006 Minister Paulwell indicated that the Cuban Government offered to donate 4 million bulbs to expand

the project island-wide. The Cuban Government would also provide Cuban Social Workers who would ensure Quality Control of the project. They would supervise the distribution of the bulbs in collaboration with Jamaican volunteers and undertake the necessary verification exercise for carbon credit sales. "The expectation was that the island-wide project would be implemented based on support from the Members of Parliament in the respective constituencies. Hence, no budgetary request was made by the Ministry in its submission to the Ministry of Finance and Planning for the 2006/2007 budget. Project expenses that would be funded by Members of Parliament include:

- Accommodation for the Cuban Social Workers
- Transportation for the local and Cuban Social Workers
- Meals for the Cuban Social Workers
- Stipend for the Jamaican volunteers"

On July 3, 2006 the Minister of State, Hon. Kern Spencer wrote to the Petroleum Corporation of Jamaica advising that he was given the task to ensure that the project was carried out effectively. The understanding is that the Minister was expected to liaise with his Parliamentary counterparts to get their support for the project and to convince them to dedicate resources from their SESP to implement the project in their respective constituencies. The Minister of State operated as the Project Manager and was responsible for coordination and implementation".

5. The Ministry advised that it later became apparent that the plan to have Members of Parliament fund the distribution of the bulbs was not proving as feasible as expected and the decision was made to apply a centralized approach with the use of a hired project manager. There were however conflicting reports as to how the Universal Management and Development Company Ltd. (UMD) was selected as project manager.

6. In a document dated November 24, 2007 the Policy, Planning, Project and Research Division of the Ministry indicated that they had received the following comments from the former Minister of State, "The Minister of State advised that he did not approach the principals of UMD and request project management services. He indicated that UMD and other companies/individuals submitted quotations/proposals to the Ministry when it was announced that the light bulb initiative was going to be expanded island-wide. He explained that it was his recollection that some of the companies/individuals which submitted proposals were involved in the pilot phase of the project and provided voluntary services during that phase. He theorized that UMD continued providing voluntary services from July to September, 2006 and since October 2006 decided to start invoicing for project management services rendered using the rate in their proposal of \$350,000 per month". The Senior Energy Engineer of the Ministry in a report dated October 29, 2007, also stated: "It is the writer's understanding that subsequent to Minister Paulwell's announcement of the project in Parliament to go island-wide, four general proposals were submitted to the Ministry for project management. This was welcomed based on the magnitude of work that was involved in implementing such a large project in the additional 58 constituencies. It is further understood that the four entities were asked by the Ministry to submit the quotes to the PCJ and that only three responded namely: Caribbean Development and Management Company Limited (CMD), Shipping Logistics, (SL) and Universal Management and Development (UMD) Company Limited. It is the writer's understanding that UMD had the lowest quote and started managing the project on a phased basis".

7. On the other hand, in a memorandum dated November 9, 2007, the Permanent Secretary stated that "The services of UMD were not engaged on a competitive basis. Attempts were made to regularize the procurement of Project Management Services through a competitive process. When the selection process was finalized the life of the project was very close to termination. In the

circumstances, the award of the contract for Project Management Services to another company, Power Services Company Ltd. was never effected”.

8. Four (4) proposals which were said to have been made for project management services were presented to my Department as indicated below:

<u>Date of Proposal</u>	<u>Service Provider</u>	<u>Price Quoted</u>
July 10,2006	Caribbean Development and Management Co. Ltd.	\$650,000 per month
August 5, 2006	Universal Management and Development Company Ltd.	\$350,000 per month
June 30, 2006	Karlene Brown	\$500,000 per month
July 6, 2006	Shipping Logistics Ltd.	\$450,000

There was however no indication that these proposals were made in relation to specific terms of reference included in tender documents. There was also no information on how these tenderers were invited or selected, or that there was a widely publicised invitation for tenders. Based on the above, I am unable to conclude that the award of this contract was done in the required transparent, fair and competitive manner.

#### **Project Monitoring**

9. Information received revealed that the former Junior Minister was supported in the monitoring of the project by a team of persons from the PCJ, the Ministry and the Cuban Embassy and that this Committee, chaired by the Junior Minister, met on a regular basis. Minutes of the meetings were not presented and officers of both the Ministry and PCJ indicated that formal minutes were not taken. However, copies of notes prepared by an officer of the PCJ were presented for three of the meetings.

#### **Accounting for the Bulbs**

10. Written evidence was not seen of the number of bulbs actually supplied by the Cuban Government. However, documents obtained from the Customs Department disclosed that 3,172,800 bulbs, valued at US\$4,511,828.58 were cleared from the Wharf. A preliminary project report prepared by UMD indicated that as at August 31, 2007, a total of 2,841,628 of the bulbs were installed in 542,783 households in fifty-five (55) constituencies. Supporting certified schedules of the distribution or written acknowledgements of receipt by the households were not seen. If these are available they should be presented for audit. The Ministry conducted a physical count of undistributed bulbs stored in three containers at a storage area between November 15 – 20, 2007 and found a total of 163,792. This process was observed by officers from my Department. These figures suggest a shortage of 167,380 bulbs arrived at as follows:

Amount of bulbs cleared through Customs	-	3,172,800
Less amount distributed	-	<u>2,841,628</u>
Balance	-	331,172
Less physical count	-	<u>163,792</u>
Difference	-	<u><u>167,380</u></u>

The Ministry should ascertain and inform me of the reason(s) for the difference.

11. The five constituencies which have not yet received bulbs were listed as follows:

- West Kingston
- South St. Andrew
- North West St. Andrew
- North East St. Andrew
- West Central St. Catherine

The Ministry should secure the stock of bulbs and arrange to have them distributed in a cost effective manner.

### **Budgetary Control Process**

12. I expected that an appropriately documented implementation plan and associated budget would have been developed setting out such information as the number of Cuban and local volunteers to be engaged, the various types of expenditure to be incurred such as stipends to be paid including daily rate, transportation, accommodation, meals, storage, Customs clearance and management fees. I also expected that a system of budgetary control would have been instituted which would include having the budget approved, identifying the source of funding and implementing a system of expenditure commitment control which would limit the incurring of expenditure obligations to the approved funding.

13. When the decision was made to centralize the management of the distribution process, former Minister Paulwell wrote to the PCJ requesting financial and technical support for the project. The letter stated that the anticipated budgetary support was approximately J\$30M and that funds should be recovered from the sale of the related Carbon Credits. The Chairman of PCJ responded in a letter dated July 25, 2006 that the Board had approved the requested support. Further investigation disclosed that the Energy Division of the Ministry had prepared a project document inclusive of a budget of \$216,689,801.30 (US\$3,095,568.59) on October 4, 2006. The main activities included were the following:

<b><u>Activity</u></b>	<b>US\$</b>	<b>US\$</b>	<b>J\$</b>
Custom Clearance		206,353.85	14,444,769.50
Transportation		169,230.70	11,846,149.00
Cuban Support			
Accommodation	1,200,416.00		
Meals	<u>600,208.00</u>	1,800,624.00	126,043,680.00
Jamaican Support			
Accommodation	59,361.23		
Meals	<u>197,870.76</u>	257,231.99	11,200,000.00
Administration		160,000.00	12,600,000.00
Marketing and PR		180,000.00	194,140,837.80

However, by letter dated July 9, 2007, the Senior Director of Policy Planning, Project and Research in the Ministry submitted a budget of J\$159,230,500.10 (US\$2,274,721.43) to PCJ for the implementation of phases 5 and 6 of the project. The request for the additional funds was discussed at a PCJ's Board meeting held on July 10, 2007 and an additional sum of J\$60M was approved bringing the total approved financial support to J\$90M (US\$1,285,714.20). In a letter dated July 25, 2007, the Group Managing Director of PCJ advised the Ministry that the PCJ Board was requesting that the budget submitted be significantly revised to reflect a more realistic programme and that the Corporation could not accommodate the submitted budget. There was no evidence that a revised budget was submitted to the PCJ Board or that any further financial support was approved by the PCJ Board. There was also no indication that any additional source of funding was sought and approved from

elsewhere. Project payments and obligations should therefore have been restricted to J\$90M.

### **Project Expenditure**

14. Information provided by the PCJ, the Social Development Commission (SDC) and Parish Councils indicated that the actual payments made to date on the project amounted to \$126,185,833.47 as indicated below:

<b><u>Entities</u></b>	<b><u>Amount Paid</u></b>
Petroleum Corporation of Jamaica	122,165,714.87
Social Development Commission	3,152,120.60
Manchester Parish Council	617,998.00
St. Elizabeth Parish Council	250,000.00
<b>Total</b>	<b>126,185,833.47</b>

The above payments were for the following purposes:

<b><u>Activities</u></b>	<b><u>Amount Paid</u></b>
Transportation	25,193,520.00
Accommodation	16,413,641.60
Project Management/Professional Fees	6,538,750.00
Sale of Carbon Credits	1,042,650.00
Stipend	6,761,200.00
Public Relations	5,963,797.27
Meals	45,498,430.37
Meals and Accommodation	250,000.00
Miscellaneous	1,585,231.00
Computer Equipment	850,000.00
Advance	2,300,000.00
Brokerage Fee	13,788,613.23
<b>Total</b>	<b>126,185,833.47</b>

I am unable to confirm that I was made aware of all payments made on the project by all Government entities.

15. The payments of \$122,165,714.87 made by PCJ exceeded the amount for which Board approval was seen by J\$32,165,714.87. The Corporation needs to explain on what authority the excess payments were made.

### **Unpaid Obligations**

16. The PCJ also presented unpaid invoices amounting to \$153,231,043.06. A breakdown of the payments and unpaid invoices at the Corporation is given below:

### **PCJ Expenditure**

<b><u>Activities</u></b>	<b><u>Amounts Paid</u></b>	<b><u>Amounts Unpaid</u></b>	<b><u>Total</u></b>
Transportation	24,273,520.00	25,690,500.00	49,964,020.00
Accommodation	15,638,300.00	25,149,300.00	40,787,600.00
Project Management/Professional	6,538,750.00	3,600,000.00	10,138,750.00
Sale of Carbon Credits	1,042,650.00		1,042,650.00
Stipend	6,050,700.00	3,619,200.00	9,669,900.00

Public Relations	5,963,797.27	3,687,944.80	9,651,742.07
Meals	44,188,884.37	73,038,370.00	117,227,254.37
Meals and Accommodation		479,370.00	479,370.00
Miscellaneous	1,530,500.00	3,131,000.00	4,661,500.00
Computer Equipment	850,000.00		850,000.00
Focus Group Meetings		14,360,900.00	14,360,900.00
Advance	2,300,000.00		2,300,000.00
Brokerage Fee, Customs Charges and other			
Clearance Expenses	13,788,613.23	474,458.26	14,263,071.49
<b>Total</b>	<b>122,165,714.87</b>	<b>153,231,043.06</b>	<b>275,396,757.93</b>

### **Government's Procurement Guidelines**

17. The Government Procurement Guidelines include the following requirements:

- Written agreements/contracts of service to be provided and rates payable
- Use of competitive tenders and price quotations
- Suppliers should be in possession of current tax compliant certificates
- Suppliers of goods or services costing \$275,000 and over should be registered with the National Contracts Commission (NCC)
- Contracts for \$4M and above should be recommended by the National Contracts Commission (NCC)
- Approval by Cabinet of contracts for \$15M and above

However, numerous procurement breaches were noted in the transactions seen at the PCJ.

### **Absence of Written Agreements**

18. The Government's Financial Regulations require that where a service is to be undertaken by a private person, a private firm or other private enterprise on behalf of Government, the price and other terms and conditions of the service shall be clearly understood and agreed upon prior to the implementation and shall be in writing. However, no written agreements/contracts were presented for payments amounting to \$121,123,064.87 made in respect of 27 suppliers of goods and services. No written agreements were also presented for unpaid invoices amounting to \$153,231,043.06. In the absence of such written agreements I was unable to verify who awarded the contracts and whether the services provided and the rates paid were what were agreed.

In a discussion my officers had with the Director of Administration/Corporate Secretary of PCJ he indicated that he was not aware of the person(s) who delivered the invoices to be paid by his Office. He explained that the invoices were delivered to the Corporation's receptionist without any covering letter and then routed to his office.

### **Non-Registration with National Contracts Commission (NCC)**

19. A check with the National Contracts Commission disclosed that eight (8) suppliers which were paid in excess of the stipulated \$275,000.00 were not registered with that office as required by the Government's Procurement Guidelines.

### **Tax Compliance Requirement**

20. The Government's procurement rules stipulate that there should be proof of a supplier's tax compliance by way of a valid Tax Compliance Certificate (TCC), as a condition precedent for the award of a contract valued at \$275,000 and above. However, there was no evidence to indicate that the service providers other than UMD met this requirement.

### **NCC Recommendation/Cabinet Approval**

21. The procurement rules indicate that contracts of a value of \$4M and above should be referred to the NCC for its recommendation and those for \$15M and above should be submitted to Cabinet for its approval. There was no evidence that the contracts on which UMD, Shipping Logistics Limited and Caribbean Communications Media Network were paid and had submitted unpaid bills totalling \$8,915,500; \$6,805,957 and \$18,767,850, respectively, met the requirement(s).

### **Price Quotes/Competitive Tenders**

22. There was no evidence presented that the required competitive price quotations or tenders were used in the selection of suppliers of services in respect of which payments totalling \$122.16M were made. In the absence of this market information I was unable to ascertain whether the prices paid were fair and reasonable.

### **Disbursement of Public Funds**

23. The Government's disbursement rules require, inter alia, the following:
- Commitment control i.e. obligations to incur expenditure should be limited to the approved budget and funding
  - Certification that the related goods and services were properly provided
  - Adequate supporting bills and invoices
  - Acknowledgement of receipt of funds by payees

### **Absence of Commitment Control**

24. There was no evidence that the project had a commitment control mechanism which required persons seeking to procure goods and services to obtain prior written confirmation that adequate budgeted funds were available to meet such expenditure. This deficiency contributed to the PCJ making payments of \$32,165,714.87 and the holding of \$153,231,043.06 of unpaid bills in excess of the financial support for which approval of its Board was seen.

### **Inadequate Supporting Bills/Certification**

25. Contrary to the requirement of the Government's disbursement guidelines appropriate supporting bills were not presented for payments amounting to \$79,120,850.00 and \$5,705,194.50 made to UMD and Shipping Logistics Limited, respectively. In addition, there was no independent certification seen that goods and services for which \$121,315,714.87 was paid were satisfactorily provided or performed. It was also noted that unpaid invoices totalling \$152,381,584.80 were also not supported by the required suppliers' bills. Making payments which are not adequately supported by suppliers' bills and certification of satisfactory performance may result in expenditure for goods or services not received. The PCJ should seek to obtain the relevant supporting documents and certifications.

### **Acknowledgement by Payees**

26. The Government's rules require payees to acknowledge in writing the receipt of public funds. They also stipulate that where payment is made to someone other than the payee the written authority of the payee should be obtained and retained for audit purposes. A test check of the disbursement register at PCJ disclosed that 80 cheques totalling \$111,991,715.60 were collected by 15 different persons on behalf of various payees, and in two instances the word 'delivered' was written beside cheques for \$3,445,500.00 . Signatures and identification numbers were seen in the register for the amounts delivered, however, no documents were presented authorizing the respective individuals to collect the related cheques. It was noted that members of PCJ's staff collected thirty-three (33) cheques totalling \$16,416,744.67.

### **Stipends**

27. The project document disclosed that the Government of Cuba would meet the airfare and stipend for the Cuban workers while a provision of US\$197,870.76 was made in the budget to cover stipend for local volunteers. Investigation revealed that certain payments amounting to \$5,371,200.00 and \$136,500.00 were made to UMD and eight (8) other persons, respectively. The invoices supporting the UMD payments indicated that they were for stipend/miscellaneous expenses for social workers for the periods stated. The related payment vouchers for the amounts paid to the other persons did not state the nature of the payment. However, the Financial Controller advised that they were for stipend paid to Cuban and local volunteers. Supporting documents indicating the rates paid, the names of the recipients and their acknowledgement of the sums paid were not presented. Documents were also not presented indicating the number of Cuban and local volunteers engaged and the related periods. The above shortcomings prevented the verification of the authenticity of these payments. The PCJ should seek to obtain these details as well as an explanation of why stipend was said to have been paid to the Cuban Social Workers from Government of Jamaica funds.

### **Carbon Credits**

28. In a letter dated June 15, 2006 former Minister Paulwell indicated to PCJ that the ownership of all emission reduction rights generated from the implementation of the energy-saving bulbs was assigned to the Corporation and also appointed PCJ as the agency responsible for entering into any arrangements for the sale of related carbon credits. Investigations disclosed that PCJ contracted Ecological Technologies Limited to provide the following services as outlined in Section 3.1.1. of the related agreement:

- (a) Provide project management and consultation advice and coordinate monitoring and verification activities.
- (b) Create a sustainability model to encourage the longevity and success of the energy-efficient light bulbs as part of the ERP project: The sustainability model is wholly owned by Ecological Technologies Limited.
- (c) Quantify and market the emission reductions generated from the project.
- (d) Source and appoint a suitable broker and a third party verifier to be agreed mutually by the parties for the sale of carbon credits.

Section 3.3 of the contract stated that " the proceeds of the sale of the carbon credits will be divided between the PCJ and Ecological Technologies in the ration 65% - 35% respectively". There was no evidence provided to indicate that Ecological Technologies was selected

on a competitive basis in accordance with the Government Procurement Guidelines.

29. My enquiries disclosed that PCJ attempted to re-negotiate the terms and conditions of the contract with Eco-Tec in an effort to restrict the company to the marketing of carbon credits from the bulbs installed in the pilot project. PCJ also challenged Eco-Tec claim that they had custom designed the bulb replacement project. However, in a letter dated February 2, 2007 Eco-Tec informed PCJ that the proposed revised contract does not represent their business interest as comprehensively as the previous one and does not create a strong foundation for co-operation. They then indicated that they were unable to re-negotiate the agreement and would continue to operate under the signed contract. The company however went on to state that it had a major problem with the methodology being used to implement the project and it would be unable to sell the related carbon credit under the existing circumstances. Further investigation revealed that Eco-Tec submitted an invoice dated February 7, 2007 to PCJ for US\$21,086.50 for the following services.

Consultation Days – Innerscity Project, Manager (18 days)	US\$10,800.00
Consultation Days – Innerscity Project Assistant (10 days)	US\$ 5,000.00
Miscellaneous – Legal fee etc.	<u>US\$ 2,300.00</u>
	US\$18,100.00
GCT	<u>US\$ 2,986.50</u>
	<u>US\$21,086.50</u>

30. An opinion was sought from the Corporation's Legal Officer as to whether PCJ was obliged to pay Eco-Tec for the services purportedly rendered (pursuant to the parties' agreement). In his advice the Legal Officer indicated that "for the PCJ to avoid an obligation to pay ETL for part performance under the contract, PCJ ought to show that the failure of the PCJ to implement the distribution of the bulbs, in accordance with the implementation plan (if this is admitted) did not prevent the sales of Carbon Credits from which ETL should have earned it fees". It was observed that PCJ subsequently paid the company J\$1,042,650.00 as a settlement for the termination of the contract. The Group Managing Director of PCJ indicated that a document entitled Innerscity CFL Bulb Replacement Programme, Implementation Document prepared by Eco-Tec was used extensively by the Ministry to prepare the tender documents when an aborted attempt was made to regularize the project management contract award. I was therefore not convinced that any value was received for this expenditure. In the meanwhile there was no indication that much progress has been made in the planned sale of carbon credits. The Corporation advised that tenders are currently being invited to select another firm to manage this process.

### **Fuel of Jamaica**

31. Examination of payment vouchers disclosed that Fuel of Jamaica was paid amounts totalling \$720,000.00 for services described on invoices submitted as *part payment for research services*. A related contract indicating the planned activities to be performed by the company and the other terms and conditions was not presented, despite requests. It was however, noted that PCJ's Financial Controller who approved the amounts for payment, wrote the words: "Re Bulbs Stipend" on one of the related invoices. In a discussion with the Director of Administration/Corporate Secretary and the Financial Controller of PCJ they indicated that it was their understanding that the amounts were payments for Stipends and not research as indicated on the invoices. They were however, unable to provide documents to substantiate their claim as well as the necessary

supporting details and acknowledgement of receipt by the volunteers. PCJ needs to secure these.

### **Computer Equipment**

32. The records disclosed that \$850,000 was paid for the following computer equipment:

- Five (5) Toshiba Computers A105-S4021
- Five (5) Canon IP90 Mobile Printers
- Five (5) Sony Ericson PC cards

The serial numbers for the computers were listed on supporting documents, however, those for the printers were not so indicated. Ms. Sherine Shakes of UMD acknowledged receipt of equipment in satisfactory condition. There was no evidence to indicate that the computers and printers were recorded in the inventory records of PCJ or the Ministry. I was not informed of the location(s) of the equipment and the purpose for which they were purchased. The PCJ should take the necessary steps to locate and take custody of the equipment forthwith. The items should also be taken on it's inventory.

### **Management/Professional Fees**

33. Shipping Logistics Limited was paid \$1,223,250.00 to provide project management services for the period June 2006 to August 2006 at a rate of \$350,000.00 plus GCT per month. Both the Ministry and PCJ were unable to indicate who had engaged the company to provide this service. An agreement stating the activities to be performed and the other terms and conditions was not presented. Investigations disclosed that UMD was also paid \$5,315,500.00 for project management fees for the period October 2006 – June 2007. The Director of Administration at PCJ indicated that the monthly fee payable to UMD was \$350,000.00. Therefore for the period October 2006 to June 2007 the amount payable should be \$3,150,000. PCJ was unable to provide a satisfactory explanation for the additional \$2,165,500.00 paid to UMD for the period October 2006 to June 2007. In addition, UMD has submitted invoices for July 2007 and August 2007 for \$2,100,000.00 and \$1,500,000.00 respectively, which were unpaid at the time of audit. Further investigation disclosed that UMD was paid \$700,000 as management fee for January 2007. The two invoices which supported both payments were numbered 125,700 and dated January 25, 2007 for \$350,000.00 each. The Director of Administration at PCJ acknowledged that the payment was duplicated and promised that the overpaid sum of \$350,000.00 would be recovered from amounts owed to the company. PCJ needs to explain the basis on which UMD was paid the sum of \$5,315,500 for the period October 2006 to June 2007.

### **Advance Payment**

34. In a letter dated May 10, 2007, UMD requested from PCJ an advance payment for reimbursable expenses under the project. The Company submitted a list of expenses including transportation, accommodation, reception and processing and a schedule of amounts owed to various suppliers of goods and services amounting to J\$2,700,128.79 and US\$3,029. The Director of Administration approved J\$2,300,000.00 which was paid on May 11, 2007. It was noted that although amounts totalling \$67,650,250.00 were subsequently paid to the company the advance had not been recovered up to the date of audit. PCJ should ensure that the advance is recovered from the amounts owed to UMD.

### **Brokerage Fee**

35. Shipping Logistics Ltd. was paid amounts totalling \$5,108,249.23 for brokerage services provided for the clearing of the bulbs from Kingston Wharf. A written contract indicating the obligations of the company and the fee payable was not presented. In an interview with the Director of Administration, he indicated that the company was paid 1.5% of the CIF value of the bulbs cleared plus GCT. In the absence of evidence of competitive tenders I was unable to assess whether the best prevailing market rate was obtained.

### **Meals**

36. Amounts totalling \$44,188,884.37 were paid to procure meals for persons participating in the project. The number of persons supplied and the price for each meal were indicated on the claim however in the case of payments totalling \$39,806,750.00 the supporting suppliers' bills were not presented. Independent certification of the number of persons fed was not presented. The claims seen indicated that in several instances social and volunteer workers received four (4) or five (5) meals per day, namely breakfast, brunch, lunch, dinner and supper. PCJ needs to explain why payment was made for more than three meals a day and to make the necessary recovery. Unpaid invoices amounting to \$73,038,370.00 were also on hand at the time of audit.

### **Transportation**

37. PCJ paid \$24,273,520.00 to rent cars, buses and trucks to transport persons and bulbs under the project. Supporting suppliers' invoices were not seen for \$20,907,500 of this amount. In some cases the places of departure and destinations were not stated on the claims. Unpaid invoices for transportation stood at \$25,690,500 at the time of audit.

### **Accommodation**

38. Payments totalling \$15,638,300.00 were made for the provision of accommodation for persons who participated in the project. The related invoices indicated the period, number of persons and the rates paid. However, here again there was no independent certification of the number of persons accommodated and in the case of payments totalling \$9,973,900.00 the actual suppliers' invoices were not presented. There were unpaid invoices amounting to \$25,149,300.00 at date of audit.

### **Public Relation and Focus Group Meetings**

39. Examination of payment vouchers and invoices disclosed that amounts totalling \$5,963,797.27 were paid for public relations and focus group meetings for the project. Invoices submitted for amounts totalling \$18,048,844.80 for similar services were unpaid at the time of audit. Written agreements stating details of services to be provided were not presented and the information seen on the invoices merely said they were for the 'production of infomercial and public relation'.

There was also no indication that the selection of the supplier and the price to be paid were determined by the required competitive process and the other Government procurement requirements. I was therefore unable to verify that value for money was received.

### **PCJ's Concerns**

40. In a letter dated August 24, 2006, PCJ's Director of Administration/Corporate Secretary advised the then Minister of State of eight (8) instances in which invoices submitted for payment under the project were not in compliance with the Government's procurement procedures. Some of the deficiencies noted were that the periods and purpose for the rental of motor vehicles were not stated on the invoices, supporting suppliers' bills were not

submitted for reimbursable expenses, invoices were being submitted prior to the dates indicated on them and sufficient information was not provided on invoices submitted for transportation of bulbs. The Minister of State was asked to have the above concerns clarified. The Director of Administration/Corporate Secretary of PCJ also informed the Corporation's Managing Director in a letter dated March 1, 2007 that several meetings, some of which were attended by PCJ's Chairman and Financial Controller, were held with Minister Spencer on the issue of procurement deficiencies. He stated that some of the issues discussed were the following:

- The Petroleum Corporation may be audited by the Auditor General and the Contractor General and will have to conform to the rules, regulations and procedures laid down by Government for the disbursement of funds.
- For invoices (bills) to be paid by PCJ the nature of the goods and services acquired and the relevant period covered, must be stated on the invoices.
- If a payee in claiming reimbursement for goods and services paid, the relevant invoices evidencing the payments must be attached.
- If assets – for example containers, computers – are acquired for the programme, they must be properly identified, their location made known to PCJ and the holders of such assets be advised that the PCJ is the owner.
- Invoices sent to PCJ for payment should reflect the certification of the Coordinator/Manager of the programme that the goods and services, as claimed for were received and carried out.

41. The Director of Administration again conveyed similar concerns to the PCJ's General Manager by letter dated March 14, 2007. The following were the concerns expressed.

Nine (9) of the invoices amounting to J\$2,175,500 were from Universal Management and Development Company Limited.

- None of the nine (9) invoices are signed or bear the certification that the services were rendered.
- The period/dates when the cars were rented and reasons for so doing, and the person from whom the cars were rented were not given.
- The period/dates over which the bulbs and social workers were transported were not given.
- There are four (4) invoices totalling J\$960,000 from Caribbean Communications and Media Network Ltd. for "Communication/Public Relations Services". These invoices are not signed.
- The fourteenth (14th) invoice for J\$240,000 is from Fuels of Jamaica for "Research Services". No reference was made on the invoice to the Bulb Programme.
- All the invoices for amounts in excess of \$120,000 should have had at least three (3) price quotations and be reviewed by the Procurement Committee.
- The quantum of the payment to Universal Management and Development Company Ltd. (UM & D Co.) may have, or has already reached that amount which may place PCJ in a situation to explain why the National Contracts Commission was not asked to approve the contract with UM & D Co.
- PCJ is being asked to pay for services and goods for which it has no certification that the services were rendered or the goods received.

He went on to indicate that in light of the above he was asking for the General Manager's advice as to the way forward to ensure that PCJ does not breach any of the procurement guidelines. He suggested that in the meantime Minister Spencer could be asked to assist in resolving these matters, to ensure the successful operation of the Bulb Programme.

42. In a letter dated March 14, 2007 the General Manager responded as follows: "It was agreed that you would convene a meeting on Friday, March 16, 2007 with Minister Spencer and his project implementation team as well as representatives of the Ministry of Industry, Technology, Energy and Commerce's (MITEC's) Procurement Committee to indicate the procedures for the contracting and awarding of services". The Director of Administration advised my officers that he and the former Chairman of PCJ met with the former Minister of State and discussed the issues. My findings suggested that there were no subsequent marked improvement in the procurement and disbursement processes.

### **Summary of Conclusions**

43. The above observations clearly indicate that this project was not planned and implemented in a satisfactory manner. The basic rudiments of good public sector project management were absent. There were wholesale breaches of the Government's procurement and disbursement rules. Weak or absent documentation undermined the accountability process. In the circumstances, I am not convinced that this project was implemented in an efficient and cost effective manner. The following is a summary of the major inadequacies identified:

- (i) Non-presentation of any written agreement between the Governments of Jamaica and Cuba on the numbers of bulbs to be supplied and the number of Cuban social workers/volunteers to be engaged, and which expenditure in relation to their stay would be met by either Government.
- (ii) Apparent shortage of 167,380 bulbs.
- (iii) Absence of an effective system of budgetary control resulting in the making of payments and the incurring of unpaid obligations of \$185.39M over the approved financial support from the PCJ.
- (iv) Absence of the required written contracts preventing a clear indication of who engaged the service providers and what were the specific terms of reference and fees to be paid.
- (v) Wide scale breaches of the Government's procurement rules in relation to Registration with the NCC, production of Tax Compliance Certificates, Recommendation of NCC, Cabinet approval, and use of competitive tenders or price quotations, thereby preventing assessment as to whether the best rates or prices were obtained.
- (vi) A general failure to comply with the Government's disbursement rules in connection with the need for independent certification that goods and services paid for were properly provided, production of the appropriate supporting bills and invoices and acknowledgement of receipt of funds by payees. This prevented verification that many payments made were authentic.

- (vii) Apparent nugatory expenditure of \$1,042,650 in relation to the pursuit of the sale of carbon credits.
- (viii) Computer equipment costing \$850,500 to be accounted for.
- (ix) Apparent overpayment of \$2,165,500 for management/professional fees.
- (x) Outstanding advance of \$2,300,000.

Auditor General